Methodology Paper – Initial Asset Base for an Electronic Lodgment Network Operator

Review of Electronic Lodgment Network Operator service fees

31 March 2026

This paper sets out our proposed approach to establishing an initial asset base for an efficient Electronic Lodgment Network Operator (ELNO). The initial asset base is a key element of the 'building block' method of calculating the revenue a business requires to cover its costs, before in turn setting prices at a level that will produce that revenue. This paper:

- explains our proposed approach to:
  - the initial asset base methodology
  - treatment of costs that were incurred to establish the market and remain unrecovered
- outlines alternative methodologies that we have considered.

We are seeking submissions on the proposed methodology set out in this paper. We will consider all feedback received in submissions before we develop draft recommended prices for the Draft Report, which we expect to publish in June 2026. Stakeholders will have a further opportunity to provide feedback to our review of ELNO service fees in response to our Draft Report and at the subsequent Public Hearing.

What have we been asked to do in this review?

IPART has been asked to investigate and make recommendations on the fees ELNOs may charge for eConveyancing services. Our Terms of Reference requires us to investigate and make recommendations on:

- whether the service fees ELNOs charge should be regulated
- if so, whether a regulated method or level of price should apply, what this should be and when this should apply

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present. We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

- future adjustment and review processes for ELNO service fees.

1 Our approach to recommending prices

At this stage, IPART's in-principle view is that ELNO service fees should continue to be regulated. In considering the appropriate regulatory approach, effective competition is in principle the preferred means of constraining prices and promoting efficient outcomes over time. IPART supports the development of competition in the eConveyancing market and recognises its potential to play a greater role as market conditions evolve.

However, based on the current market structure and the state of interoperability arrangements, we do not expect competition to be effective in shaping ELNO service fees within the next few years. While 2 ELNOs are operational, the market remains highly concentrated and users face practical limitations to choosing providers. These issues have been raised previously, including through parliamentary inquiries that considered the state of competition in the eConveyancing market.[1]

Accordingly, for the purposes of this review period, we consider it appropriate to assess ELNO service fees on the basis of the efficient cost of providing ELNO services that are within the scope of this review, rather than on the assumption that competitive pressures will discipline prices in the near term. This approach does not limit a greater reliance on competition in future reviews, should market conditions support it.

2 The initial asset base

If ELNO service fees are to be determined using a building block framework, then an initial asset base is required. The initial asset base is the value on which a regulated ELNO would be allowed to earn a return on capital and recover depreciation.

When setting the initial asset base, IPART aims to balance protecting users from paying more than efficient costs with ensuring service providers have a reasonable opportunity to recover efficient costs. If the asset base is set above efficient costs, it may allow returns that reflect factors other than efficient service provision (for example, advantages associated with market position). Conversely, an asset base set too low may undermine incentives to maintain service quality.

In established sectors IPART regulates, such as water and wastewater services, the initial asset base has typically been set using well-developed approaches applied to physical infrastructure, such as historical cost, replacement cost, or discounted cash flow approaches. These approaches are designed to reflect the prudent and efficient costs of assets required to deliver services.

For an ELNO, the nature of assets is different. ELNOs rely predominantly on intangible assets, including software platforms, system architecture, data and associated intellectual property, rather than long-lived physical infrastructure.

IPART will need to consider how some historical expenditures would be valued when establishing an initial asset base, including whether:

- some relevant costs may be only partially reflected in financial statements
- historical expenditure may not represent the efficient cost of providing services today
- some early expenditure may not be appropriate to include in a regulated asset base.

While IPART's established regulatory principles remain relevant in this review, we consider they may need to be adapted to reflect the characteristics of a regulated digital platform. In this review, we are considering how to apply our regulatory principles in a way that supports efficient cost outcomes and provides appropriate incentives over time.

