

# 2023-27 Revenue Proposal

## Revenue Proposal Reference Group (RPRG) Draft Revenue Proposal

September 2020



- Provide an overview of Powerlink's draft Revenue Proposal forecasts, key changes since our July 2020 (version 3) forecasts and next steps.
- We will release the draft Revenue Proposal on 30 September 2020, for feedback by 30 October 2020.

All figures are preliminary and indicative only. They do not represent Powerlink's final Revenue Proposal position.

# Draft Revenue Proposal overview



Component	Description
<b>Draft RP document</b>	<ul style="list-style-type: none"><li>• The primary document, which includes 19 chapters.</li><li>• It is written in the style of the Revenue Proposal to be submitted in January 2021 and marked draft.</li></ul>
<b>Supporting documents</b>	<ul style="list-style-type: none"><li>• Draft Revenue Proposal overview document.</li><li>• Feedback / submission template.</li><li>• Examples of our bottom-up network capex project documentation.</li><li>• A draft IT investment case and our draft IT plan (both requested by the Revenue Proposal Reference Group).</li></ul>
<b>Models</b>	<ul style="list-style-type: none"><li>• We will provide to the AER versions of the Post-Tax Revenue Model (PTRM), Roll-Forward Model (RFM), Depreciation Tracking Model, EBSS and CESS Models, Opex Model and Capex Model.</li></ul>

- We will clearly highlight areas that we anticipate may change between the draft and the Revenue Proposal.
- Some areas that will not be in a substantive form in the draft:
  - RAB inclusions/exclusions.
  - Shared assets.
  - Demand Management Innovation Allowance Mechanism (DMIAM).
  - Proposed Pricing Methodology.

# Draft Revenue Proposal forecasts overview

A large, light gray circular graphic containing a map of Queensland, Australia. The map shows the state's outline and a network of power lines with several circular nodes, likely representing substations or power plants, along the eastern coast.

# Material changes since our July 2020 forecast



Topic	Key changes
<b>Capital expenditure (capex)</b>	<ul style="list-style-type: none"> <li>• Our capex forecast is now \$988.9m. This is:                             <ul style="list-style-type: none"> <li>○ \$76.3m (7.2%) lower than the July 2020 forecast.</li> <li>○ \$105.7m (12.0%) higher than 2018-22 actuals and forecast.</li> </ul> </li> <li>• Significant changes from the July 2020 forecast are:                             <ul style="list-style-type: none"> <li>○ updated Repex modelling to reflect a shift in transmission line refit timings, and updated reinvestment project timings from our annual asset management planning process.</li> <li>○ inclusion of forecast easement acquisition costs for the QNI Medium project identified in the ISP.</li> <li>○ increased costs for the office refit project, offset by the assumed sale of Northlink Place.</li> </ul> </li> </ul>
<b>Operating expenditure (opex)</b>	<ul style="list-style-type: none"> <li>• <b>We have set a target to pursue no real growth in total opex in the 2023-27 regulatory period.</b> This target is against our actuals/forecast for 2018-22 <u>exclusive</u> of debt raising<sup>1</sup>.</li> <li>• To meet this target, we intend to pursue a higher than industry trend productivity target of 0.79%. We are not proposing any step changes. Our total rate of change is now 0.10% (output growth 0.41% + price growth 0.49% - productivity 0.79%)<sup>2</sup>.</li> <li>• Our forecast total opex is \$1,038.9m (excl. debt raising) for the 2023-27 regulatory period, which is:                             <ul style="list-style-type: none"> <li>○ \$70m (6.2%) lower than the July 2020 forecast.</li> <li>○ \$0m (0%) difference against 2018-22 actuals/forecast.</li> </ul> </li> <li>• We have forecast insurance costs in our base year as part of the base-step-trend, rather than zero-based (bottom-up).</li> <li>• We have identified a possible requirement for network support costs in the 2023-27 regulatory period. This is still being worked through.</li> </ul>

**Notes:**

<sup>1</sup> Debt raising costs are set using a benchmark methodology and should not be considered when targeting no real growth based on underlying opex performance. With debt raising included, total opex for 2023-27 regulatory period is \$1,054.9m. There is a \$13.1m (1.3%) difference in actual/forecast debt raising costs for 2018-22 and forecast debt raising costs for 2023-27.

<sup>2</sup> Numbers may not add due to rounding.

# Material changes since our July 2020 forecast



Topic	Key changes
<b>Regulated Asset Base (RAB)</b> <b>Rate of Return (RoR)</b> <b>Maximum Allowed Revenue (MAR)</b>	<ul style="list-style-type: none"><li>• We have adopted headline inflation, consistent with the AER's current preferred approach (<a href="#">see Background slides</a>). Our inflation forecast is now 2.25%.</li><li>• Rate of Return updated to reflect Powerlink's most recent prevailing interest rate and assume this remains unchanged for the 2023-27 regulatory period, resulting in a RoR forecast of 4.47% to 4.00% over the 2023-27 regulatory period.</li><li>• MAR is lower by \$98.2m (3%) compared to the July 2020 forecast due primarily due to the reduction in the opex forecast.</li></ul>
<b>Efficiency Benefit Sharing Scheme (EBSS)</b> <b>Capital Expenditure Sharing Scheme (CESS)</b>	<ul style="list-style-type: none"><li>• EBSS has been updated and results in a \$8.5m increase in MAR for the 2023-27 regulatory period.</li><li>• CESS has been updated and results in a \$0.4m increase in MAR for the 2023-27 regulatory period.</li></ul>
<b>Service Target Performance Incentive Scheme (STPIS)</b>	<ul style="list-style-type: none"><li>• We have made a decision not to pursue any Network Capability Incentive Parameter Action Plan (NCIPAP) projects as part of the Revenue Proposal.</li><li>• We will propose an alternative target setting for the 'large' loss of supply sub-parameter of the Service Capability component of STPIS.</li></ul>

# Draft Revenue Proposal forecast overview



## Maximum Allowed Revenue

2018-22 - \$3950.0m  
2023-27 - \$3382.2m

 \$567.8m (14%)



## Rate of Return

2018-22 - ~6%  
2023-27 - ~4.47%

 1.5%



## Capital expenditure

2018-22 - \$883.2m  
2023-27 - \$988.9m

 \$105.7m (12%)



## Operating expenditure

2018-22 - \$1038.9m  
2023-27 - \$1038.9m

\$0 difference - no real growth

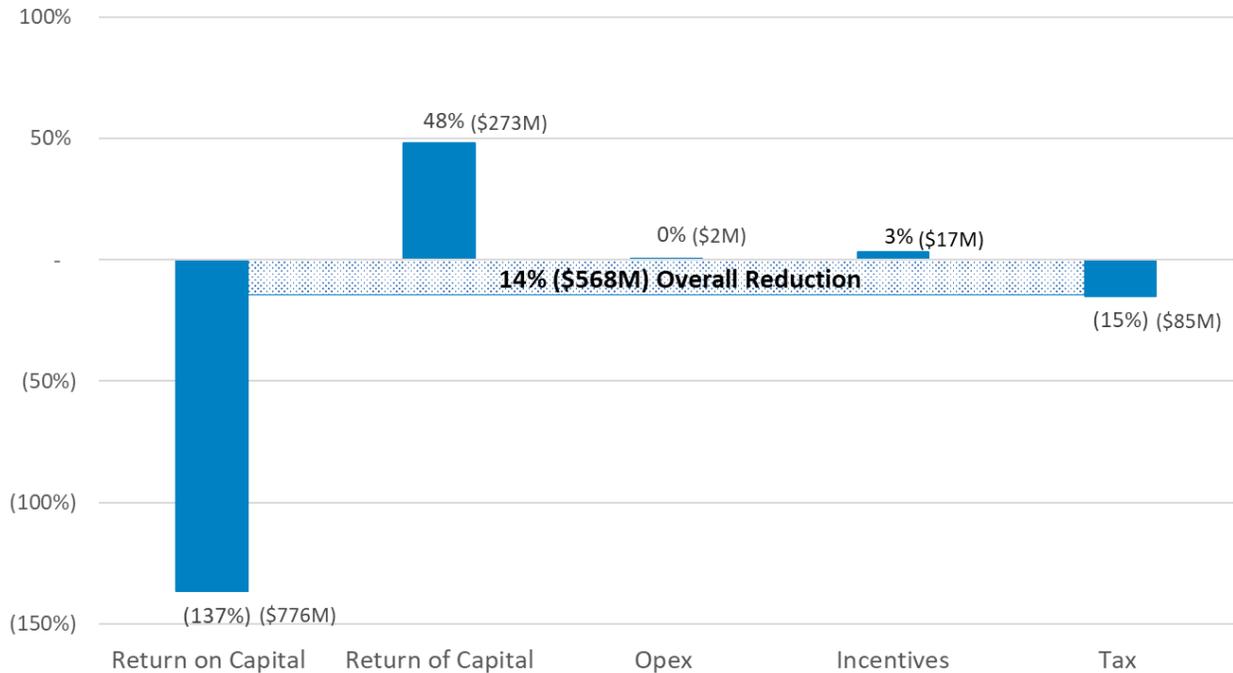
### Notes:

