Attachment 10.01

Revenue

31 January 2023

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Abbreviations

The following table provides a list of abbreviations and acronyms used throughout this document. Defined terms are identified in this document by capitals.

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ARENA	Australian Renewable Energy Agency
capex	Capital Expenditure
CESS	Capital Expenditure Sharing Scheme
DMIA	Demand Management Innovation Allowance
ICT	Information and Communications Technology
NER	National Electricity Rules
NPV	Net Present Value
PTRM	Post-Tax Revenue Model
RAB	Regulated Asset Base
RBA	Reserve Bank of Australia
RIN	Regulatory Information Notice
RORI	Rate of Return Instrument
SCS	Standard Control Services
TAB	Tax Asset Base
WACC	Weighted Average Cost of Capital

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Overview

Our forecast (smoothed) revenue for 2024-29 is $996.2 million, which is a 16.8 per cent, or $143.3 million (real) increase compared to the current regulatory period allowance. Approximately 84.8 per cent, or $80.7 million of the revenue uplift is the direct result of rapidly increasing financing costs, which are driven by inflation and the current uncertainty in financial markets. These return of and return on investment costs have been calculated using the AER's approved methodology.

In its determination, the Australian Energy Regulator (**AER**) sets a cap on the annual revenue we can recover from customers through our network tariffs. The annual revenue is calculated based on the following elements:

- **Investment costs** associated with our regulatory asset base (**RAB**), which is the value of our regulated assets at a point in time. The RAB comprises the depreciated value of our regulated assets, together with the forecast capital expenditure discussed in Chapter 8 of the Regulatory Proposal and Attachment 8.01. Financing costs include a return on the RAB based on the current estimate of the rate of return, and depreciation of the RAB.

- **Forecast operating expenditure (opex)** for the upcoming regulatory period, as discussed in Chapter 9 of the Regulatory Proposal and Attachment 9.01, together with an estimate of taxation costs.

- **Adjustments to the revenue** depending on our performance under the AER's incentive schemes, and amounts to fund new innovation.

The calculation of forecast Standard Control Services (**SCS**) revenue relies on the AER's revenue model (post tax revenue model), which includes the capital and expenditure forecasts with inputs regarding the current value of our asset base and current market assumptions.

Revenue related to Alternative Control Services (**ACS**) is recovered directly from customers incurring the costs and is charged via a discrete suite of tariffs subject to a separate form of price control from standard control services. The revenue requirement for alternative control services is discussed in Chapter 13of the Regulatory Proposal and Attachment 13.01.

This document:

1. Should be read in conjunction with Chapter 10 of our Regulatory Proposal.

2. Provides comprehensive detail on, and justification for our proposed revenue for the 2024–29 regulatory period.

3. Identifies the supporting documents and models that provide more technical information and detail on each element, such as the Post-Tax Revenue Model and Roll-Forward Model.

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The structure of the document is set out in Figure OV.1, which steps through the key components to the revenue building blocks. We anticipate that the AER will systematically work through each of these components when assessing our proposal.

Figure OV.1:   Revenue overview structure

Chapter 1	Chapter 2	Chapter 3	Chapter 4	Chapter 5	Chapter 6
•Forecast revenue	•RAB and depreciation	•Rate of return and inflation	•Debt and equity raising costs	•Revenue adjustments	•Corporate tax allowance

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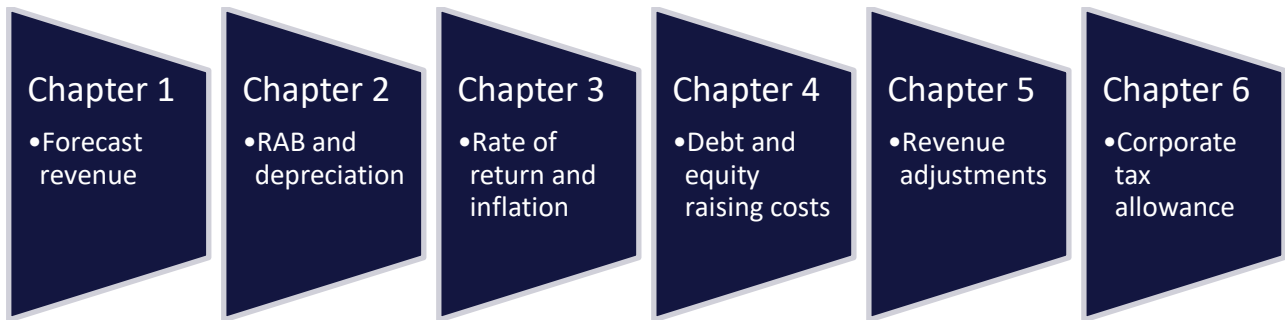
1.   Forecast revenue

Our forecast revenue for the 2024–29 period is calculated using the AER's Post-Tax
Revenue Model, or PTRM.[1] This model first calculates a revenue allowance for that
period as the sum of different types of costs, each referred to as a building block. That
allowance is then smoothed over the period to minimise peaks and troughs – which
helps smooth our prices as well.[2]

This chapter explains how our forecast revenue was built up, including by using the AER's models. We
demonstrate the reasonableness our forecast by explaining how the approaches adopted align with those
commonly applied by the AER or otherwise required by the NT National Electricity Rules (**NER**). We also
show how our forecast revenue compares to that allowed over past periods.

1.1   Comparing to past revenue

Figure 1.1 compares our forecast revenue for the 2024–29 regulatory period to that allowed and earned
over the 2014–19 and 2019–24 periods.

Figure 1.1:   *Comparison of forecast revenue in 2024-29 to actual revenue and AER allowance in 2019-24 ($ million real 2024)*
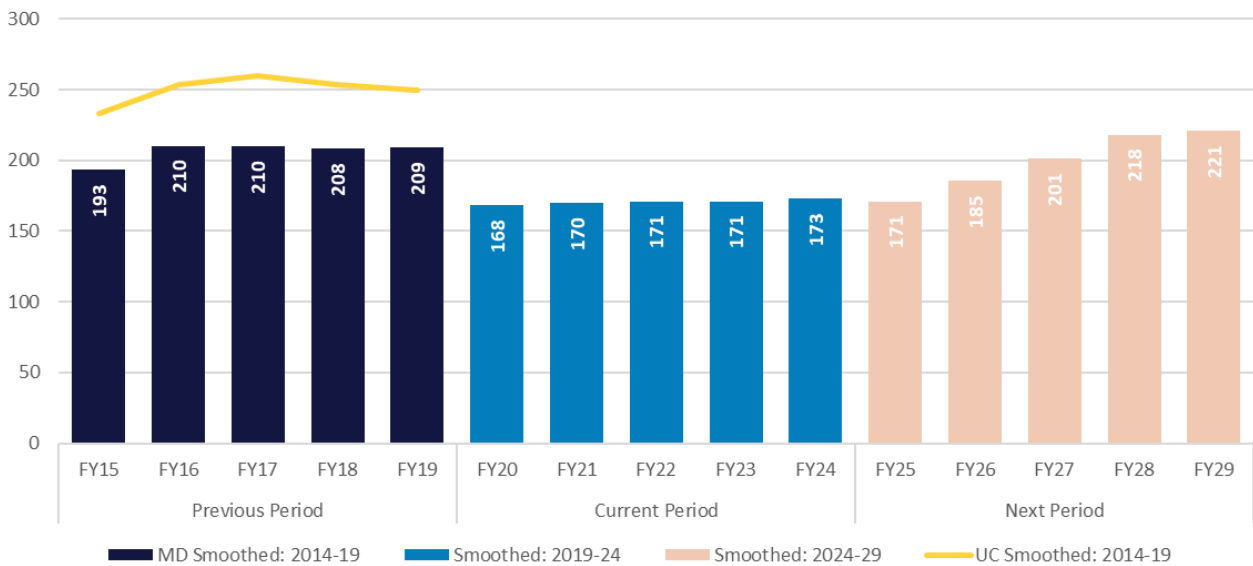
1.2   Building block revenue