An additional consideration for this review arises because eConveyancing is a new industry, where a first mover may have incurred costs that subsequent entrants do not have to. For instance, the incumbent ELNO, PEXA, incurred costs to establish industry standards and increase adoption of electronic conveyancing before government mandates were introduced.[a]

The next section sets out our proposed methodology for establishing an initial asset base for an efficient ELNO. It does not cover our proposed methodology for forward-looking operating and capital expenditure, which we will explore in detail in our Draft Report.

If stakeholders consider a different methodology than our proposed approach for the initial asset base is more appropriate, we welcome this feedback. We aim to balance grounding the initial asset base in evidence, recognising prudent and efficient investment, avoiding outcomes that embed values not required to provide ELNO services, and providing regulatory certainty for all ELNOs.

Section 4 outlines some of the alternative methodologies we considered.

3 Proposed methodology

ELNOs deliver services primarily through digital and intangible assets. These include software, system architecture, secure integrations, and operating rules that enable electronic conveyancing transactions to occur reliably at scale.

A key challenge in establishing an initial asset base for an ELNO is that a significant share of historical investment may not be recorded as capital, even where that expenditure contributed to establishing the eConveyancing market and remains unrecovered. This is because accounting standards may require certain forms of internally generated intangible investments to be expensed as operating costs rather than capitalised. As a result, expenditures that contribute to long-lived functionality may be treated as operating costs for accounting purposes, even where they support ongoing delivery of ELNO services.

[a] PEXA was established in 2010 as National eConveyancing Development Limited, reaching 1 million cumulative transactions by April 2018. From October 2021, all land dealings in NSW were required to be lodged electronically. While PEXA incurred additional costs to help establish the eConveyancing market, it may have also gained advantages over later entrants, such as its user network and name recognition. However, these advantages would not typically be relevant for establishing the initial asset base.

From a regulatory perspective, it may be appropriate for the initial asset base to include past operating expenditure that contributed to assets which are needed for the ongoing provision of ELNO services.

Given these factors, our proposed approach for establishing an initial asset base for an efficient ELNO is to use a historical cost rolled-forward methodology, supplemented by a separate uplift to recognise unrecovered efficient costs that were incurred to establish the market but are not captured in capitalised expenditure. To ensure consumers pay no more than is necessary, we would assess the extent to which these historical costs were efficient at the time and only include efficient costs in the initial asset base.

Under this approach:

- the initial asset base is established using audited historical capital expenditure incurred in developing the Exchange platform, rolled forward using straight-line depreciation and indexation
- any uplift for unrecovered costs to establish the market is assessed separately, subject to prudency and efficiency tests to ensure we include only expenditure associated with providing ELNO services, before being added to the initial asset base.

This proposed approach would be used only to establish an initial asset base for the purposes of applying a building block framework. It does not pre-determine our preferred approach to assessing efficient ongoing operating or capital costs. Our approach to ongoing costs, demand forecasts and other building block inputs is still under consideration and will be informed by further analysis and consultation as the review progresses.

Further, while this methodology seeks to establish an initial asset base for a hypothetical efficient ELNO, we propose to use PEXA's cost information to inform these historical costs. This is because PEXA is the only ELNO currently operating across all jurisdictions and offering all document types available for electronic lodgment, whereas Sympli does not yet have full coverage of all jurisdictions or document types.

PEXA's data would be used as a starting point for estimating the scale and composition of investment required to provide ELNO services at a national level, while allowing for subsequent assessment of efficiency and prudency.

The following sections discuss this approach in more detail.

3.1 Historical cost rolled-forward

The historical cost rolled-forward approach sets the initial asset base equal to the capital expenditure incurred in developing the eConveyancing platform, indexed for inflation and depreciated over useful asset lives. Each capital investment is recognised in the year it was made, with a return earned on the indexed written-down value until that investment is recovered through regulated revenues.