- All figures are in \$m (2021/22 real) and are for the full five-year regulatory period.
- MAR is compared to the AER allowance for the 2018-22 regulatory period.
- RoR / Weighted Average Cost of Capital (WACC) is nominal vanilla.
- Capex and opex are now compared to the actuals/forecast for the 2018-22 regulatory period.
- Capex figures are net of disposals.
- Opex figures are exclusive of debt raising. Debt raising costs are set using a benchmark methodology and should not be considered when targeting no real growth based on underlying opex performance. With debt raising included, total opex for 2023-27 regulatory period is \$1,054.9m.

# Drivers of MAR change



Drivers of Revenue Change



2023-27 MAR is forecast to decrease by ~14% (\$568m) against the current regulatory period allowance. Key contributors are:

- Return on Capital - \$776m lower due to lower Rate of Return (RoR)<sup>1</sup>.
- Return of Capital - \$273m higher due to the impact of a lower revaluation of the RAB, the change to the year-by-year depreciation tracking approach and the growing portion of depreciation recovering previous indexation of the RAB (see Background slides).
- Opex - \$2m higher<sup>2</sup>. The primary driver of this is the AEMC Levy.
- Incentives - \$17m higher, due to the introduction of CESS and a forecast revenue increment under both EBSS and CESS.
- Tax - \$85m lower, primarily due to the change in estimating taxation as a result of the AER's 2018 Tax Review.

## Comparison against current Rate of Return

- We recognise the RoR is largely driven by external financial markets.
- For comparison, if the current RoR (~6%) was applied to the September 2020 capital and operating expenditure forecasts, our MAR would be increasing in the 2023-27 regulatory period by ~\$650m.

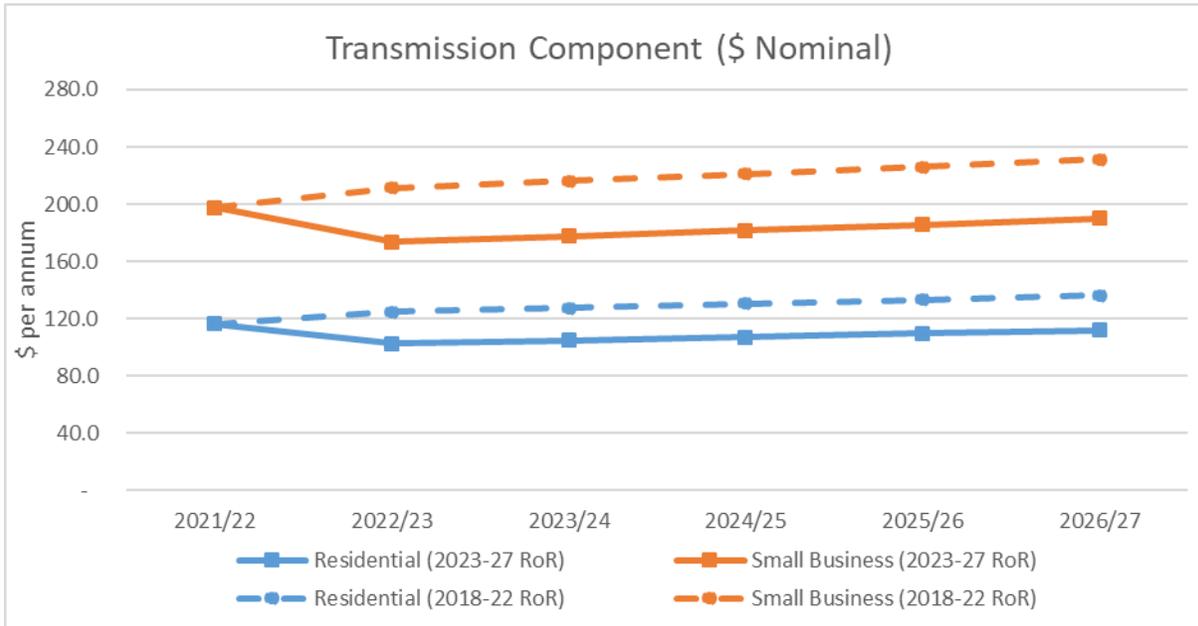
**Notes:**

<sup>1</sup> Based on RoR scenario of 4.47% for the Draft Proposal.

<sup>2</sup> The comparison of opex in this graph is against the AER allowance in 2018-22, not actuals/forecast.

All figures are for the full five-year regulatory period.

# Forecast impact on prices



- Powerlink’s contribution to the average electricity bill is ~8% for households and small businesses<sup>1</sup>. This equates to ~\$116 per annum for households<sup>2</sup> and ~\$197 for small businesses<sup>3</sup>.
- Based on our draft Revenue Proposal forecast, the indicative impact to the transmission component of electricity prices in the first year of the next regulatory period (2022/23) would be:
  - Residential: real reduction of ~\$16 (14%), nominal reduction of ~\$14 (12%).
  - Business: real reduction of ~\$27 (14%), nominal reduction of ~\$24 (12%).
- On average, transmission price increases for average residential households and small businesses will remain within CPI (assumed forecast of 2.25%) for the remainder of the regulatory period.
- In response to customer feedback on the PFP, we have also included in our diagram the impact if the current period Rate of Return was applied. The transmission component would increase by 5% (real) or 7% (nominal) in 2022/23.

<sup>1</sup> based on the 2019 Australian Energy Market Commission (AEMC) Electricity Price Trends Report, published December each year.

<sup>2</sup> based on the Queensland Competition Authority’s (QCA) annual Tariff 11 (residential) median energy usage of 4,061kWh p.a.

<sup>3</sup> based on the QCA’s annual Tariff 20 (small business) median energy usage of 6,831kWh p.a.

A large, light gray circular graphic containing a map of Queensland, Australia, with a network of power lines overlaid on it. The text is centered over this graphic.