The building blocks reflect the efficient costs of delivering SCS calculated by combining various 'blocks' of
costs, as summarised in Figure 1.2. Some blocks are capital related, such as the return on capital and

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[1]   The SCS PTRM is included as Attachment 10.02. The equivalent model for ACS is included as Attachment 13.08.

[2]   In simple terms, smoothing involves first calculating the net present value of building blocks revenue for the period and then calculating a
smooth revenue profile that has the same net present value. The smooth revenue starts with an estimate of revenue for FY24 and then
projecting out to FY29 using forecast inflation and a series of real price movements, referred to as 'X factors'.

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depreciation. These are calculated from our RAB. Others are operating in nature or relate to tax and various revenue adjustments and are either inputs to the Post-Tax Revenue Model (**PTRM**) or – in the case of tax – calculated within it.

Figure 1.2: Building blocks
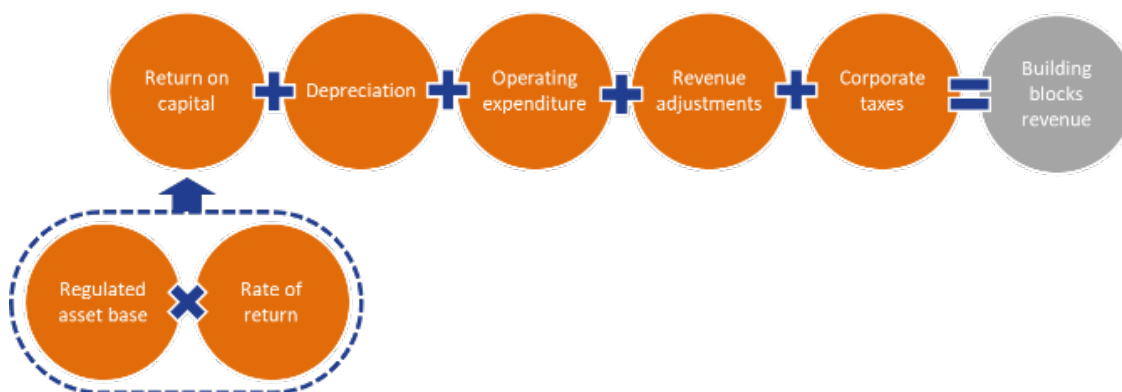
Forecast building block revenue by component for the 2024–29 period is shown in Opex is discussed in Attachment 9.01.

Table 1.1. This revenue is higher than that allowed for the 2019–24 period. Key drivers for this difference are a higher rate of return, opening RAB value, and forecast opex, partially offset by a higher proposed inflation forecast.

Each of the building blocks are discussed as follows:

- Depreciation in chapter 2.
- Return on capital in chapter 3.
- Debt and equity inputs to the building block calculations in chapter 4.
- Revenue adjustments in chapter 5.
- Corporate income tax in chapter 6.

Opex is discussed in Attachment 9.01.

Table 1.1: Building block revenue ($ million real 2024)

Building blocks	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Return on capital	70.4	74.4	78.5	81.8	86.8	**391.9**
Depreciation	33.6	33.9	35.7	40.5	43.2	**187.0**
Opex	81.6	82.5	82.6	84.2	84.5	**415.4**
Revenue adjustments	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	**(0.5)**
Corporate income tax	0.6	-	-	-	-	**0.6**

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Building blocks	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Annual revenue requirement (unsmoothed)	**186.17**	**190.69**	**196.72**	**206.45**	**214.41**	**944.44**

1.3 Revenue smoothing

Building block revenue can be lumpy – meaning that it changes a lot from one year to the next. This can lead to large swings in prices. To reduce these swings building blocks revenue is smoothed over the regulatory period.

In simple terms, smoothing involves first calculating the net present value of building blocks revenue for the period and then calculating a smooth revenue profile that has the same net present value (**NPV**).[3] The smooth revenue starts with an estimate of revenue for 2023/24 and is then projected out to 2028/29 using forecast inflation and a series of real price movements, referred to as 'X factors'. We have adopted a profile that spreads the revenue increase out over the period.

Forecast smoothed revenue for the 2024–29 period is shown in Table 1.2. The table shows that the NPV for both smoothed and unsmoothed revenue is the same. The forecast prices that correspond to the smoothed revenue forecast are discussed in Chapter 10 of our Regulatory Proposal.

Table 1.2:   Smoothed revenue ($ million real 2024)

Revenue forecast	2024-25	2025-26	2026-27	2027-28	2028-29	Total	NPV
Annual revenue requirement (unsmoothed, $m)	186.2	190.7	196.7	206.5	214.4	**994.4**	**912.1**
Maximum allowed revenue (smoothed, $m)	171.0	185.4	201.0	218.0	220.8	**996.2**	**912.1**
X factors	(8.44%)	(8.44%)	(8.44%)	(8.44%)	(1.30%)	**N/A**	**N/A**

1.4 Addressing the NT NER requirements

We have sought to comply with the NT NER requirements by using the AER's PTRM and Roll Forward Model to calculate the building blocks and smoothed revenue forecasts. We have also justified the inputs to those models in subsequent sections of this documents and in other supporting materials.

Table 1.3 sets out key documents relied on to calculate forecast revenue.

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[3]   A net present value, or NPV, is the value in today's terms of cash flows expected in the future. These are calculated by discounting those cash flows by an appropriate discount rate. In this case, the NPV of forecast smoothed and unsmoothed revenue is calculated by discounting the revenue forecasts by the allowed rate of return discussed in chapter 3.

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Table 1.3:   Key documents for calculating forecast revenue

Ref	Document name	Reason for inclusion
10.02	Post-Tax Revenue Model	The model is used to calculate the forecast building blocks and smoothed revenue for the 2024–29 period.
10.03	Roll Forward Model	The model is used to derive the opening RAB value that is included in the Post-Tax Revenue Model.