Establishing an initial asset base using a historical cost rolled-forward approach provides a transparent and relatively straightforward starting point for future regulation. It reflects actual expenditure incurred to develop and operate the Exchange platform, with adjustments to exclude any costs that are above efficient levels. We would also include an uplift for additional early expenditure not recognised in capital expenditure (see Section 3.2). This provides a transparent initial asset base that can be rolled forward in future regulatory periods. We have sought expert advice to review the efficiency of historical costs.

We consider a historical cost approach has several advantages in the ELNO context:

- it is grounded in actual, auditable expenditure
- it is transparent and replicable
- it aligns with established cost-of-service regulatory principles, under which users pay no more than the efficient cost of providing the service.

While ELNO assets are predominantly intangible, accounting standards permit capitalisation of certain development-phase expenditure (such as software development) where certain criteria are met.[b] Once capitalised, these costs are amortised over their useful lives in a similar way to the depreciation of physical assets.

However, we recognise that relying solely on capitalised expenditure may not fully reflect all investment that contributed to establishing an ELNO platform. In particular, some early development activity, such as market establishment, coordination and onboarding, may have been expensed under accounting standards.

These limitations indicate an additional uplift may be warranted, as discussed in Section 3.2.

3.2 It may be appropriate to recognise unrecovered costs incurred in establishing the market

In digital platform markets, some expenditure recorded as operating expenditure under accounting standards may be as important for developing the business as capital assets. This can be the case where expenditure creates long-term value rather than benefits confined to a single period.

As the first ELNO in Australia, PEXA incurred costs associated with contributing to the establishment of an eConveyancing market, including:

- developing the first eConveyancing platform in Australia, including research and development costs associated with new system design and implementation
- establishing processes and standards that may reduce set-up effort for later entrants
- stakeholder engagement to support uptake (for example, with financial institutions and legal practitioners)
- training and support activities to enable subscribers to use an ELNO platform.

[b] Under AASB 138, development-phase expenditure may be capitalised if it is technically feasible, can be used or sold once completed, is intended and resourced to be completed, has probable future economic benefits, and expenditure can be reliably measured.

Some of these activities likely contributed to future service potential. Relying solely on capitalised expenditure may therefore understate the efficient cost of establishing an ELNO platform.

At the same time, recognising all historical expenditure would risk embedding costs that do not reflect efficient service provision.

We seek comment on

1. Which categories of non-capitalised expenditure, if any, do you consider should be eligible for consideration as unrecovered market-establishing costs to be included in the initial asset base, and why?
2. Are there proxies or evidence, other than historical operating expenditure, that reflect the current value of unrecovered costs used in establishing the market?

3.2.1 Uplift for unrecovered historical costs

To address the issue of unrecovered historical operating expenditure, we are considering whether an uplift is warranted to recognise costs incurred when establishing the market. We are considering including expenditure that meets the following criteria:

- it is attributable to providing Exchange services
- it was prudently and efficiently incurred, assessed in light of information available at the time
- it has not already been recovered from users through historical revenues.

IPART would typically exclude costs that do not support the provision of regulated services. Similarly, values reflecting goodwill or other elements not required to provide the service typically do not form part of the initial asset base.

Another issue we are considering is whether the initial asset base should include an additional allowance for asymmetric risk associated with the early development of eConveyancing, on the basis that PEXA's initial investments did not have absolute assurance of succeeding. In principle, regulatory frameworks may need to consider whether prices allow a fair return for early uncertainty. However, in the eConveyancing context, much of the initial development risk was borne by governments, with PEXA established and funded by state governments during its formative years. We will consider this further in the Draft Report.

We seek comment on

3. What criteria should we apply to ensure that any uplift to the initial asset base for unrecovered costs incurred in establishing the market is limited to efficient expenditure and does not embed over-recovery of costs?