# Rate of Return (RoR), Maximum Allowed Revenue (MAR), Inflation and Regulated Asset Base (RAB)

# Rate of Return (RoR)



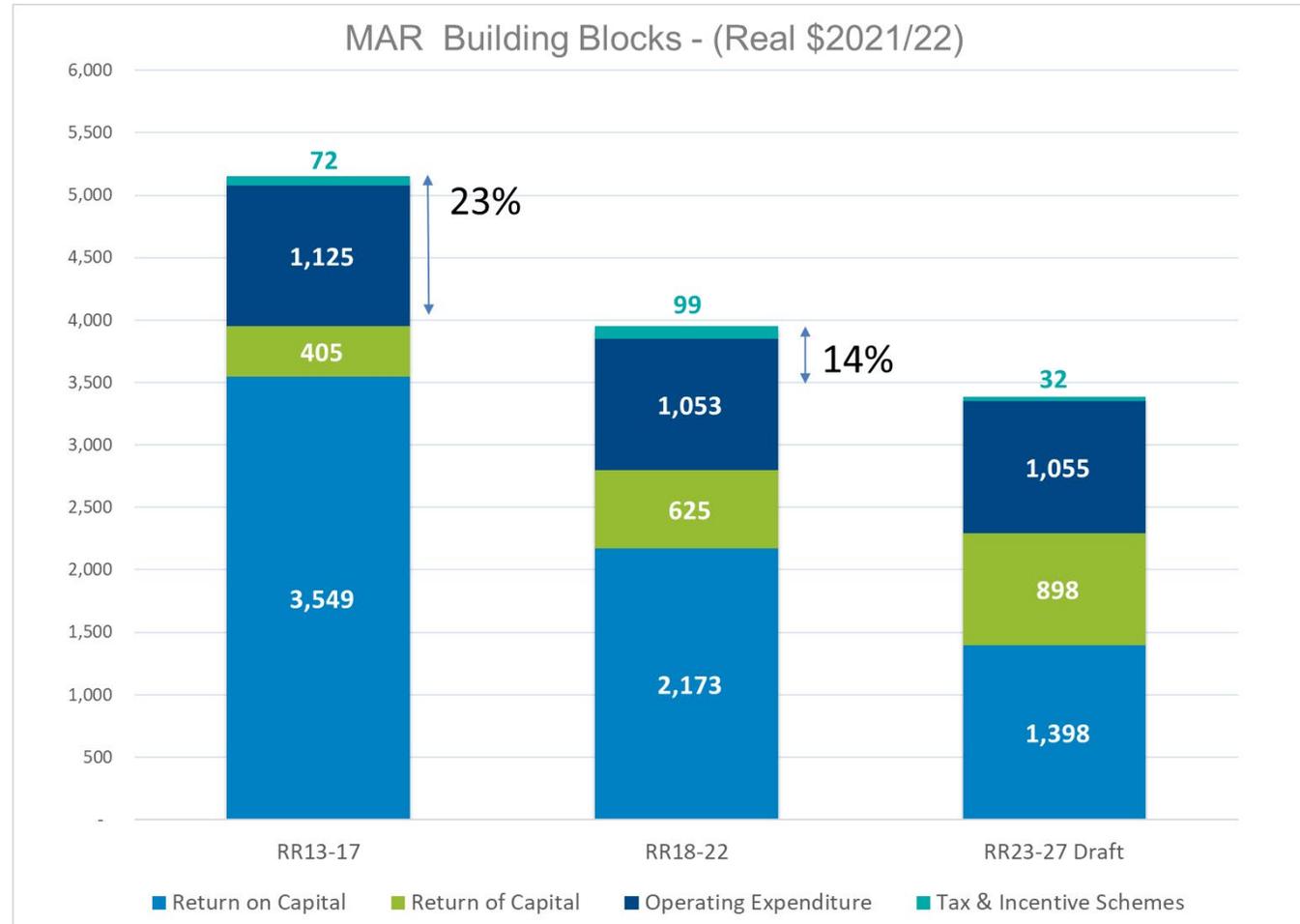
- The rate of return for the 2023-27 regulatory period is ~1.5% lower than the current regulatory period, primarily driven by the current historic low interest rate environment.

Parameter	Base	Assumptions
Risk Free Rate (Rf) <i>(Change from Jul 2020 forecast)</i>	0.89% <i>(0.04%)</i>	Rf based on recent 20 day averages.
Market Risk Premium (MRP)	6.10%	As per the AER's 2018 binding Rate of Return Instrument.
Equity Beta	0.6	As per the AER's 2018 binding Rate of Return Instrument.
<b>Return on Equity</b> <i>(Change from Jul 2020 forecast)</i>	<b>4.55%</b> <i>(0.04%)</i>	
<b>Return on Debt</b> <i>(Change from Jul 2020 forecast)</i>	<b>4.42%</b> ---	Cost of debt assumes Powerlink's prevailing rate for 2020/21 remains unchanged for the 2023-27 regulatory period.
<b>WACC</b> <i>(Change from Jul 2020 forecast)</i>	<b>4.47%</b> <i>(0.02%)</i>	
Gamma	0.585	As per AER's 2018 binding Rate of Return Instrument.

# Maximum Allowed Revenue (MAR)



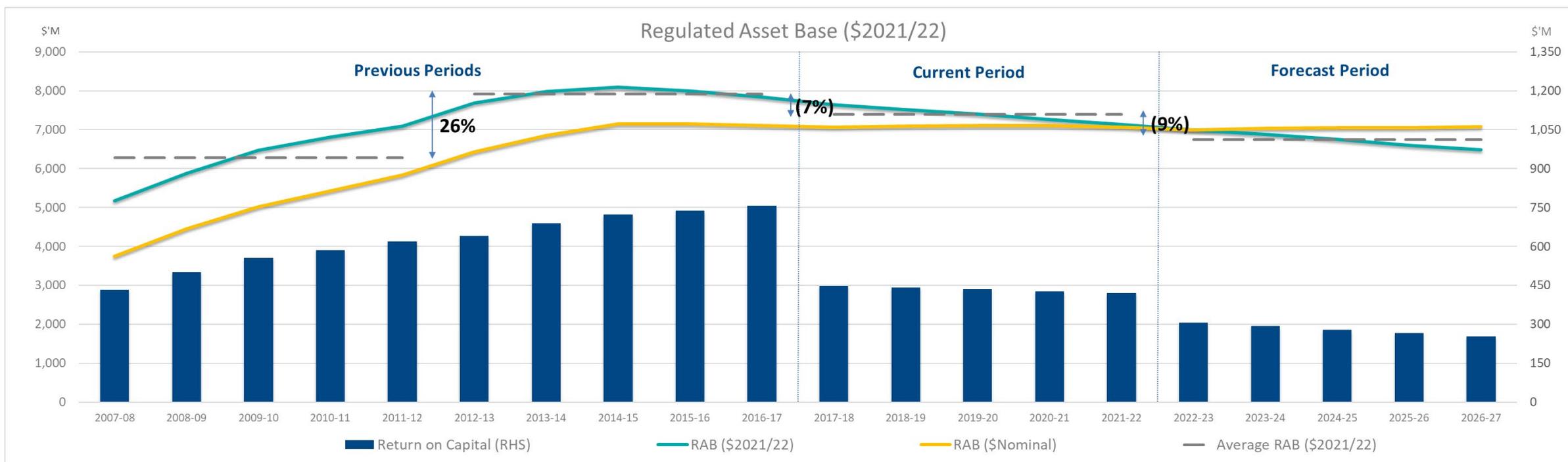
- The reduction in MAR is primarily related to a reduction in the return on capital building-block (RAB\*Rate of Return). This is forecast to be \$776m or 36% lower than the current regulatory period.



# Regulated Asset Base (RAB)



- The RAB is forecast to continue to decline in real terms in the current regulatory period and through the 2023-27 regulatory period.