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2. RAB and depreciation

Our RAB is the value of assets used to deliver SCS. We expect our RAB to grow over the current and forecast periods, largely due to new capital expenditure. We have forecast our RAB using the methods commonly applied by the AER and required by the NT NER.

Our RAB, is the value of assets used to deliver SCS. The RAB measures the value of capital investments that we have made to provide those services to our customers, both now and in the future, but not yet recovered. The RAB is used to calculate both the return on capital and depreciation building blocks. The RAB is also used to calculate debt raising costs, which forms part of the opex building block.

The RAB is rolled forward over the 2019–24 and 2024–29 periods using two models developed by the AER – namely, the Roll Forward Model and the PTRM, respectively. Outputs from the Roll Forward Model are inputs to the PTRM.

2.1 Historical RAB (2019–24 period)

Figure 2.1 shows how our RAB is projected to increase, in nominal terms, over the 2019–24 period. Key drivers of the increase are:

- New net capital expenditure (**capex**) over that period (see discussion in chapter 8 of the revenue proposal and Attachment 8.01).[4]

- Indexation.[5]

- Less forecast straight-line depreciation allowed by the AER in its determination for that period.

The projected increase was calculated using the AER's Roll Forward Model included as Attachment 10.03.

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[4]   As explained in section 2.6, we have also adjusted our reported capex for 2018/19, 2019/20 and 2020/21 to remove our expenditure on generator connections, which were inadvertently reported as SCS.

[5]   Indexation is the process whereby the opening RAB value for each year is increased by the actual or forecast inflation over that year.

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Figure 2.1: Our RAB roll forward over the 2019–24 period (June 2024)

2.2 Forecast RAB (2024–29 period)

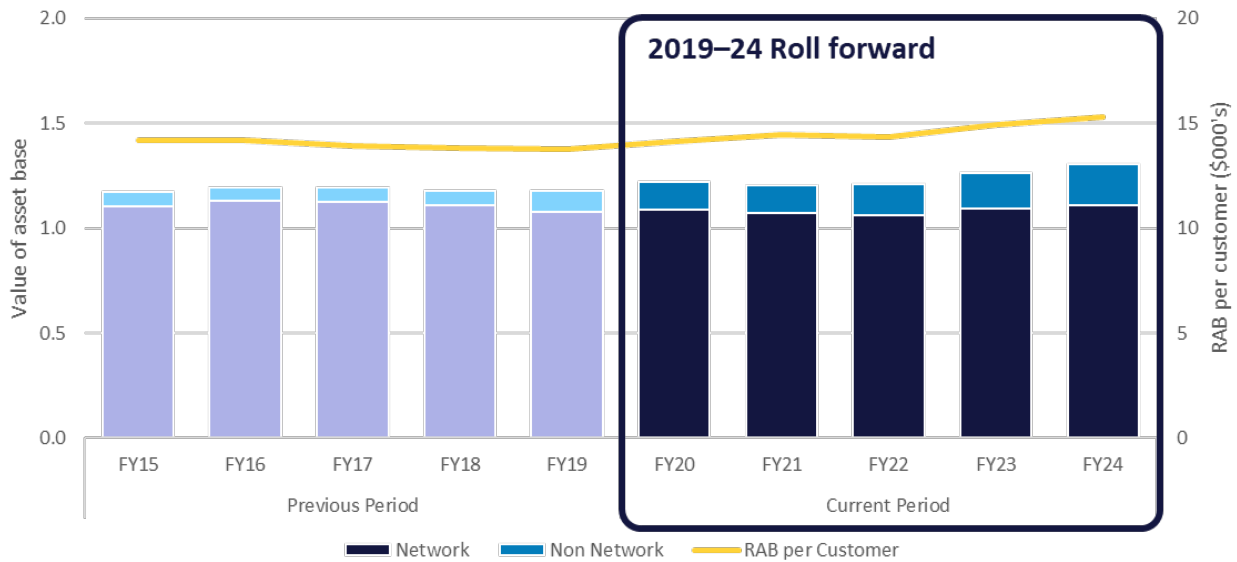Figure 2.2 shows how our RAB is projected to increase, in nominal terms, over the 2024–29 period. Just like the 2019 – 24 period, key drivers of the increase are:

- New net capex over that period (see discussion in chapter 8 of the revenue proposal and Attachment 8.01).

- Indexation.[6]

- *Less* forecast straight-line depreciation (as discussed in section 2.3).

The projected increase was calculated using the AER's Post-Tax Revenue Model included as Attachment 10.02. The opening value for the 2024–29 period is set equal to the closing value for the 2019–24 period.

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[6]   Indexation is the process whereby the opening RAB value for each year is increased by the actual or forecast inflation over that year.

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Figure 2.2:   Our RAB roll forward over the 2024–29 period (June 2024)
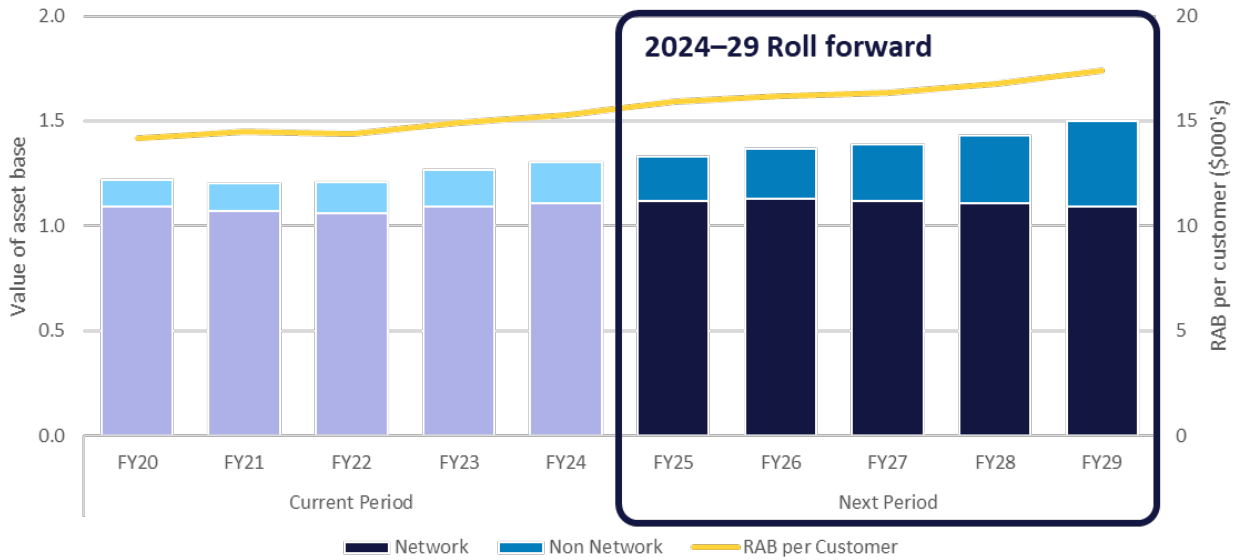

2.3   Depreciation methodology

Regulatory depreciation is calculated by subtracting indexation from straight line depreciation, as shown in Figure 2.3.