3.3 How the initial asset base affects prices under a building block framework

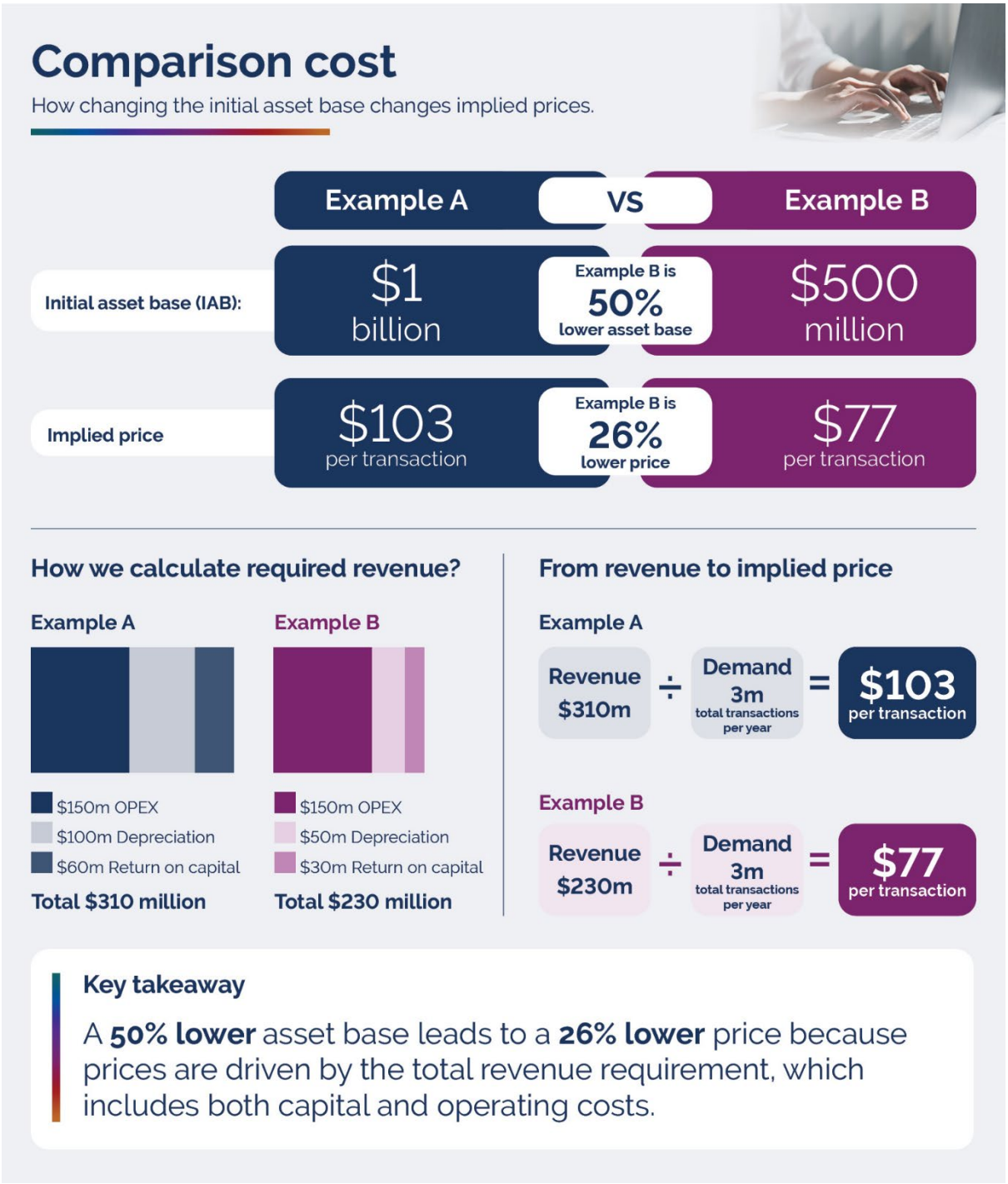
To illustrate how the level of the initial asset base can affect prices under a building block framework, Figure 3.1 presents a stylised comparison of 2 hypothetical initial asset bases. This example is illustrative only and is intended to show the mechanics of the building block approach when the initial asset base is higher or lower, holding all other inputs constant. It does not reflect IPART's assessment of the appropriate level of the initial asset base or PEXA's proposal.