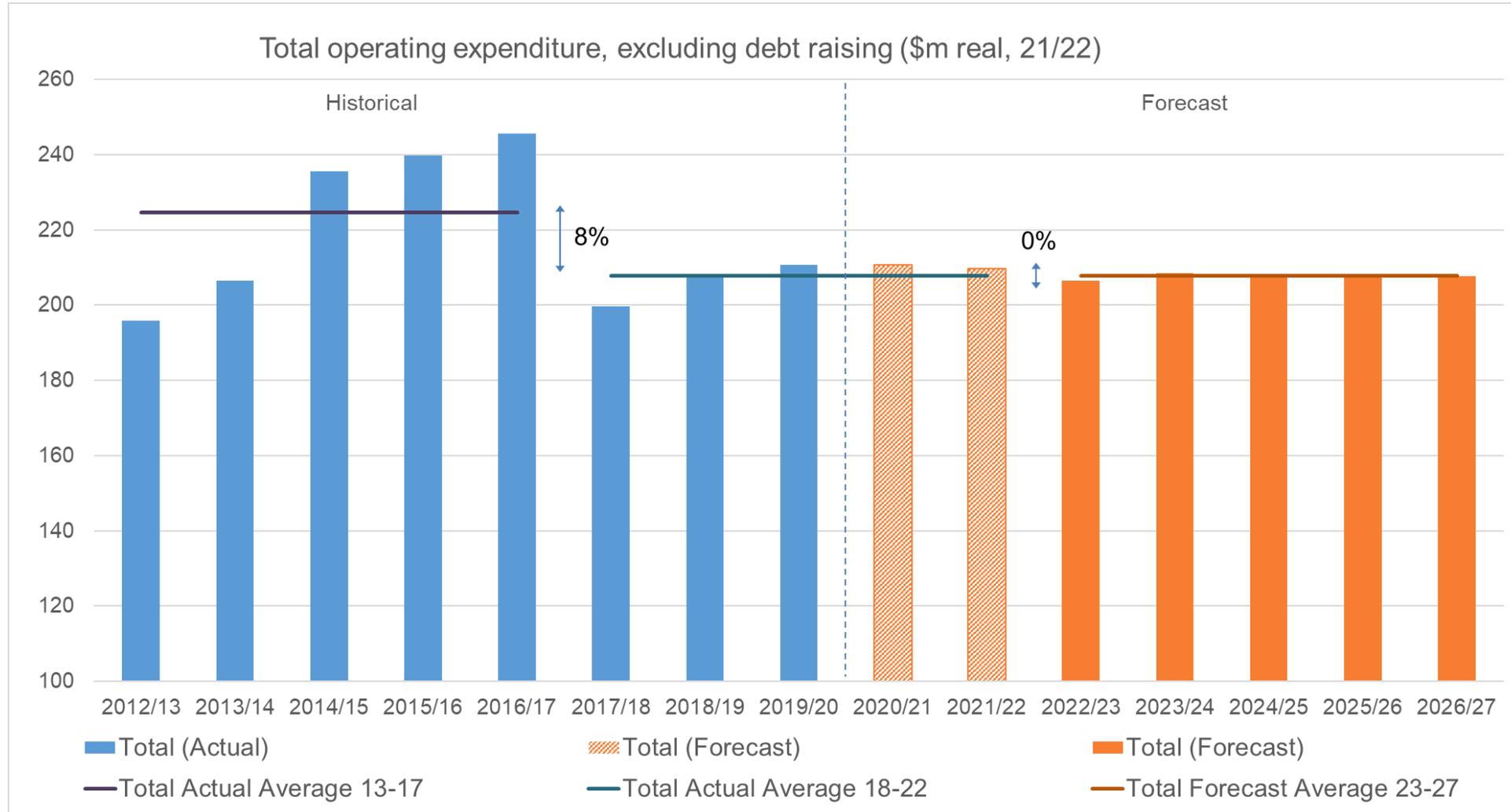


# Operating expenditure

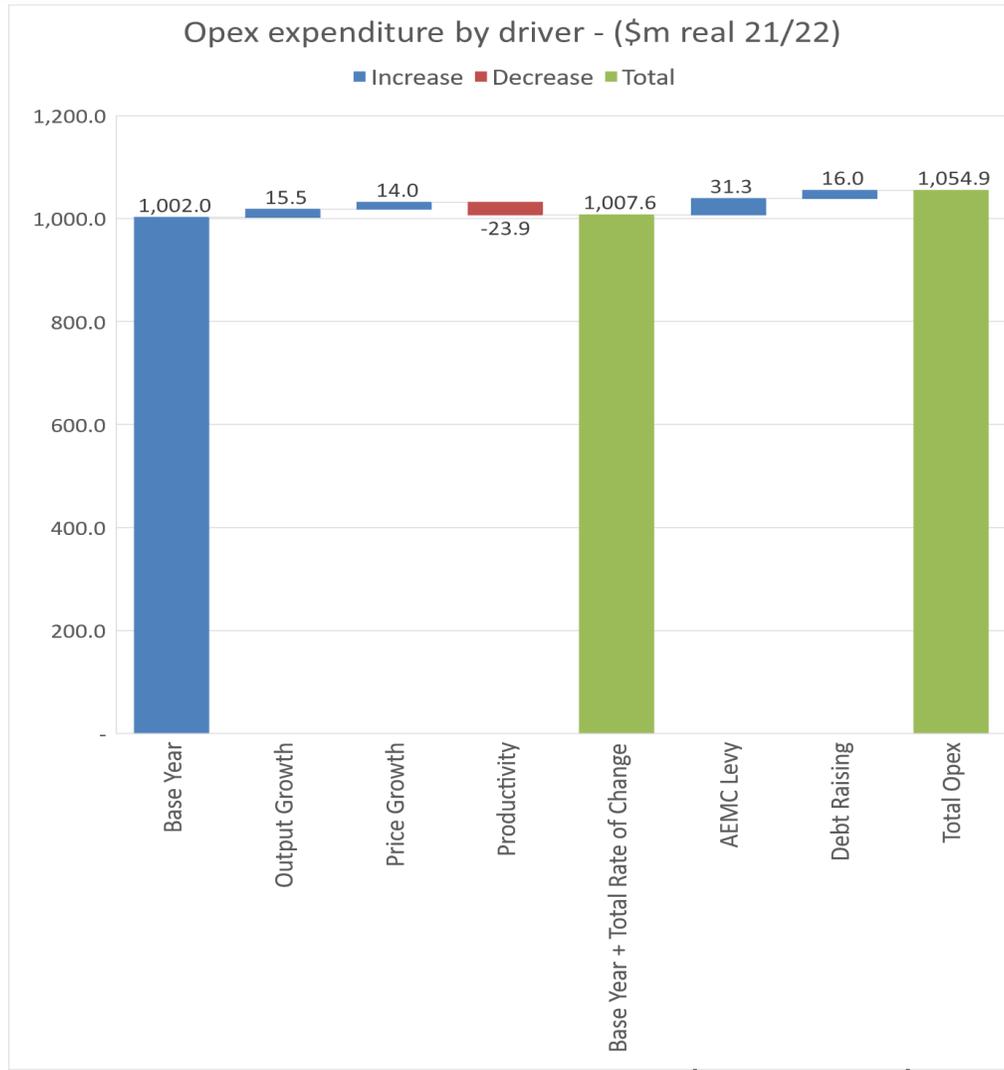
A large, light gray circular graphic containing a map of Queensland. Overlaid on the map is a network of white lines representing power transmission lines, with several circular nodes indicating substations or key connection points. The text 'Operating expenditure' is centered over the map.

- We will target no real growth in total opex in the 2023-27 regulatory period. This target is against our actuals/forecast for 2018-22 and is exclusive of debt raising. We have developed this target with particular regard to Customer Panel and Revenue Proposal Reference Group (RPRG) feedback on productivity, affordability, the current economic climate and COVID-19 impacts.
- To meet our no real growth target, we propose:
  - a productivity factor of 0.79% - this is above the AER's benchmark industry average; and
  - no step changes.
- A no real growth in total opex target will be a challenging target for Powerlink to meet. We will need to work hard to continue to drive innovative business practices, seek efficiencies and aim to live within our proposed total opex for 2023-27.
- If necessary and material opex increases arise within the 2023-27 regulatory period, we may need to access cost-pass through arrangements (if appropriate and thresholds are met) or, as a last resort, overspend our allowance.
- Our next insurance renewal is due in November 2020. If costs increase significantly and impact our ability to meet a no real growth target, we may need to revise our target in the Revenue Proposal in January 2021.

- Total opex within the 2018-22 regulatory period is expected to be lower than the allowance.
- There is \$0 real growth in opex in the 2023-27 regulatory period (excl. debt raising), against actuals/forecast for the 2018-22 regulatory period. There is growth of \$13.1m (1.3%) with debt raising included.



# Opex – waterfall graph



Rate of change  
(Output growth + price growth – productivity)

Zero-based forecast

**Notes:**

- Figures may not add due to rounding.
- AEMC Levy and debt raising amounts indicate total amounts for the 5-year period, not increases.
- Zero-based forecasting uses an external estimate or bottom-up cost build-up to estimate the total cost of a particular activity. These forecast items are added to the base-step-trend.