Straight line depreciation of existing assets as at 30 June 2024 is calculated using the AER's Depreciation Model, which applies the year-on-year tracking method.[7] Straight line depreciation on new assets forecast for the 2024–29 period is calculated within the AER's PTRM using the same method.[8] In both cases, we have retained the asset classes and standard lives adopted by the AER for the 2019–24 period. For the 2024–29 period, we have added a new asset class for batteries.

Figure 2.3:   Regulatory depreciation, how is it calculated?

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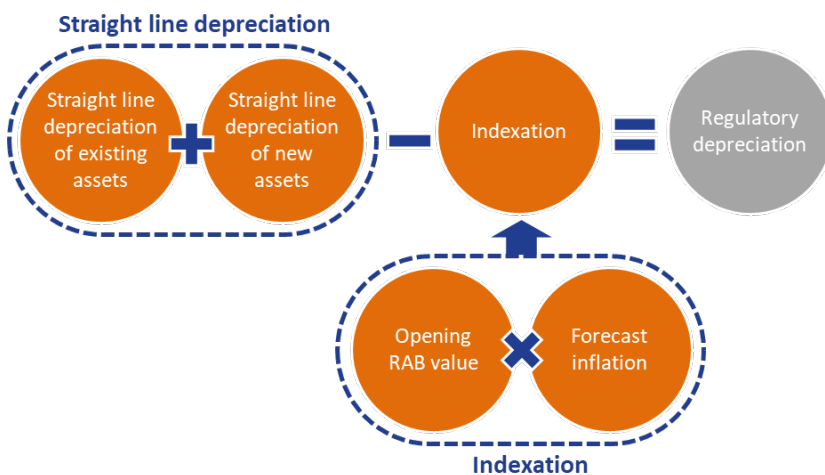
[7]   The 'year-on-year tracking method' depreciates the new capex added to the RAB for a given asset class and year as if it were a standalone asset over the assumed standard life applied to that asset class. This method is commonly adopted by the AER.

[8]   As described in section 2.7, we have recalculated the standard lives for capitalised leases and equity raising costs consistent with the approaches adopted by the AER for the 2019–24 period.

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Applying this method gives the forecast straight line depreciation for the 2024–29 period included in Table 2.1.

Table 2.1:   Forecast regulatory depreciation ($ million real 2024)

Component	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Straight line depreciation	70.0	71.2	74.0	79.3	83.3	**377.7**
Less indexation	(36.3)	(37.3)	(38.2)	(38.8)	(40.0)	**(190.6)**
Regulatory depreciation	**33.7**	**34.0**	**35.7**	**40.5**	**43.2**	187.1

2.4   Undergrounding

On 25 March 2019, and in response to widespread power outages caused from tropical cyclone Marcus, we were directed via a ministerial direction to undertake an undergrounding program using funding that would be provided directly by the NT Government.

We were also directed to:

> not recover any costs related to the program that have been funded by government through any other means, including Network Price Determinations. [9]

Subsequently, we engaged with AER staff on how best to ensure that any undergrounding expenditure – which would be captured within SCS capex – does not increase the RAB. Our annual regulatory information notice (**RIN**) was amended to separately identify the value of any undergrounding capex that was funded by equity injection. [10]

As such, to give effect to the ministerial direction, we have adjusted net capex to exclude any undergrounding capex funded by equity injection, as shown in Table 2.2.

Undergrounding capex is also excluded from forecast capex over the 2024–29 period.

Table 2.2:   Net capex for 2019–24 adjusted for undergrounding capex ($ million real 2024)

Component	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Gross capex	82.4	57.2	81.0	99.7	120.9	**441.2**
Less undergrounding capex funded by equity injection	(1.2)	(1.1)	(0.9)	-	-	**(3.3)**
Less capital contributions	(5.0)	(4.8)	(2.9)	(6.3)	(13.8)	**(32.8)**

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[9]   See: Letter from Nicole Manison to John Langoulant, 8 July 2019.

[10]   We recognised that any undergrounding capex that was funded by cash contributions – as opposed to that funded by equity injections – would automatically be removed from net capex when contributions are deducted.

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Component	2019-20	2020-21	2021-22	2022-23	2023-24	Total
(included gifted assets)						
Less asset disposals	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	**(0.8)**
Net capex	**76.1**	**51.2**	**76.9**	**93.3**	**106.9**	**404.3**

2.5　Capitalisation of corporate assets

In its draft and final decisions for the 2019–24 period, the AER included an adjustment to the RAB as at 30 June 2019 to include the written down value of corporate assets such as information and communications technology (**ICT**), property and other assets used to provide SCS that had not been included in reported SCS capex.

At the time, the intent was to:

* Include in the RAB the written down value of corporate assets as at 30 June 2016, adjusted to 30 June 2019.

* Include within reported SCS capex for the 2016-17, 2017-18 and 2018-19 years the SCS share of corporate ICT, property, and other assets.

However, in practice, reported SCS capex for the three years did not include the SCS share of corporate ICT, property, and other assets. As such, we propose to update the final year adjustment adopted by the AER to include the written down value of corporate assets created in those years as at 30 June 2019.

We have estimated the updated adjustment in Attachment 10.08. [11]

2.6　Generator connections

We have reduced the reported capex for 2018/19, 2019/20, and 2020/21 to remove expenditure on generator connections, which were inadvertently included in our RIN responses for those years. We have been liaising with the AER on restating those responses and intend to resubmit them later in 2023.

2.7　Asset classes and lives

For the 2024–29 period, we have recalculated:

1. The standard life for capitalised property and fleet leases to reflect the value weighted average of the lives of leases expected to be entered over that period.

2. The standard life for equity raising costs to reflect the mix of capex forecast for that period (using the approach commonly adopted by the AER in the PTRM).

We have also added a new asset class for batteries, with a standard life of 10 years. Although we have not included any expenditure on batteries in our capex proposal for the 2024–29 period, we are exploring

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[11]　We used the same spreadsheet relied on for the 2019–24 distribution determination, updated to include corporate assets as at 30 June 2019.

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potential battery investment. The standard life is consistent with analysis published by the Australian Renewable Energy Agency (**ARENA**) and the Australian Energy Market Operator (**AEMO**).[12]

2.8   Roll forward over the 2024–29 period

We also propose to use forecast depreciation to roll-forward the RAB to the start of the regulatory period starting 1 July 2029. This is the same treatment as applied to the 2019–24 period and is consistent with our proposal to apply the Capital Expenditure Sharing Scheme (**CESS**) to the 2024–29 period and with the AER's framework and approach paper. [13]

2.9   Addressing the NT NER requirements

We have sought to comply with the NT NER requirements by using the AER's PTRM and Roll Forward Model to calculate the building blocks and smoothed revenue forecasts. We have also justified the inputs to those models in subsequent sections of this documents and in other supporting materials.

Table 2.3 sets out key documents relied on to determine the value of the RAB and depreciation.

