# Overview of AER Revenue Determination Process

**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 five 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.

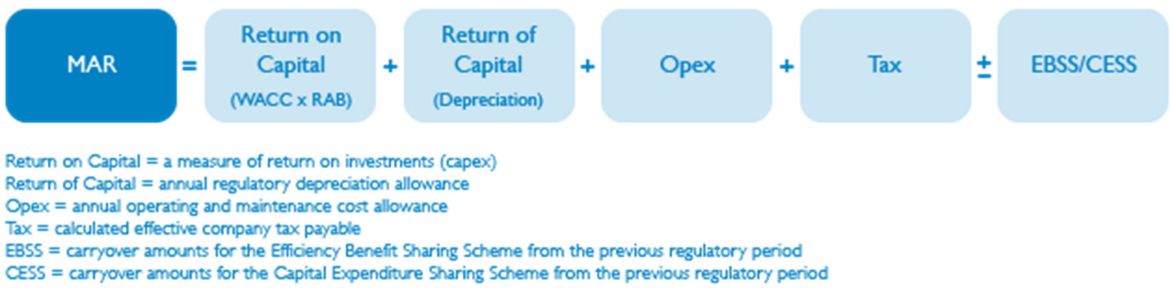
The AER must assess each Revenue Proposal to ensure it meets the requirements of the National Electricity Rules. In other words, to ensure it is efficient and is in the long-term interests of electricity consumers.

From beginning to end the overall process takes about two years. From lodgement of the Revenue Proposal with the AER, the assessment and decision process takes approximately 15 months.  The key steps and estimated timings for Powerlink's 2023-27 Revenue Determination process are as follows:

| Milestone | Approximate Timing for 2023-27 Revenue Determination Process |
|---|---|
| AER publish Preliminary Framework & Approach paper | March 2020 |
| Powerlink lodge Expenditure Forecasting Methodology | June 2020 |
| AER publish Final Framework & Approach paper published | July 2020 |
| Powerlink lodge Revenue Proposal | January 2021 |
| AER publish Issues Paper and holds Public Forum | March/April 2021 |
| AER Draft Decision published | September 2021 |
| Powerlink lodge Revised Revenue Proposal | December 2021 |
| AER publish Final Decision and Determination | April 2022 |

**Powerlink's Prescribed Revenue (or MAR)**

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




Typically, the building-blocks that comprise the largest shares of revenue are the return on capital (55%), opex (27%) and return of capital (16%). Figures in brackets represent an approximate average percentage of Powerlink's Final Determination MAR for its current 2018-22 regulatory period.

**Return on Capital**
The return on capital 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).

Return on Capital = WACC x RAB

*WACC*
Powerlink’s WACC is set by the AER each five-year period. Powerlink’s WACC for the current regulatory period is adjusted annually (currently 5.98%) to account for changes in the cost of debt. The AER published a new Rate of Return Guideline in December 2018 which outlines how the WACC will be calculated for Powerlink’s 2023-27 Revenue Determination.

*RAB*
The RAB varies from year to year as assets are built, disposed of and depreciated. Powerlink’s RAB is valued at $6.8b (at 30 June 2018).

**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) and Capital Expenditure Sharing Scheme (CESS)**
The EBSS and CESS are schemes applied to operating and capital expenditure respectively 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.