- **Base year** – reflects controllable opex, insurance and self-insurance for the 2018/19 year. Refer to Background slides for information about the efficiency of our base year.
- **Trend** – 0.10% rate of change reflecting output (0.41%), price (0.49% - labour and materials) and productivity (0.79%) growth. Contributes a \$1.11m p.a. increase.
- **Step Change** – No step changes are being pursued.
- **Non-controllable opex** – items not included by Powerlink in the controllable base year. We have taken a zero-based approach to forecasting these items and they are added to the base-step-trend. Currently AEMC Levy and Debt Raising are included.

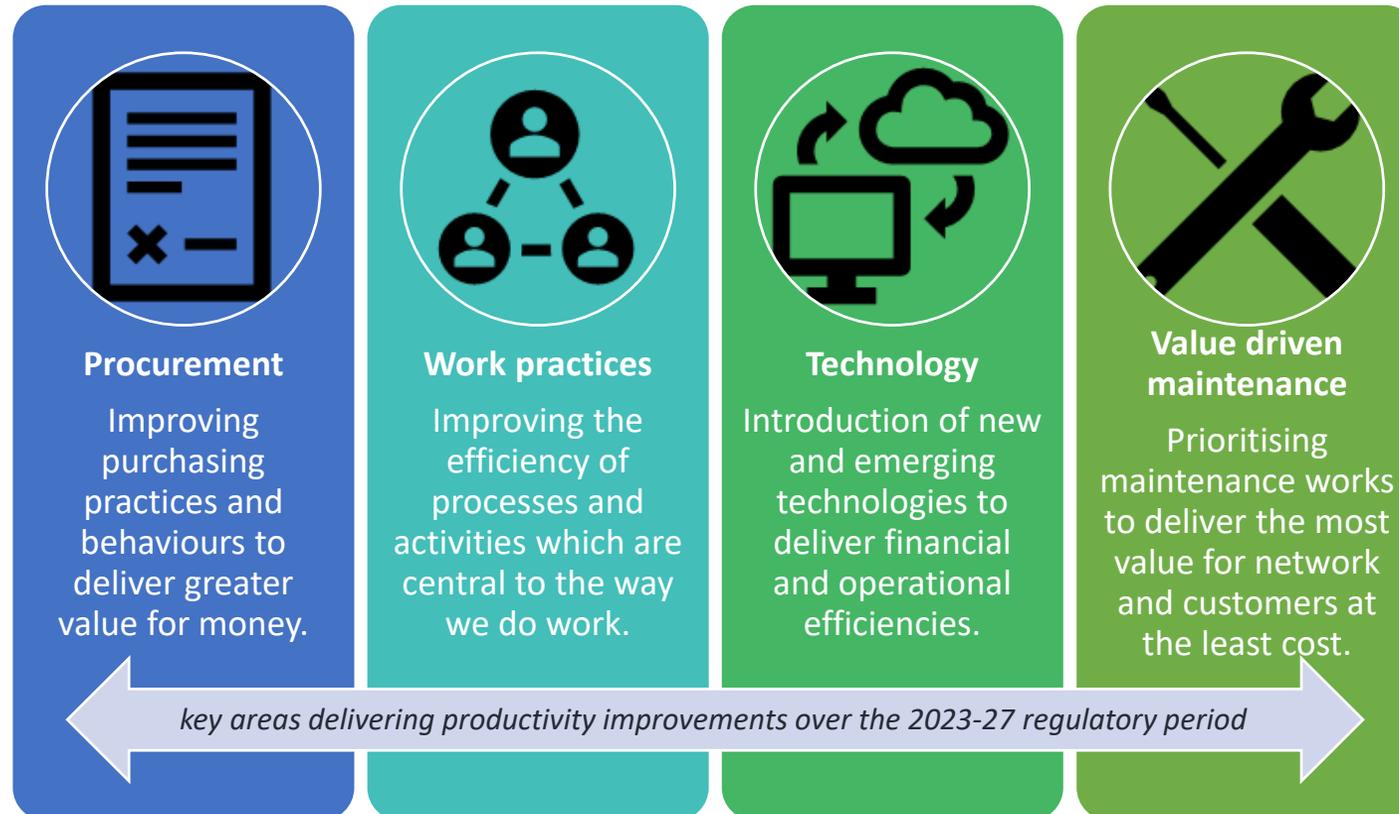
# Rate of change (trend)



Trend factor	Key points	Current forecast trend
<b>Output growth</b>	<ul style="list-style-type: none"> <li>• Factors are – energy served, ratcheted maximum demand, number of customers and circuit length.</li> <li>• The source of these factors is typically from AEMO's Electricity Statement of Opportunities (ESOO) and Integrated System Plan (ISP), Powerlink's Transmission Annual Planning Report (TAPR) and AER Final Decision Models.</li> </ul>	<b>0.41%</b>
<b>Price growth</b>	<ul style="list-style-type: none"> <li>• Two factors – materials price change and labour price change.</li> <li>• Materials price change – Powerlink is currently using the AER's inflation calculation method to determine materials price change (2.25%).</li> <li>• Labour price change – reflects an average of Wage Price Index (WPI) forecasts from BIS Oxford Economics and alternative Queensland WPI forecast.</li> </ul>	<b>0.49%</b>
<b>Productivity</b>	<ul style="list-style-type: none"> <li>• Powerlink proposes a higher than industry trend productivity target of 0.79%.</li> </ul>	<b>0.79%</b>

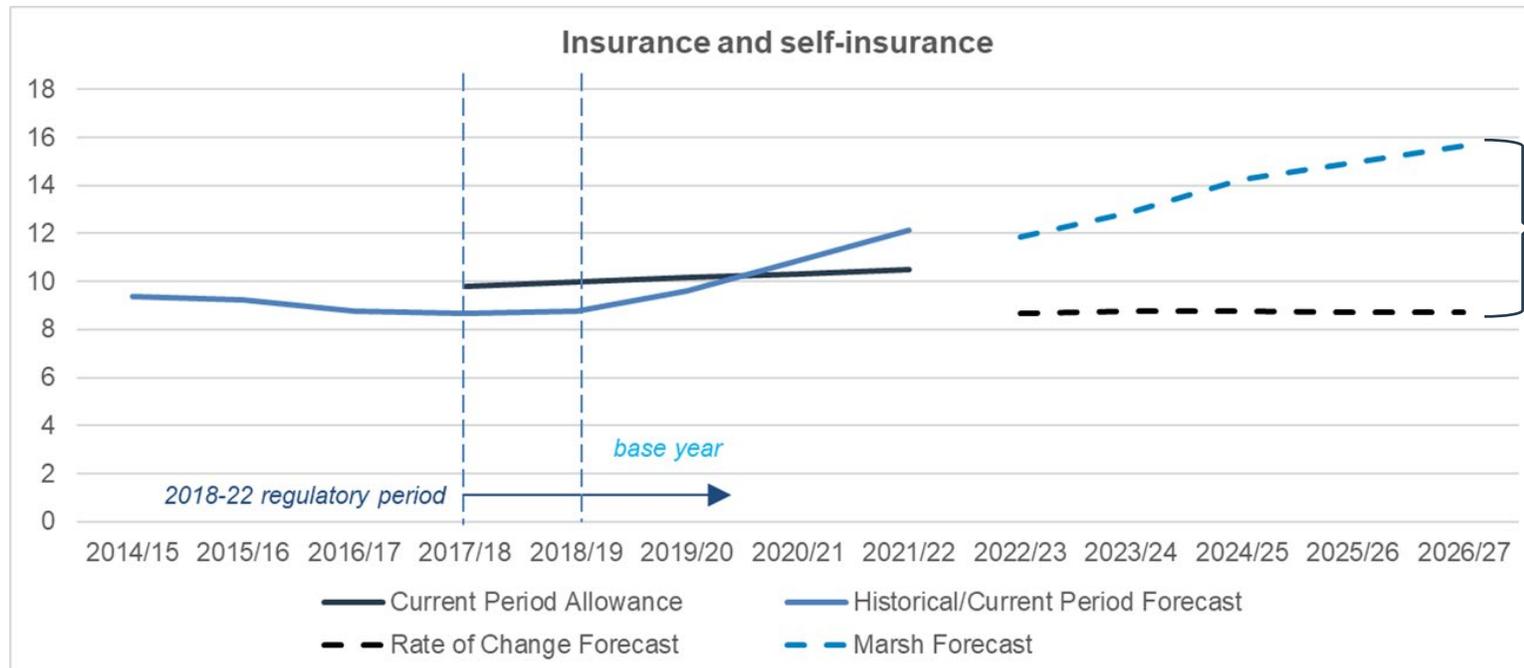
**Average rate of change over 2023-27 regulatory period**  
**0.41% + 0.49% - 0.79% = 0.10%**