Table 2.3:   Key documents used to determine the value of the RAB and depreciation

Ref	Document name	Reason for inclusion
10.03	Roll Forward Model	The model is used to derive the opening RAB value that is included in the Post-Tax Revenue Model.
10.04	Depreciation Model	The model is used to project depreciation of the opening RAB over the 2024–29 period, which is included as an input to the Post-Tax Revenue Model.
10.08	Corporate Assets Model	The model is used to determine the value of corporate assets as at 30 June 2019 that are used to provide standard control services but had not been added to the RAB.

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[12]   See: ARENA,....; and AEMO, …
[13]   See Chapter 12 of the Regulatory Proposal.

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3. Rate of return and inflation

Financing costs are a key component of our forecast costs. Much like those that have mortgages, we need to raise funds to invest in our network. We have used the AER's 2018 Rate of Return Instrument to calculate the cost of those funds, measured using the 'allowed rate of return'.

Lower interest rates means that we expect the rate of return applied to the 2024–29 period to be lower than that applied to the current period.

The rate of return, or weighted average cost of capital (**WACC**), represents the cost of funding investments in our network through borrowings from debt markets and investments from equity holders. The RAB is, in effect, the outstanding balance of money that we owe to those who financed our capex. The rate of return, therefore, covers the cost of servicing that money from debt and equity investors.

Rather than aligning to our actual financing costs, the rate of return is determined on a benchmark basis. This means that the parameters that input to that the rate are calculate using market yields and average outcomes across the industry (e.g., leverage, credit rating, and equity beta).

3.1 Rate of return

We have estimated our proposed WACC for the 2024-25 year of 5.67 per cent using the AER's 2018 Rate of Return Instrument (**RORI**).[14] As shown in Figure 3.1, this combines estimated returns on equity and debt. Our rate of return estimate was calculated using the methods and assumptions set out in the AER's 2018 rate of return guideline, as required by the NT NER.[15]

Figure 3.1: Our proposed rate of return for 2024-25

Note: we used a placeholder averaging period of the 20 trading days to 31 October 2022 to estimate the market parameters needed to calculate the returns on equity and debt. The return on debt and rate of return values shown are for the first year of the 2024–29 period. The equity and debt shares are detailed in the 2018 RORI.

The next two subsections explain how we estimated the return on equity and return on debt components. The final subsections explain how we estimated forecast inflation and debt and equity raising costs. Debt and equity raising costs are calculated within the AER's PTRM and included within the opex and capex allowances respectively.

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14   Our proposed rate of return is estimated in Attachment 10.06. Inputs, assumptions and calculations are explained in that model.
15   Although the 2018 RORI will be replaced by the 2022 RORI by the time of the AER's final decision, it was not available while preparing our Initial Regulatory Proposal.

Multiplying the projected opening RAB for each year over the 2024–29 period by the proposed rate of return gives the forecast return on capital building block shown in Table 3.1.

*Table 3.1:   Proposed return on capital ($ million various dollar bases)*

Component	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Opening RAB (Nominal)	1,279.5	1,351.4	1,427.1	1,490.3	1,583.9	**N/A**
Rate of return (%)	5.67%	5.83%	5.99%	6.15%	6.31%	**N/A**
Return on capital (Nominal)	72.5	78.8	85.5	91.7	100.0	**428.4**
Return on capital ($ real 2024)	70.4	74.4	78.4	81.7	86.6	**391.5**

Note: the opening RAB is in nominal dollars. Multiplying this by the nominal vanilla rate of return, or WACC, gives the return on capital in nominal dollars. This is converted to June 2024 dollars in the last row of the table.

3.2   Return on equity

The return on equity is the return required by equity investors to provide equity capital. As required by the 2018 RORI, this is calculated using the Sharpe-Lintner Capital Asset Pricing Model, which – as shown in Figure 3.2– combines a risk-free rate parameter with the product of the market risk premium and equity beta.

Figure 3.2:   Our proposed return on equity
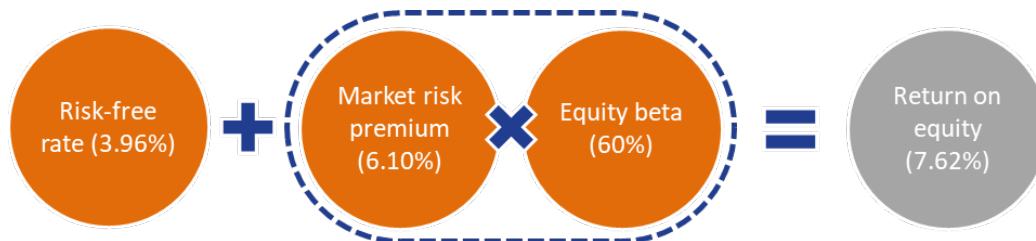
Note: the risk-free rate will be updated to reflect the future averaging period that we proposed in Confidential Attachment 10.05. The 2022 RORI may require updates to the methods and assumptions used to calculate the return on equity.

We estimated the risk-free rate parameter using yields on Commonwealth Government Securities observed over the 20 trading days to 31 October 2022. As shown in Figure 3.3, the risk-free rate has increased significantly over the last few years – and is the key driver for why our proposed WACC is noticeably higher than that adopted for the 2019–24 period.

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Figure 3.3:   How the 10-year risk-free rate has changed (per cent)
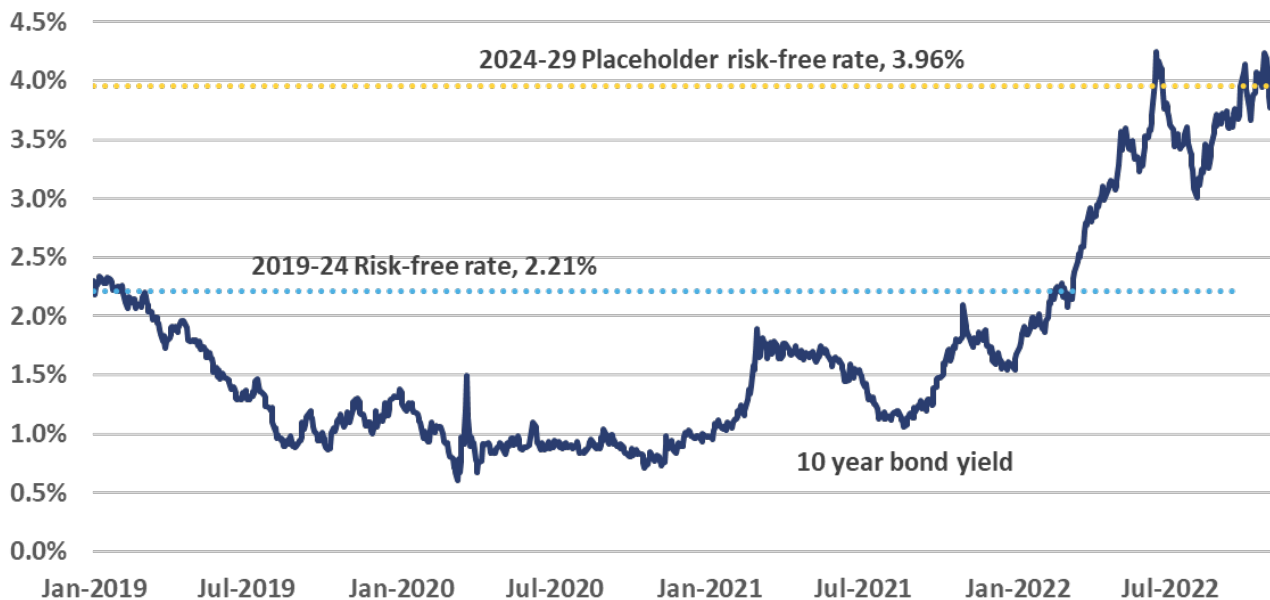
3.3   Return on debt

The return on debt is the return required by debt investors for lending funds to invest in new assets and continue financing existing assets.