Example A assumes an initial asset base of $1 billion, and Example B assumes an initial asset base of $500 million to illustrate the impact on outcomes of an initial asset base that is 50% lower. Under Example A, the total annual revenue requirement is $310 million. Ongoing operating costs contribute around 48% of this total, while the return on capital plus depreciation, both of which are directly linked to the initial asset base, contribute around 52%.

Under Example B, the total annual revenue requirement drops to $230 million. Holding operating costs at the same level as in Example A means they represent a larger share of the total revenue requirement (around 65%) while the return on capital plus depreciation falls to around 35%.

This stylised example shows that, holding other inputs constant, the initial asset base flows through to the return on capital and depreciation components of the building block model, affecting total allowed revenue and indicative prices. However, because these components comprise only part of the overall revenue requirement, a given percentage reduction in the initial asset base does not result in an equivalent percentage reduction in revenue requirement or in prices.

Figure 3.1 Illustrative impact of hypothetical alternative asset bases on prices



Notes: Annual expenditure is the same in both examples. Both examples assume a WACC of 6% and asset lives of 10 years.

3.4 Role of the recovered capital method

Under our proposed methodology, we are considering whether a recovered capital method could be used as a cross-check on the outcomes produced by the historical cost rolled-forward and any explicit uplift for unrecovered costs incurred when establishing the market.

The recovered capital method assesses the extent to which aggregate historical expenditure associated with providing the service, including both capital and operating expenditure, has been recovered from users through revenue over time.[2] It therefore provides a backward-looking indication of net cost recovery at a given point in time.

Used as a cross-check, the recovered capital method may assist us to assess whether:

- a rolled-forward historical cost asset base implies significant under- or over-recovery of historical investment
- any explicit uplift is broadly consistent with observed cost recovery, considering the timing of past expenditure and revenues.

Implementation of the recovered capital method requires consistent and reliable data on expenditure and revenues over the full development period, which for eConveyancing commenced in 2011. At present, there may be data gaps for the period prior to 2015. The impact of estimating expenditure levels for these early years is greater under a recovered capital method than under alternative approaches. This is because the recovered capital method treats net early losses as an unrecovered balance that is rolled forward through compounding. As a result, relatively small differences in the level and timing of early expenditure can lead to notably different valuations under the recovered capital method.

In addition, outcomes under the recovered capital method are sensitive to the timing of when the recovered capital 'residual value' is transitioned to an initial asset base under a building block framework. Under the recovered capital method, residual capital is reduced in line with actual net revenues, and can therefore recover capital at multiples of the rate that a building block asset base would decline under straight line depreciation. Therefore, a transition in 2025 versus 2027 could result in an initial asset base difference of several hundred million, because 2 additional years of strong net revenue under the recovered capital method would reduce unrecovered capital that would have otherwise remained in the regulatory asset base under a building block.

The recovered capital method is not a standard building-block framework, and we are not proposing to use it as a method for setting the initial asset base. Consistent with its use by the Australian Energy Regulator (AER) in gas pipeline contexts where full building-block regulation does not apply,[3] we would apply the method as a cross-check of our proposed approach.

We seek comment on

4. Do you consider a backward-looking measure of cost recovery, such as the recovered capital method, is useful as a cross-check on the initial asset base and any uplift for unrecovered historical expenditure?

4 Alternative methodologies

We have considered several alternative approaches for establishing an initial asset base for an ELNO. These approaches are summarised in Table 4.1.

Each approach reflects a different view of what constitutes the efficient cost of establishing an ELNO platform and thus can produce materially different estimates of the initial asset base.

Our aim is to ensure the methodology we use for establishing an initial asset base accurately reflects the efficient cost of establishing an Electronic Lodgment Network (ELN).