- To meet our no real growth opex target for the 2023-27 regulatory period, we propose a productivity factor of 0.79%. This is significantly above that the TNSP benchmark industry average.
- We will focus on four key potential areas to drive productivity. We recognise that we will need to identify ways to deliver further efficiency and productivity improvements during the 2023-27 regulatory period and commit to doing this as part of BAU operations.



- **We will not propose any step changes in our 2023-27 Revenue Proposal, as part of our no real growth in opex approach.**
- This includes our previously discussed cyber security opex step change.
- As a prudent operator, we continue to manage and build our cyber security capability where necessary. We expect to spend opex of between \$1.5-2.4m p.a. over the 2023-27 regulatory period. We propose to manage these activities within our proposed total opex allowance.
- We will propose capex of \$5.8m in the 2023-27 Revenue Proposal, to ensure our cyber security capability and maturity can continue to respond to emerging threats. This amount includes provision for the cyclic renewal of security hardware, software and appliances.
- **We may need to implement an uplift in our security (this may include items other than cyber security) if mandated by the Federal Government.** We will attempt to manage any further uplift within our total opex allowance, but if required will investigate other funding options, such as a cost pass-through.

- There is significant uncertainty and volatility in the insurance market at present, which impacts on the accuracy of forecasts.
- For these reasons, we have decided to forecast insurance and self-insurance as part of the base-step-trend model, rather than adopting the forecast from Marsh. The difference in these forecasts is shown below.
- **Note this is a change in forecast approach only. We do not expect our actual insurance costs to remain 'flat' in 2023-27.**
- Our next insurance renewal is due in November 2020. The result of this may impact our ability to meet our no real growth in opex target.
- We will hold a deep dive workshop in October 2020 on insurance to explore customer views on risk appetite and management to help inform our decision-making around how to manage potential increases in premiums within forecast total opex.



\$26m difference in forecast approach.

We need to consider how to manage premiums if they increase in line with the higher forecast, and discuss with customers options to manage this risk.

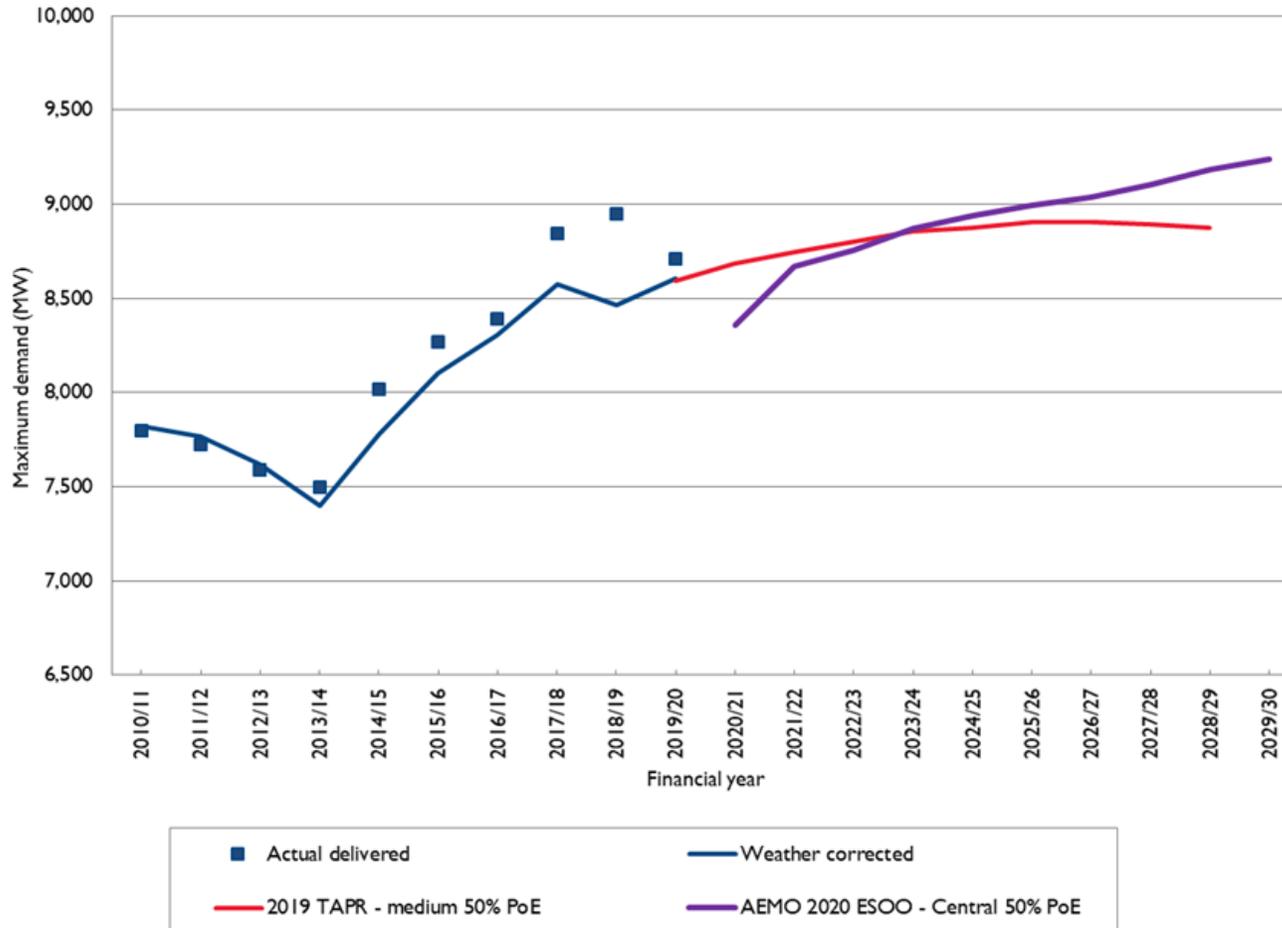
- We are still considering a prudent and efficient balance between insurance premiums, self-insurance and pass through events. We have included three nominated pass through events in our draft Revenue Proposal.
  - Insurance Coverage (previously referred to as 'insurance cap event').
  - Insurer Credit Risk.
  - Natural Disaster (new for 2023-27 regulatory period).
- Where justified, we may need to seek a cost pass through within-period for additional obligations in relation to cyber security, transmission ring fencing and inertia and/or fault level shortfall events.

A large, light gray circular graphic containing a map of Queensland. Overlaid on the map is a network of white lines representing power lines, with several circular nodes indicating key infrastructure points. The text 'Capital expenditure' is centered over the map in a dark blue, sans-serif font.