As required by the 2018 RORI, the return on debt is calculated as a trailing average of past return on debt observations. The 2018 RORI requires that we transition to a full trailing average over a 10-year period. As shown in Figure 3.4, this means that the return on debt for the first year of the 2024-29 period (4.36 per cent) is calculated by placing 50 per cent weight on the 2019/20 observation and 10 per cent on each of the 2020/21 to 2024/25 observations.

The 2023/24 and 2024/25 observations are placeholders estimated using the 20 trading days to 31 October 2022 and calculating using corporate bond data published by Bloomberg, the Reserve Bank of Australia (**RBA**), and Thomson Reuters, consistent with the 2018 RORI. These observations will be updated in the AER's draft determination, our revised regulatory proposal and the AER's final determinations.

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Figure 3.4:   Our proposed return on debt for 2024/25

Annual observation	Weight	Contribution	
FY20: 4.21%	50%	2.11%	Return on debt (4.36%)
FY21: 3.10%	10%	0.31%	
FY22: 2.55%	10%	0.26%	
FY23: 3.08%	10%	0.31%	
FY24: 6.92%	10%	0.69%	
FY25: 6.92%	10%	0.69%	
Placeholders	**100%**	**4.36%**	
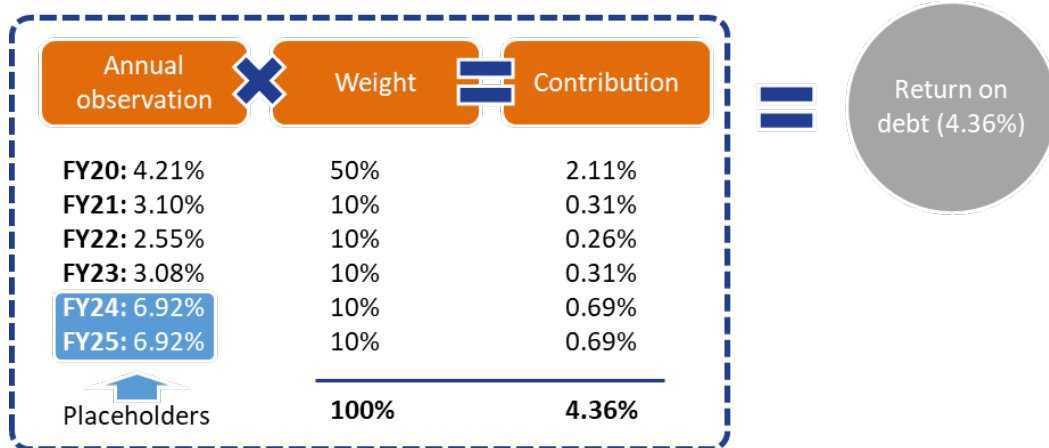
Note: the return on debt observation for 2023/24 will be updated to reflect the final values adopted by the AER for those years, which will be calculated in accordance with the 2018 RORI. The return on debt observation for 2024/25 (and subsequent years) will be updated to reflect the future averaging periods that we proposed in Confidential Attachment 10.05 and for any changes to the methods and assumptions adopted in the 2022 RORI.

3.4   Forecast inflation

Forecast inflation is used in the SCS PTRM to calculate the depreciation building block and to convert real dollar values to nominal dollar values.[16]

We propose adopting the AER's recently updated preferred approach to estimating forecast inflation by taking the geometric mean of:

- Two years of forecast inflation published by the RBA in its most recent statement on monetary policy.

- Three years transitioning to the midpoint of the bank's inflation target, of 2.5 per cent.

Applying this method and using the RBA's November 2022 statement on monetary policy, we estimate forecast inflation of 2.92 per cent, as shown in Table 3.2. This is calculated in our Rate of Return Model included as Attachment 10.06.

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[16]   There is also a link to the return on capital building block because the nominal rate of return implicitly includes an allowance for forecast inflation. That allowance is then netted off allowed revenues as a negative adjustment to the depreciation building block and instead added to the RAB as indexation.

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Table 3.2:   Proposed inflation forecast (per cent)

Component	2024-25	2025-26	2026-27	2027-28	2028-29
Source	*RBA forecast to June 2025*		*Linear transition to 2.5%*		
Inflation forecast	3.20%	3.20%	2.97%	2.73%	2.50%
Geometric average	2.92%				

Note: The geometric average is calculated by adding one to each inflation forecasts and multiplying them together to get a 5-year inflation projection, and then converting that projection back to a compound annual growth rate. As a placeholder, we have assumed that the RBA's forecast to June 2025 applies equally to June 2026.

3.5   2022 RORI Review

The AER issued its draft 2022 RORI in June 2022 and intends to publish its final 2022 RORI by February 2023. Due to that timing, we are required to apply the 2018 RORI in our Regulatory Proposal. We expect that the AER will update the WACC in its draft decision to reflect the final 2022 RORI.

3.6   Averaging periods

Under the 2018 RORI (and draft 2022 RORI), we can nominate averaging periods to estimate the risk-free rate and return on debt parameters that will apply to the 2024–29 period. We have nominated periods that are consistent with both the 2018 RORI and draft 2022 RORI.

Due to the confidential nature of these periods, we have set them out in a standalone document, Confidential Attachment 10.05.

3.7   Addressing the NT NER requirements

We have sought to comply with the NT NER requirements by using the AER's 2018 RORI in our Rate of Return Model. Table 2.3 sets out key documents relied on to calculate the rate of return.

Table 3.3:   Key documents used to determine our rate of return

Ref	Document name	Reason for inclusion
10.06	Rate of Return Model	The model is used to calculate the allowed rate of return using the assumptions and approaches contained in the 2018 RORI.
10.05	CONFIDENTIAL Rate of Return Averaging Period	This document sets out the averaging periods that Power and Water proposes should be used to measure the market observables (e.g., risk-free rate, cost of debt) used in the allowed rate of return. These periods are confidential.

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4.   Debt and equity raising costs

As well as the financing costs, businesses also incur costs when raising debt and equity. Although typically small, it is important that these costs are captured. We have estimated these costs using the assumptions and approaches adopted by the AER.