If stakeholders consider a different methodology than our proposed option is more appropriate for establishing an initial asset base for an ELNO, we welcome this feedback. We aim to balance grounding the initial asset base in evidence, recognising prudent and efficient investment, avoiding outcomes that embed values not required to provide ELNO services, and providing regulatory certainty for all ELNOs.

Table 4.1 Approaches for establishing the initial asset base for an ELNO

Methodology	Options
Replacement cost: Sets the initial asset base based on the cost of a modern equivalent asset (often depreciated/optimised to reflect efficient capacity) that provides the functionality required to provide ELNO transaction services.	Under a replacement cost methodology, the initial asset base could be set based on: • the cost to replace PEXA or Sympli's actual eConveyancing platforms • the benchmark cost to construct a new ELNO platform capable of providing eConveyancing transaction services.
Net book value: Sets the initial asset base using the carrying amount (net book value) of relevant assets as at a specified date. There is no recalculation of historical costs.	The initial asset base could be based on: • the value of exchange assets, as reported and categorised confidentially in information returns • the value of software and licensing assets, as publicly reported in annual reports.
Discounted cash flow: Uses discounted cash flow valuation to estimate an asset base based on forecast future cash flows and a discount rate.	PEXA has proposed setting prices based on a discounted cash flow methodology.[4] Under this proposal, the initial asset base could be set based on future net cash flows under current pricing conditions.

The sections below describe these approaches in more detail.

4.1 Replacement Cost

The replacement cost method sets the initial asset base on the cost of a modern equivalent asset (MEA) that provides the same service capacity and functionality as the existing platform, less an allowance for economic depreciation.

There are several variations of this methodology depending on whether the MEA would replace the existing platform or a hypothetical benchmark. The standard formulation is Depreciated Optimised Replacement Cost (DORC), which identifies the efficient cost of building a functionally equivalent eConveyancing system today, optimised for current technology and demand, and adjusted for the proportion of economic life already consumed.

DORC has been used in Australian regulation, including in some rail, energy and water contexts. It is intended to approximate the cost an efficient entrant might face in providing an equivalent service, and can be used as a benchmark in assessing efficient cost. IPART used a similar approach for our 2 previous eConveyancing reviews, where we recommended prices based on the costs of a benchmark efficient ELNO.

Applied to PEXA Exchange, a DORC assessment would require us to define the scope of the MEA, assemble current cost data across software development, hardware, project management, testing, customer migration, licensing and regulatory compliance, and consider whether any additional costs of migration, onboarding or adoption would be required for a new entrant to provide the service at scale. We have sought expert advice on the costs of developing a MEA.

DORC benchmarks the asset base against the cost faced by an efficient ELNO operating in the current eConveyancing market, and can support competitive neutrality by benchmarking against entrant costs rather than the incumbent historical expenditure. Unlike historical cost methods, it reflects current technology and design standards, which can reduce the risk of locking in inefficient legacy assets. It can also provide a basis for recognising the costs of developing equivalent capability, to the extent those costs would be required for an efficient entrant.

While our proposed method has been selected for its practicality and transparency, DORC remains a valid option for establishing an initial asset base in this review. We welcome feedback on whether a DORC assessment may be preferable to our proposed historical cost rolled-forward approach.

We seek comment on

5. Do you consider a DORC assessment would provide a more appropriate basis for establishing the initial asset base than our proposed historical cost rolled-forward approach, and if so, why?

4.2 Net Book Value

The net book value method sets the initial asset base on the carrying amount of Exchange-related assets on a specified date. For example, applied to PEXA Exchange, this method may draw on asset values reported in confidential information provided by PEXA and published financial statements, subject to appropriate ring-fencing that ensures only expenditure that is related to providing ELNO services is included in the initial asset base.

PEXA's reported software asset values span its entire group, including PEXA UK and PEXA Digital, and so careful ring-fencing is required to isolate only the assets attributable to PEXA Exchange.

Net book value is grounded in audited financial statements, providing a more readily verifiable asset base valuation that does not require us to revisit historical costs. By basing the asset base on capitalised expenditure net of depreciation, it reflects the historical capital committed to the Exchange and can reduce the risk of customers paying again for fully depreciated assets, similar to the historical cost-based approach.