# Capital expenditure

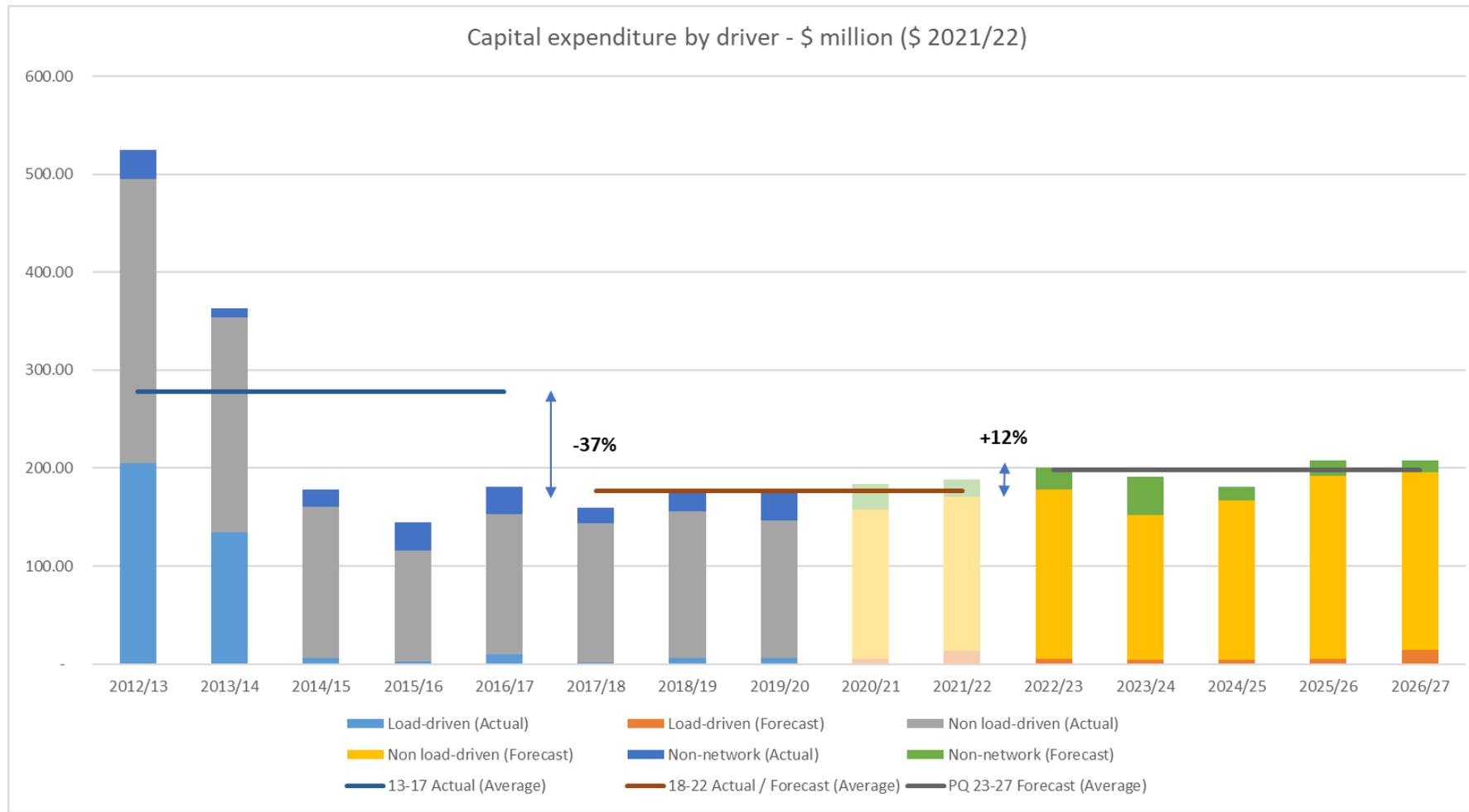
- The AEMO 2020 Integrated System Plan (ISP) was published on 30 July. The Final ISP identified the QNI Medium upgrade as likely to be required by 2032-33 under most scenarios.
- Given the magnitude of the QNI Medium development – new 500kV transmission lines and 500kV substations – construction may need to commence by the late 2020's. This will require new transmission line easements and substation sites to be acquired during the 2023-27 regulatory period. We have included \$18.3m in the capex forecast to undertake this work.
- For the Repex Model component of our forecast we have increased the mean replacement life of transmission line towers by between 1.5 and 4 years, depending on the corrosion zone. This reflects recent changes to our asset management and transmission line life extension practices. This change has reduced the capex forecast by ~\$45m.
- We have updated the timing of a number of individual projects to reflect the anticipated timings in our 2020 Transmission Annual Planning Report, to be published by 31 October 2020. This has reduced the capex forecast by ~\$62m.

- We have adopted the Central Scenario forecast from AEMO's 2020 Electricity Statement of Opportunities.
- There is only one project (\$2.4m) in the draft Revenue Proposal driven by increased demand at a DNSP connection point.



- This graph compares Powerlink's 2019 TAPR medium economic outlook demand forecast with AEMO's 2020 ES00 Central Scenario.
- AEMO 2020 ES00 forecast factors in an expected reduction due to COVID-19 pandemic impacts during 2020/21 summer.

- Total capex within the 2018-22 regulatory period is expected to be lower than the allowance.
- Total capex for 2023-27 is forecast to be \$105.7m higher than actuals/forecast for 2018-22.
- Capital expenditure forecast profile includes office refit expenditure in 2023/24 followed by sale of a vacated building in 2024/25. QNI Medium easement acquisition forecast includes property compensation costs in 2026/27.



# Potential contingent projects



Project name	Type of trigger	Description of potential project works	Indicative timing	Indicative cost (\$m, real 2021/22)
<b>Galilee Basin coal mining area</b>	Additional customer demand	Install a third 275kV circuit between Broadsound-Lilyvale and capacitor banks at Lilyvale.	No specific timing – load driven	130
<b>Central to North Queensland Reinforcement / Bouldercombe to Nebo Reinvestment</b>	Additional customer demand / Asset condition  (Contingent reinvestment)	String second side of the Stanwell-Broadsound 275kV transmission line and/or life extension of the existing Bouldercombe to Nebo 275kV single circuit line.	2028 or earlier with load development	50 - 100
<b>QNI Medium (ISP)</b>	Increased renewable generation in NSW and Darling Downs REZs	Single 500kV circuit between Western Downs-Wollar with 330kV connections to Armidale and Dumaresq.	2032 - 2033	580 (Qld component)
<b>Far North Queensland REZ / Ross to Chalumbin Reinvestment</b>	Increased wind generation in Far North Queensland / Asset condition  (Contingent Reinvestment)	Life extension of the existing Ross to Chalumbin 275kV double circuit line or rebuild Ross-Chalumbin 275kV double circuit transmission line to higher capacity, plus add a single circuit Ross-Chalumbin line. Uprate the Strathmore-Ross circuit.	2026 – 2036	100 - 700
<b>Gladstone Reinforcement / Bouldercombe to Calliope River Reinvestment</b>	Retirement of Gladstone Power Station / Renewable growth in North Queensland / Asset condition  (Contingent reinvestment)	Install a 275kV double circuit transmission line between Calvale-Larcom Creek, plus a third transformer at Calliope River. Life extension of the existing Bouldercombe to Calliope River 275kV single circuit lines or rebuild the Bouldercombe-Calliope River 275kV single circuit to a higher capacity.	2026 – 2035	45 - 300
<b>CQ-SQ Reinforcement / Calliope River to South Pine Reinvestment</b>	Increase in renewable generation in Central and/or North Queensland / Asset condition  (Contingent reinvestment)	Progressive life extension of the existing 275kV single circuit lines between Gladstone and Brisbane or rebuild existing single circuits as double circuit and/or install a 275kV double circuit transmission line between Calvale to Wandoan South.	2024 – 2036	180 - 350

- *Estimated contingent project threshold is currently ~\$35m (5% of first year MAR).*

A large, light gray circular graphic containing a map of Queensland. The map shows the state's outline and a network of power lines connecting various points across the state, primarily concentrated in the eastern and southern regions.

# Incentive schemes (EBSS, CESS, STPIS)

## Efficiency Benefit Sharing Scheme (EBSS)

- We have calculated the estimated carryover amounts for the 2018-22 regulatory period as a revenue increment of **\$8.5m**.
- Our July 2020 forecast included a EBSS revenue adjustment of \$6.1m.
- The change between July 2020 and now is primarily a result of the exclusion of Network Capability Incentive Parameter Action Plan (NCIPAP) project expenditure in 2017/18 and 2018/19 for the EBSS calculation. NCIPAP costs are captured under the Service Target Performance Incentive Scheme (STPIS).