Debt and equity raising costs cover the costs incurred by a business when raising funds from outside of its business, and include agency, placement, arrange, legal, credit rating, and registration fees, and roadshow costs. They exclude the costs of financing those funds (which is already reflected in the rate of return).

We propose adopting the AER's preferred approaches and parameters used to estimate these costs for a benchmark firm (rather than our actual costs), as described in Table 4.1. Debt and equity raising costs are calculated in the SCS PTRM, included as Attachment 10.02.

Table 4.1:   Debt and equity raising cost estimation approaches and assumptions

Components	Approach and assumptions
Debt raising costs	Debt raising costs are calculated for each year of the 2024–29 period by multiplying the opening RAB value for the year by a unit cost. We propose adopting a unit rate of 8.3 basis points, which is the value adopted by the AER for the 2019–24 period.
Equity raising costs	Equity raising costs are estimated in two steps: • First, the PTRM calculates the share of earnings paid out and then reinvested and uses these values – along with forecast cash flows – to determine how much additional equity is needed to maintain a 60 per cent leverage ratio. • Second, the PTRM calculates the costs of the various funding sources, namely retained earnings, reinvested dividends, and equity offerings. To apply this method, we propose adopting the parameters that the AER used for the 2019–24 period, namely: • Imputation payout ratio (or earnings payout ratio) – of 90 per cent per dollar of income generated. • Dividend reinvestment plan take up – of 30 per cent of each dollar paid out as dividends. • Subsequent equity raising cost – of 3 per cent per dollar of equity raised in a subsequent equity raising. • Dividend reinvestment plan cost – of 1 per cent per dollar of equity reinvested.

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4.1   Estimated costs

Applying the approaches and assumptions noted above gives the debt and equity raising cost forecasts set out in Table 4.2. Consistent with recent AER decisions, we treat debt raising costs as opex and equity raising costs as capex.

Table 4.2:   Debt and equity raising costs ($ million real 2024)

Components	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Debt raising costs	0.6	0.7	0.7	0.7	0.7	**3.3**
Equity raising costs	-	-	-	-	-	-

4.2   Addressing the NT NER requirements

We have sought to comply with the NT NER requirements by using the AER's standard assumptions and approaches to calculating debt and equity raising costs. Table 4.3 sets out key documents relied on to calculate these costs.

Table 4.3:   Key documents used to determine our debt and equity raising costs

Ref	Document Name	Why included as supporting document
10.02	Post-Tax Revenue Model	The model is used to calculate the forecast debt and equity raising costs for the 2024–29 period.

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5. Revenue adjustments

Building block revenue may be adjusted for shared asset revenue, incentive mechanisms, and other cross-period adjustments.

For the 2024–29 period we propose to adjust for the demand management innovation allowance and the CESS. No adjustment is needed for shared asset revenue because we do not exceed the threshold set out in the AER's shared asset guideline.

We have identified no other revenue adjustments at this time.

5.1 Shared asset revenue

A small number of assets we use to provide regulated services are also used to provide unregulated services. The adjustment for shared-asset revenue reflects the benefits we and our customers received from these assets over the current regulatory period.

We currently earn unregulated shared asset revenue from one or more telecommunication providers for their use of a fibre optic cable. As we also use that asset to provide SCS, we refer to them as 'shared assets' and must apply the AER's shared asset guideline to ensure that we do not recover more than our efficient costs.[17]

We forecast that this revenue will average around $1.1 million (real 2024) per year over the 2024–29 period. As shown in Table 5.1, that revenue is below the threshold set out in the AER's shared asset guideline for each year over that period.[18] Consistent with that guideline, we have not deducted any shared asset revenue from our building block revenue over the 2024–29 period.

Table 5.1:   Forecast shared asset revenue ($m, June 2024)

Components	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Forecast shared asset revenue	1.1	1.1	1.1	1.1	1.1	**5.4**
Revenue threshold (1% of forecast building block revenue)	1.9	1.9	2.0	2.1	2.1	**9.9**
Shared asset revenue above threshold	No	No	No	No	No	**N/A**
Shared asset revenue adjustment	-	-	-	-	-	-

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17   AER, 29 November 2013, *Shared asset guideline*.
18   The threshold is 1 per cent of building block revenue, or the annual revenue requirement.

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5.2 Incentive allowances

As well as shared asset revenue, our building blocks revenue is also adjusted for any incentive allowances. These can be positive or negative and are intended to give effect to incentive mechanisms allowed by the AER under the NT NER.

For the 2024–29 period, our proposed revenue includes two incentive allowances:

1. **CESS carryover amounts** – these result from applying the AER's CESS to our actual capex incurred over the 2019–24 period.

2. **Demand Management Innovation Allowance (DMIA)** – this is an ex ante allowance for demand management innovation.

Table 5.2 summarises our proposed incentive allowances for the 2024–29 period. Attachment 10.07 calculates the CESS carryover amounts while the 'DMIA' sheet of the SCS PTRM calculates the DMIA (see Attachment 10.02.

Further detail on our proposed incentive mechanisms for the 2024–29 period is included in Attachment 12.01.

Table 5.2:   Incentive allowances ($ million real 2024)

Components	2024-25	2025-26	2026-27	2027-28	2028-29	Total
CESS carryover	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	**(2.7)**
DMIA	0.4	0.4	0.4	0.4	0.4	**2.0**

Note: values may not add due to rounding.

5.3 Addressing the NT NER requirements

We have sought to comply with the NT NER requirements by using the AER's standard assumptions and approaches to calculating revenue adjustments. Table 5.3 sets out key documents relied on to calculate these costs.

Table 5.3:   Key documents used to determine revenue adjustments

Ref	Document Name	Why included as supporting document
10.02	Post-Tax Revenue Model	The model is used to calculate the demand management innovation allowance for the 2024–29 period. It also is used to incorporate all revenue adjustments into building block revenue.
10.07	Capital Expenditure Sharing Scheme Model	This model is used to calculate any rewards earned or penalties owed under the CESS for performance over the 2019–24 period.
12.01	Incentives	This overview document explains the impact of the CESS over the 2019–24 period.

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6. Corporate tax allowance

Corporate income tax is a cost of doing business. We have estimated this cost for the 2024–29 period on a benchmark basis using the calculations and assumptions adopted by the AER. Although this may not align exactly with the tax we expect to pay, it is appropriate for us to be benchmarked against those that do.

Like other businesses, we must pay income tax equivalence to the government. The allowance for tax costs in our building block proposal reflects our expected tax liabilities over the next regulatory period *assuming* that we adopt benchmark tax practices and that our shareholder benefits from imputation credits. To do this, we have adopted the AER's PTRM, which includes the benchmark tax calculation.

Our proposed tax cost allowance for SCS over the 2024–29 period shown in Table 6.1 makes up just 0.11 per cent of our total SCS building block costs. As explained in the next section, we forecast this allowance using the approach included in the AER's PTRM.