However, accounting treatment often results in some early intangible investments being expensed rather than capitalised, and so the net book value may understate the recorded asset base relative to the costs incurred to develop the firm. Conversely, if imprudent or inefficient expenditures were capitalised and remain in the asset register, customers may bear costs they should not. The method is also sensitive to the ELNO's own accounting policies on depreciation rates and asset lives, which may not align with IPART's assessment of appropriate asset lives for regulatory purposes.

4.3 Discounted Cash Flow

A discounted cash flow valuation projects the ELNO's future free cash flows and discounts them to their present value using a risk-adjusted rate. In some regulatory frameworks, allowed cash flows are set so that their present value is consistent with the opening asset base (subject to the chosen discount rate). Used in this way, a discounted cash flow can provide a line-in-the-sand value that preserves continuity where there is confidence that current prices reasonably reflect the efficient costs and risks of providing the service.

In its submission to this review, PEXA proposed using a discounted cash flow model to set an initial asset base, which it stated was similar to its total asset base,[5] worth approximately $1.5 billion.[6] PEXA proposed using a forecast period of around 25 years of projected net earnings before tax, reflecting its expectations of future market growth, margins and ongoing prices.[7]

In Australia, discounted cash flow valuation can be used for setting an initial regulatory asset base. Measures derived from market valuations that reflect discounted expectations of future cash flows, such as enterprise value to RAB multiples,[8] can provide regulators contextual or diagnostic information when considering the initial asset base.

A potential strength of a discounted cash flow approach is that it can reflect value associated with uncapitalised intangible investment and scale effects, including costs incurred when establishing a market that may not be fully captured in accounting records. However, the appropriateness of a discounted cash flow as the primary basis for an initial asset base depends on whether the price path embodied in the cash flow forecasts reflects the efficient cost of providing services.

In this context, a market-value discounted cash flow valuation may reflect investor expectations about future profitability, market structure, growth and margins, including factors not directly linked to efficient service provision. These expectations may incorporate factors not directly linked to the efficient cost of providing ELNO services, such as advantages associated with incumbency or ongoing market concentration. Embedding such values in the initial asset base could allow recovery of amounts not linked to prudent and efficient costs of providing services.

Further, discounted cash flow outcomes are highly sensitive to assumptions about revenue growth, margins, discount rates and terminal value.[c] Small changes in these assumptions can produce large differences in valuation outcome.

[c] Terminal value is the estimated value of an asset or business beyond the initial forecast period in a discounted cash flow model.

5 Next steps in the review

We welcome your feedback on our preferred approach, with submissions closing on Wednesday, 29 April 2026.

We will consider stakeholder feedback and what we have heard so far as we develop our Draft Report, due to be released in June 2026. There will be further opportunities to engage and provide feedback following the release of that report.

1 See: Parliament of New South Wales, *Select Committee on Competition Reforms in Electronic Conveyancing*, accessed March 2026.
2 Australian Energy Regulator, *Explanatory note: Pipeline information disclosure guidelines and Price reporting guidelines for Part 18A facilities*, October 2023, p 14.
3 Allgas, *Financial reporting guideline for light regulation pipeline services – Allgas Energy Gas Distribution Network*, October 2024, p 3.
4 PEXA, *Revised submission to IPART's Review of ELNO service fees*, 16 November 2025, pp 80-81.
5 PEXA, *Revised submission to IPART's Review of ELNO service fees*, 16 November 2025, p 83.
6 PEXA, *PEXA Group Limited Annual Report 2025*, August 2025, p 131.
7 PEXA, *Revised submission to IPART's Review of ELNO service fees*, 16 November 2025, p 81.
8 Australian Energy Regulator, *Understanding the role of RAB multiples in regulatory processes*, prepared by Darryl Biggar, February 2018, pp 2-3.