

Author name: Name suppressed

Date of submission: Tuesday, 4 August 2026

Your submission for this review:

Following attending the public hearing I would like to update my previous submission to include the attached document.

Submission to IPART

Review of Electronic Lodgement Network Operator (ELNO) Service Fees – Response to Draft Report (3 July 2026) and Public Hearing (21 July 2026)

From: [REDACTED]

Capacity: Individual shareholder (submission made in a personal capacity)

Date: 04/08/2026

To: ELNO Service Fees Review Team (Attention: Heather Dear)

1 Introduction

I am writing in response to IPART's draft report on the review of ELNO service fees, published 3 July 2026, and further to the public hearing held on 21 July 2026, a transcript of which has been published on IPART's website. After reviewing the draft report and attending the hearing I wish to raise four specific concerns with the methodology underpinning the draft recommendations, ahead of the 14 August submission deadline.

I recognise IPART's terms of reference require it to balance customer outcomes, ongoing investment, and equitable access, and I do not dispute that continued price regulation of PEXA is warranted given its market position. My concern is narrower, and I believe that several discretionary methodological choices in the draft report, while individually defensible, consistently point in the same direction and may cumulatively bias the resulting cost allowance downward. I ask the Tribunal to test this possibility explicitly and address the specific points below before finalising its recommendations.

2 Summary of Concerns

1. The recovered capital cross-check presented in the draft report is not methodologically independent of the primary building block calculation. In its current form it should not be treated as independent corroboration of the draft initial asset base.
2. The three-year historical averaging period used to forecast forward operating costs produces the lowest implied cost growth rate, however, the report does not explain why this specific period was selected over the alternatives.
3. Considered as a whole, the discretionary inputs in the draft report – the depreciation start date, the opex uplift cut-off, the cross-check hurdle rate ceiling, and the cost-growth averaging period – form a consistent pattern that warrants independent, combined sensitivity testing rather than input-by-input review.

4. The forecast cost base does not appear to account for prospective step-changes in cost, particularly cybersecurity/quantum-readiness investment and AI-driven cloud infrastructure cost inflation, which a trailing historical average is structurally unable to capture.

3 The Building Block Model and Cross-Check

The draft report proposes an initial asset base of \$367.6 million as at 1 July 2027. This figure was reached by including \$231.2 million of historical capital expenditure since PEXA's inception in 2011, plus a \$136.3 million uplift for historical operating expenditure incurred prior to 2019-20. IPART's own presentation at the public hearing acknowledged this treatment of operating expenditure is atypical as a standard building block framework does not ordinarily roll forward operating expenditure into the asset base. I do not object to this departure in principle – there is a reasonable economic argument that early-stage investment recorded as opex was essentially foundational capital investment. However, it means the primary methodology already reflects a significant degree of regulatory judgement, not a mechanical application of a settled model.

The draft report cross-checks this figure using a recovered capital method. This method tracks a rolling balance of unrecovered investment against an assumed required rate of return, declining linearly from an assumed early-stage hurdle rate down to the current WACC by 2019-20. IPART tested this cross-check across a range of hurdle rate scenarios, up to 34% real (over 36% nominal), and found the resulting unrecovered balance did not exceed \$367.6 million within that range.

The difficulty is that the cross-check's outcome is almost entirely determined by the single, IPART-selected hurdle rate assumption – a judgement call of the same nature as the primary calculation, not an independently sourced data point. It therefore cannot properly be described as independently validating the draft asset base, as both the primary estimate and the cross-check ultimately depend on regulatory judgement regarding historical returns and asset valuation. This concern was raised directly in similar terms by PEXA's CFO at the hearing, who submitted that realised early-investor returns were closer to 35% and that applying this rate would increase the initial asset base to over \$900 million.

I would ask the Tribunal to give weight to an alternative reference point raised at the hearing by Tom Young of Renaissance Asset Management, speaking on behalf of institutional shareholders. PEXA was sold in 2019 for \$1.6 billion in an arm's-length transaction between sophisticated parties, including the NSW Government (a party to the current review) and the major trading banks, following a competitive process and extensive due diligence. Mr Young submitted that rolling the draft report's \$367.6 million 2027 figure backward through IPART's own depreciation and indexation methodology implies a 2019 asset value of approximately \$600 million – a gap of around \$1 billion, or 63%, against the actual sale price. Applying the same logic in the other direction – rolling the \$1.6 billion transaction value forward using IPART's own approach – implies an initial asset base considerably higher than the draft figure of approximately \$950 million.

This transaction appears to be the only genuinely independent, arm's-length market valuation evidence available for the asset in question and therefore warrants explicit consideration alongside model-based valuation approaches. I ask that IPART address this reconciliation directly in its final

report, explaining either why the transaction evidence is not relevant to the cross-check, or how it has been weighted in arriving at the final asset base.

