

2017/18 – 2021/22 Revenue Proposal

Operating Expenditure Forecasting Methodology An Overview | June 2015



What is Operating Expenditure?

Powerlink's operating expenditure (or opex) consists of spending to plan, operate, maintain and support network and other assets and activities. A breakdown of Powerlink's operating expenditure is detailed below.

Operating Expenditure Categories

Controllable operating expenditure – direct operating and maintenance items, which include field maintenance, operational refurbishment, maintenance support and network operations. This expenditure also includes other items such as asset management and corporate support costs.

Non-controllable operating expenditure – insurances, network support, AEMC levy and debt raising costs.

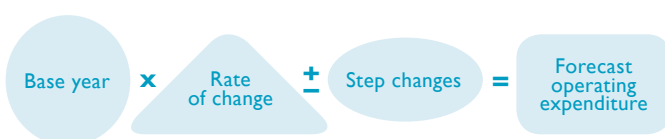
Forecasting Methodology

Powerlink intends to forecast its operating expenditure as per the requirements of the National Electricity Rules and consistent with the AER's Expenditure Forecast Assessment (EFA) Guideline.

The AER's preferred 'base-step-trend' approach will be applied to controllable operating expenditure and a 'zero-based' approach will be applied to other operating expenditure items.

Base-step-trend Approach

The AER's base-step-trend approach is applied as follows:



Base Year

Powerlink will use the 2014/15 financial year as the base year, with any one-off or non-recurrent expenditure removed to ensure the base year represents ongoing recurrent expenditure.

Rate of Change

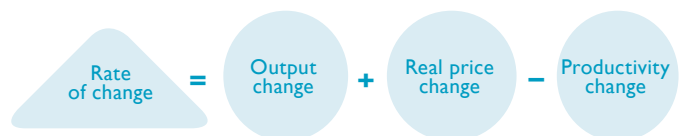
A forecast annual rate of change will be applied to controllable operating expenditure for each year of the forecast regulatory period. The rate of change is made up of three components:

Output Change – the forecast change in network output (network size).

Real Price Change – the forecast change in the real cost of labour and materials.

Productivity Change – the productivity expected to be achieved by the business throughout the regulatory period.

The rate of change is calculated as follows:



Step Changes

Step changes are expected changes in costs that have not been captured in the base year or rate of change, but are applicable to the next regulatory period. Step changes can include new costs that will be incurred in the regulatory period and/or costs that will no longer apply.

Zero-based Approach

Zero-based forecasting uses an external estimate or bottom-up cost build-up to estimate the total cost of a particular activity.

For more information about Powerlink's expenditure forecasting methodologies (including capital expenditure), refer to Powerlink's *2017/18 – 2021/22 Revenue Proposal Expenditure Forecasting Methodology*.