

2017/18 – 2021/22 Revenue Proposal

Revenue Proposal

An Overview | July 2015



Revenue Proposal Process

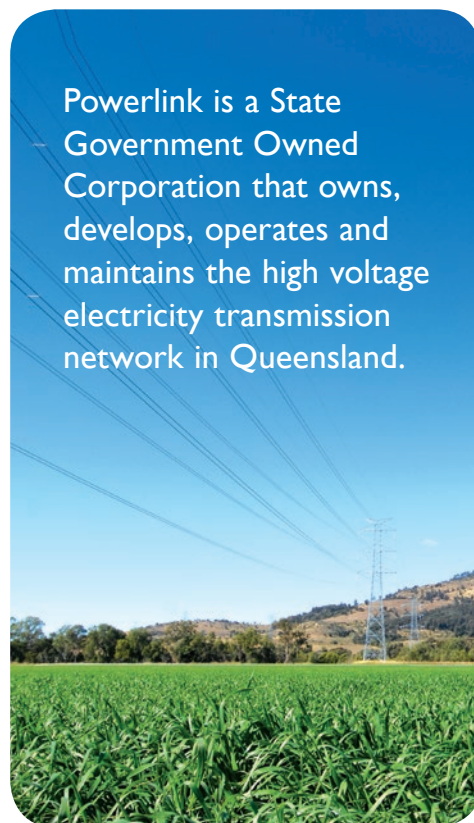
Each electricity transmission business in the National Electricity Market (NEM) is required to submit a Revenue Proposal to the Australian Energy Regulator (AER) about every five¹ years.

A Revenue Proposal sets out the business's forecast expenditure and revenue requirements for the upcoming regulatory period to provide prescribed (or regulated) transmission services in a prudent, efficient, safe and reliable manner.

The AER must assess each Revenue Proposal to ensure it meets the requirements of the National Electricity Rules. In other words, to ensure it is efficient and is in the long-term interests of electricity consumers. Once a Revenue Proposal is lodged with the AER (for Powerlink, in January 2016), this assessment and decision process takes approximately 15 months and includes the following key steps, with corresponding Powerlink timeframes:

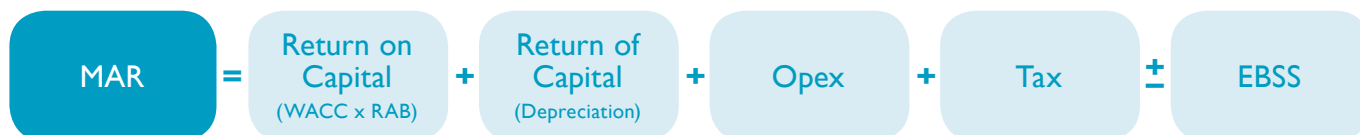
- the AER publish a Draft Transmission Determination (around September 2016)
- the business submits a Revised Revenue Proposal (around December 2016)
- the AER publish a Transmission Determination (by 30 April 2017)

Powerlink is a State Government Owned Corporation that owns, develops, operates and maintains the high voltage electricity transmission network in Queensland.



Powerlink's Prescribed Revenue (or MAR)

Powerlink's Maximum Allowable Revenue (MAR) is set by the AER about every five years using a building-block approach. Each building-block represents a different kind of expenditure.



Return on Capital = a measure of return on investments (capex)

Return of Capital = annual regulatory depreciation allowance

Opex = annual operating and maintenance cost allowance

Tax = calculated effective company tax payable

EBSS = carryover amounts for the Efficiency Benefit Sharing Scheme from the previous regulatory period

Typically, the building-blocks that comprise the largest shares of revenue are the return on capital (60-70%), opex (22%) and return of capital (8%). Figures in brackets represent an approximate average percentage of Powerlink's MAR in its current 2012/13 to 2016/17 regulatory period.

¹ Some businesses have regulatory periods that are shorter or longer than 5 years.

Return on Capital

The return on capital¹ is calculated by multiplying our Regulatory Asset Base (RAB – the total value of Powerlink’s regulated assets) by the Weighted Average Cost of Capital (WACC – the cost to finance expenditure which is often referred to as the rate of return).

$$\text{Return on Capital} = \text{WACC} \times \text{RAB}$$

WACC – Powerlink’s WACC is set by the AER each five-year period and has remained the same for the entire regulatory period. Powerlink’s current regulated WACC is 8.61% (nominal). However, Powerlink’s new WACC for the next regulatory period will be adjusted annually to account for changes in the cost of debt.

RAB – The RAB varies from year to year as new assets are built, disposed of and depreciated.

Return of Capital (Depreciation)

Depreciation is an annual allowance to reflect wear and tear on an asset over its life. A weighted average formula is used to calculate overall depreciation of the RAB each year, which takes into account different rates of depreciation for different types of assets and asset lives (for example, lines - 50 years, substations – 40 years).

Opex

Powerlink’s operating expenditure (or opex) consists of expenditure to plan, operate, maintain and support network and other assets and activities.

Taxes

Just like any other business, Powerlink is required to pay corporate income tax. Powerlink therefore has to account for this as a component of its operating costs.

Efficiency Benefit Sharing Scheme (EBSS)

The EBSS is a scheme applied to operating expenditure to incentivise a business to pursue efficiency improvements. The scheme allows for efficiencies (cost savings) to be shared between consumers and the business in the ratio of about 70:30 in favour of consumers.

Where Powerlink’s revenue comes from

Each year, Powerlink collects its MAR and other revenue from its customers. These include electricity distribution network service providers (such as Energex and Ergon Energy), directly connected customers (such as aluminium smelters and mines) and electricity generators.

Most transmission charges are passed through and form part of distribution network charges, which are then passed through to retailers and ultimately, end consumers of electricity.

Powerlink’s costs represent about 9% of a typical Queensland residential electricity bill.

¹ For an overview of the return on capital, see Powerlink’s Rate of Return – An Overview document published on its website at: www.powerlink.com.au