

The Australian Energy Regulator (AER) has handed down its Draft Decision on Powerlink's 2018-22 Revenue Proposal. Powerlink sought to align with the AER's guidelines and approach as much as possible and submit a Revenue Proposal that was reasonable and capable of acceptance by the AER.

The AER has accepted most elements of the Revenue Proposal apart from the proposed level of capital expenditure, which they have reduced by 19 per cent. The AER has also updated the rate of return based on current financial market conditions using its guideline.

The key aspects of the Draft Decision include:

Key Component	Powerlink Revenue Proposal	AER Draft Decision	% Change
Total Revenue (\$m)	4,017.2	3,720.8	-7.4
Total capital expenditure (\$m)	957.1	772.6	-19.3
Total operating expenditure (\$m)	976.7	976.7	No change
Rate of return (%)	6.04	5.48	

The AER has estimated that Powerlink's contribution to the average residential electricity bill would reduce by \$40 per annum. The reduction for each household will vary depending on tariffs and consumption patterns. The estimated electricity bill reductions are different from Powerlink's Revenue Proposal due primarily to the fall in the rate of return.

Capital Expenditure

The AER has reduced total regulated capital expenditure in the 2018-22 regulatory period by 19% compared to Powerlink's Revenue Proposal (already 31% lower than the capital expenditure in the current five year period).

The reduction in capital expenditure mainly relates to network reinvestment. The AER is of the view that Powerlink can further optimise the cost of its reinvestment plans and in some cases extend the replacement lives of network assets.

Operating Expenditure

The AER has considered Powerlink's total forecast operating expenditure of \$976.7m for the 2018-22 regulatory period to be reasonable and has accepted this in the Draft Decision.

Rate of Return

While the AER accepted Powerlink's proposed rate of return approach, it has decreased from what was estimated in the Revenue Proposal from 6.04% to 5.48% due the change in financial markets since January 2016 with lower interest rates impacting on the cost of debt.

The AER will update the rate of return in its Final Decision by April 2017 based on the latest financial data.

Next Steps

Powerlink now has the opportunity to respond through a Revised Revenue Proposal. Powerlink will review the detail of the AER's Draft Decision and consider its position regarding the reduced capital expenditure assessment made by the AER.

Powerlink must submit its Revised Revenue Proposal to the AER by 1 December 2016. The AER has until the end of April 2017 to make its Final Decision.

Powerlink will continue to engage with customers and consumers and seek their input in the development of the Revised Revenue Proposal.

For further information, visit the Powerlink website at www.powerlink.com.au or the AER website at www.aer.gov.au.