*Table 6.1:   Corporate tax allowance ($ million real 2024)*

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Estimated cost of corporate income tax	1.1	-	-	-	-	1.1

6.1   Methodology for tax allowance

Corporate income tax is calculated within the SCS PTRM using the following formula, consistent with clause 6.5.3 or the NT NER. Tax payable is estimated by multiplying the corporate tax rate (of 30 per cent) by forecast taxable income. This tax is then reduced by the assumed value of imputation credits included in the 2018 rate of return guideline (of 58.5 per cent).[19]

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[19]   As noted above with regards to the rate of return, the assumed value of imputation credits may be revised when the 2022 RORI is finalised.

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Figure 6.1: Calculation of the tax allowance
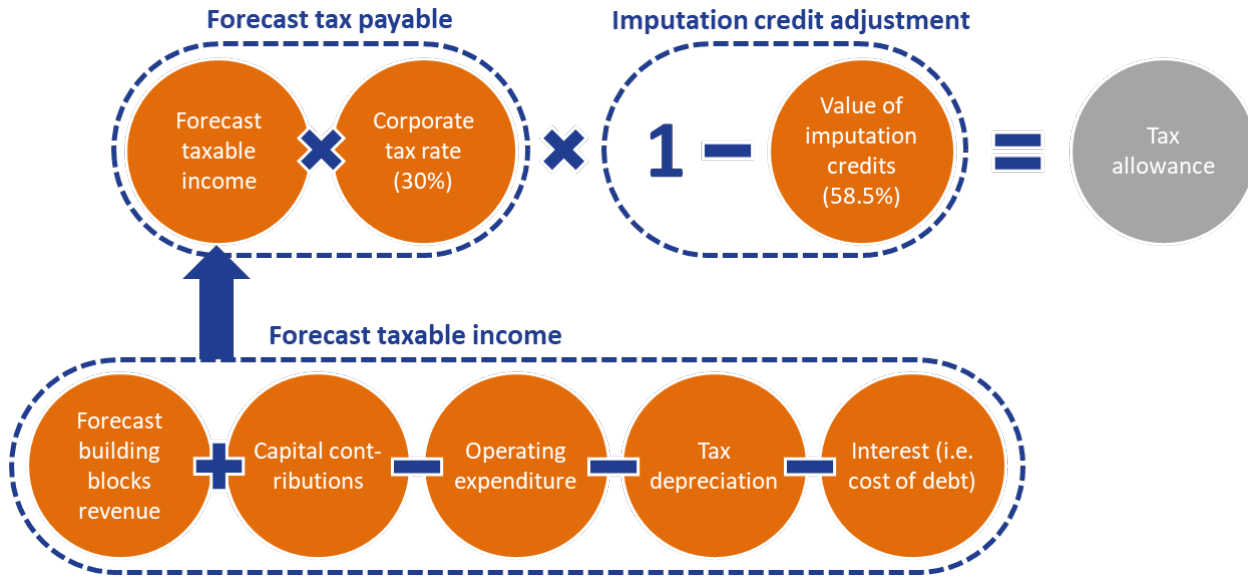
As shown in Figure 6.1, forecast taxable income is calculated as revenue including capital contributions less taxable expenses. Opex is set the same as the building block and interest the same as the cost of debt component of the return on capital building block. Tax depreciation is calculated within the SCS PTRM by reference to the tax asset base (**TAB**), as discussed in the next subsection.

6.2   Tax depreciation

Forecast tax depreciation is a key input to calculating forecast taxable income. To calculate it requires:

- An opening TAB as at 30 June 2024.
- Forecast gross capex, asset disposals and immediate expensing of capex over the 2024–29 period.
- Standard and remaining tax lives.

The opening TAB as at 30 June 2024 is calculated by rolling forward the TAB over the 2019–24 period, as shown in Table 6.2.

Table 6.2:   TAB roll-forward over the 2019–24 period ($ million nominal)

Components	2019-20	2020-21	2021-22	2022-23	2023-24
Opening value	923.7	927.6	927.0	935.3	966.8
Gross capex	67.6	47.7	71.0	92.8	118.4
Asset disposals	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Depreciation	(60.5)	(48.2)	(62.6)	(61.1)	(60.2)
Adjustments	(3.1)	-	-	-	7.8
Closing value	927.6	927.0	935.3	966.8	1,032.7

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Like the RAB (discussed in section 2.5), the TAB includes the value of corporate ICT, property and other assets acquired in the year to 30 June 2019. We use these assets to provide SCS to our customers. However, unlike the RAB, the TAB includes the value of capital contributions, including gifted assets. These contributions attract a tax liability that we must pay, as well as tax expenses that we can claim over the life of those contributions.

Projecting the TAB forward over the 2024–29 period gives forecast tax depreciation for that period, as shown in Table 6.3.

Table 6.3: TAB roll-forward over the 2024–29 period ($ million nominal)

Components	2024-25	2025-26	2026-27	2027-28	2028-29
Opening value	1,032.7	1,072.3	1,099.7	1,110.2	1,144.1
Gross capex	110.4	110.5	101.2	137.4	170.9
Asset disposals	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Depreciation	(70.6)	(82.9)	(90.5)	(103.3)	(110.7)
Closing value	1,072.3	1,099.7	1,110.2	1,144.1	1,204.2

6.3 Proposed tax allowance

Applying the formula shown in Figure 6.1 to projected revenue and expenses for the 2024–29 period, gives the projected tax allowance shown in the last row of Table 6.4.

Table 6.4: Corporate tax allowance calculation ($ million real 2024)

Components	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Taxable revenue	191.6	190.9	196.8	206.5	214.5	**1,000.3**
Taxable expenses	182.6	196.0	204.0	217.4	225.0	**1,025.0**
Taxable income	8.9	(5.1)	(7.1)	(10.8)	(10.6)	**(24.7)**
Less tax loss carry forward	-	(5.1)	(12.1)	(22.6)	(32.5)	**N/A**
Estimate tax payable (@30%)	2.7	-	-	-	-	**2.7**
Less value of imputation credits (@58.5%)	(1.6)	-	-	-	-	**(1.6)**
Estimated cost of corporate income tax	1.1	-	-	-	-	**1.1**

Note: the tax calculation is undertaken in nominal dollar terms in the PTRM. We have converted these to dollars as at June 2024.

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6.4   Addressing the NT NER requirements

We have sought to comply with the NT NER requirements by using the AER's standard assumptions and approaches to calculating the corporate tax allowance. Table 6.5 sets out key documents relied on to calculate these costs.

Table 6.5:   Key documents used to determine corporate tax allowance

Ref	Document Name	Why included as supporting document
10.02	Post-Tax Revenue Model	The model is used to calculate the corporate tax allowance over the 2024–29 period.
10.03	Roll Forward Model	The model is used to derive the opening TAB value that is included in the Post-Tax Revenue Model.
10.04	Depreciation Model	The model is used to calculate depreciation over the 2019–29 period, which feeds into the Roll-Forward Model.

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