



## Assumed utilisation of imputation credits

Final rule determination – 20 September 2012

**The Commission has determined not to make a rule amending a component of the current rate of return framework proposed by two transmission network businesses. This is because the Australian Energy Regulator (AER) is the more appropriate body to determine this value.**

### AEMC's final rule determination

The AEMC assessed the rule change requests from SP AusNet and ElectraNet on a transitional basis and has determined not to make a rule.

The AEMC's reasons for not making the proposed rules are:

- it is not the role of the AEMC to conduct reviews of the appropriate value of gamma or any other parameter in a rate of return estimate. These reviews are more appropriately carried out by the AER, as it has the responsibility and expertise to determine the specific parameters in a rate of return estimate;
- the framework used by the AER to calculate the rate of return estimate for network businesses is set out in the National Electricity Rules (NER). For transmission businesses that framework requires all the rate of return parameters (including gamma) to be considered in a single periodic review to allow an appropriate overall rate of return to be made;
- a rule that allows rate of return parameters to be amended outside of that framework would undermine the integrity of the current framework and create regulatory risks; and
- varying the value of gamma without assessing potential changes in the overall rate of return may change the underlying incentive arrangements for these network businesses.

The AEMC acknowledges that the current rate of return framework for transmission businesses does not provide flexibility to adapt to changing circumstances, but that framework is currently being considered as part of the Economic Regulation of Network Service Providers rule change request.

### Relevant background

#### Utilisation of imputation credits (gamma) in the rate of return framework

The NER outlines the rate of return framework for transmission businesses. It provides an estimate of the fair return that investors may reasonably expect.

The AER must conduct a review of the rate of return parameters every five years. For some parameters, the values adopted in that review cannot be departed from for all revenue determinations made during that five year period. These parameters include gamma. Gamma is the assumed value of imputation credits (franking credits).

Where the value of imputation credits or gamma is lowered, the revenue requirement will network businesses will be higher. The AER's determination of the value of gamma for transmission businesses is not subject to merits review.

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