4 The Three-Year Operating Cost Averaging Period

The draft report forecasts PEXA's operating costs for the 2027-28 to 2030-31 regulatory period by extrapolating a historical cost growth rate, before applying a further 1.7% annual productivity factor. PEXA's CFO submitted at the hearing that the specific three-year historical window used in the draft report produces the lowest growth rate of the periods available in PEXA's own data:

Averaging period	3 years	4 years	5 years
Implied historical cost growth rate	0.7%	1.3%	2.6%
Adopted in draft report	Yes	No	No

I ask IPART to publish the rationale for selecting a three-year window, particularly given that it produces the lowest implied growth rate among the available periods. I also ask IPART to clarify how the additional 1.7% productivity factor, drawn from broader industry productivity data, avoids double-counting efficiency gains that may already be reflected in PEXA's own recent historical cost trend, as was put to the Tribunal at the hearing. If a longer window better reflects a full cost or investment cycle for a platform of this kind, I would ask that the final report adopt the four or five-year figure, or explain clearly why it does not.

5 Pattern of Asymmetric Discretionary Choices

No single input addressed above, on its own, is evidence of a predetermined outcome. When the regulatory discretionary choices are considered together however, a pattern emerges. In addition to the matters outlined above, the draft report:

1. Commences depreciation of PEXA's assets from 2011, notwithstanding that the draft report's own analysis identifies 2019-20 as the first year PEXA's revenue exceeded its costs;
2. Applies only CPI indexation, rather than a return, to historical costs incurred before that date;
3. Sets the cut-off for the operating expenditure uplift at 2019-20, the same year identified above;

While each assumption may be individually defensible, a key regulatory question is whether the cumulative effect of these assumptions produces a materially different outcome than would arise under an equally reasonable alternative set of assumptions. I ask that, in finalising its recommendations, IPART conduct and publish a combined sensitivity analysis showing the effect on the proposed 20% fee reduction of adopting the next most reasonable alternative on each of these inputs simultaneously, rather than assessing each input in isolation. This would allow

stakeholders to understand how sensitive the headline outcome is to the cumulative effect of these judgement calls, rather than to any single one of them.

6 Unaccounted Forward Cost Pressure: Cybersecurity and AI-Driven Infrastructure Costs

The draft report's cost forecasting approach is top-down: it extrapolates PEXA's actual historical operating and capital expenditure forward, adjusted by the productivity factor discussed above. This is a reasonable approach for cost categories that change gradually and predictably. It is a weaker approach for categories facing a prospective step-change that a trailing historical average, by construction, cannot yet reflect.

Two such categories warrant specific attention. First, cybersecurity and quantum-readiness investment. IPART's own draft report recognises PEXA's platform as critical infrastructure subject to obligations under the Security of Critical Infrastructure Act. The ongoing transition toward quantum-resistant cryptographic standards, together with the increasing sophistication of automated and AI-assisted cyber threats, represents a plausible material step-change in required security investment for a platform of this nature, over and above historical trend. Second, cloud and data infrastructure costs. The broader, economy-wide build-out of AI infrastructure is placing upward pressure on data centre capacity and cloud computing pricing generally. Even where a platform is not itself a heavy user of AI compute, its cloud hosting costs are exposed to this same capacity-constrained pricing environment. The historical window primarily used in the draft report does not fully capture the period in which this pressure has intensified and may understate hosting cost trajectories over the 2027-28 to 2030-31 period as a result.

I do not suggest that a general assertion of future cost risk should, on its own, justify a higher cost allowance; any such claim should be supported by specific, quantified and sourced forecasts rather than qualitative risk narratives. I would ask IPART to require PEXA to provide a costed forecast for these two categories specifically – for example, a quantified quantum-migration roadmap, and documented cloud vendor pricing trends or contractual commitments – as part of the submission process, and to assess explicitly whether the current trend-based methodology adequately captures such step-change cost categories, or whether a separate, forward-costed allowance would be more appropriate for these specific items.

7 Requested Actions

In a review where several key inputs are necessarily judgement-driven rather than directly observable, transparency regarding the cumulative impact of those judgements is particularly important to maintaining confidence in the outcome.

1. Reconcile the recovered capital cross-check explicitly against the 2019 arm's-length transaction evidence raised at the public hearing and publish the basis for the hurdle rate range adopted.

2. Publish the rationale for selecting a three-year operating cost averaging period and consider adopting a four or five-year period consistent with a fuller cost cycle.
3. Publish a combined sensitivity analysis showing the effect on the proposed fee reduction of adopting reasonable alternative assumptions across the discretionary inputs identified in Section 5, simultaneously rather than individually.
4. Require a costed, evidence-based forecast for cybersecurity/quantum-readiness and cloud/AI-driven infrastructure cost inflation and assess whether these categories are adequately captured by the current trend-based forecasting approach.

8 Conclusion

As PEXA itself noted at the hearing, this is understood to be the first pricing determination of its kind applied to digital infrastructure of this nature in Australia, and it is likely to inform how similar assets are regulated in future. Given the significance of the outcome, both for the ongoing viability of critical national infrastructure and for the price paid by consumers, I believe the methodological questions raised above warrant direct and transparent engagement in the final report. This includes clear explanation of why alternative reasonable assumptions have been accepted or rejected.

I thank the Tribunal for their consultation process and the opportunity to contribute to this review and would be pleased to provide further detail on any of the above if that would assist.

Yours sincerely,