## Capital Expenditure Sharing Scheme (CESS)

- We have calculated the estimated carryover amounts for the 2018-22 regulatory period as a revenue adjustment of **\$0.4m**.
- Our July 2020 forecast included a CESS revenue adjustment of \$4.9m.
- The change between July 2020 and now is due to the exclusion of the proposed Virginia office refit project for the 2018-22 regulatory period in the CESS calculation, as this has been deferred into the 2023-27 regulatory period.

- We will propose an alternative target for the ‘large’ loss of supply sub-parameter of the Service Capability component of STPIS.
- The current target setting mechanism would result in a target of zero events for this particular sub-parameter. We propose a target of one event.
- A zero event target results in an asymmetrical scheme (i.e. penalty-only – refer table below).
- Our view is that a zero event target is not consistent with the intent of the STPIS, and is not in the best interests of customers. It encourages Powerlink to maintain an unreasonably high performance level, which would require expenditure that outweighs the benefit to customers.
- We are in ongoing discussions with the AER about this proposed alternative target.

Incentive target	Number of events		
	Zero	1	2
Zero	\$0	Penalty of -0.15% of MAR (floor)	Penalty of -0.15% of MAR (floor)
1	Bonus of +0.15% of MAR (cap)	\$0	Penalty of -0.15% of MAR (floor)

A large, light gray circular graphic containing a map of Queensland. Overlaid on the map is a network of white lines representing power lines, with several circular nodes indicating key locations or substations. The text 'Customer engagement' is centered over this graphic.

# Customer engagement

- We are considering a set of criteria to help assess the concept of ‘capable of acceptance’ as part of our draft Revenue Proposal.
- We developed the below based on a set of criteria suggested by members of CCP24 as part of the AGN Access Arrangement,

## Draft criteria

Demonstrated customer support

Engagement was meaningful and the business was responsive to feedback

A clear business narrative was provided

Affordability was considered and addressed

The business assessed options available to it and sought to provide value to customers

The Revenue Proposal is reasonable comparative to past performance and peers

Follows relevant AER guidelines and regulatory models (AER to assess)

Proposed capital and operating expenditure is prudent and efficient (AER to assess)

**Are these criteria suitable? Are there any other criteria we should be considering?**

Date	Action
30 September 2020	Release of Draft Revenue Proposal
15 October 2020 (TBC)	Customer and Stakeholder Webinar on Draft Revenue Proposal
October 2020	Customer Panel to meet (without Powerlink) to discuss Draft Revenue Proposal
29 October 2020	RPRG meeting
30 October 2020	End of feedback/submission period for Draft Revenue Proposal
October/early November 2020	Insurance deep dive
26 November 2020	Customer Panel meeting
10 December 2020	RPRG meeting
29 January 2021	Lodge Revenue Proposal to AER



A large, light gray circular graphic containing a map of Queensland. A white line with several circular nodes represents a power transmission route, starting from the north coast and extending southwards along the eastern coast.

# Background slides

- We have adopted actual and forecast headline inflation to prepare our forecasts for the draft Revenue Proposal.
- The trimmed mean inflation measure was used in our Cut 3 forecasts due to the forecast volatility in headline inflation and the difference between headline and trimmed mean inflation.
- The difference in annual inflation to June 2020 between the trimmed mean and headline was smaller than forecast. Further analysis using the August RBA Statement of Monetary Policy (SMP) indicates the impact is immaterial.

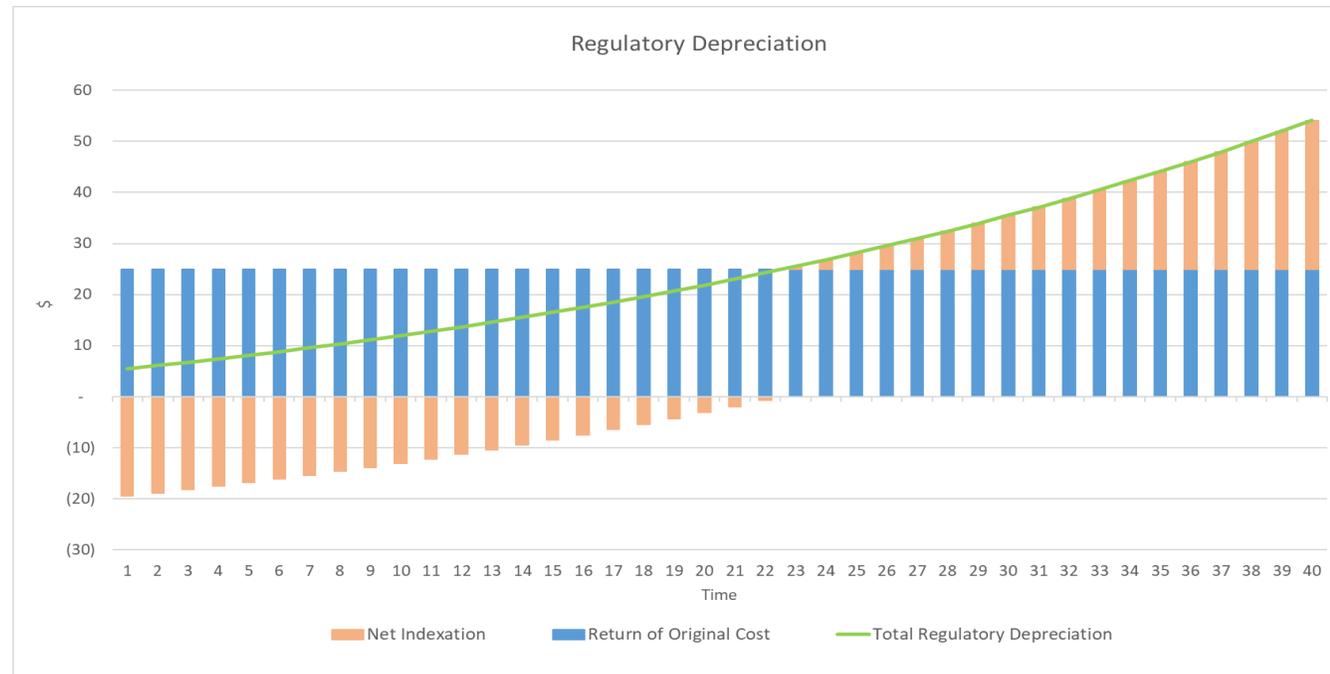
Annual Inflation to June 2020	May RBA SMP Forecast	Actual
Headline Inflation	(1.00%)	(0.35%)
Trimmed Mean Inflation	1.50%	1.20%
<i>Difference</i>	<i>2.50%</i>	<i>1.55%</i>

- We will continue to monitor actual inflation outcomes over the next 12 months given the current volatility we are seeing in the inflation environment due to COVID-19 impacts and, if volatility persists, we may adjust our position to trimmed mean.

# Return of Capital / regulatory depreciation



- Our Return of Capital (also referred to as regulatory depreciation) for the 2023-27 regulatory is \$898m. This has increased by \$273m or 44%, from the current period allowance of \$625m.
- One of the key drivers for this is the growing portion of depreciation related to previous indexation of the RAB. We estimate this may be contributing up to 25% of the increase in regulatory depreciation.
- The chart below is an example of the change in the components over time to illustrate how the regulatory depreciation model works.
- Over the asset life, regulatory depreciation becomes larger as prior years indexation of the asset is depreciated.



- We have selected 2018/19 as the base year for use in the base-step-trend model.
- HoustonKemp was engaged to perform an independent review of the efficiency of our 2018/19 operating expenditure.
- This analysis was done against data included in a confidential, draft version of the AER's consultant report for 2020 TNSP benchmarking. This was supplied to us by the AER to enable the analysis to be done on the latest data.
- Key findings were:
  - Benchmarking results for 2018/19 demonstrate that we are not inefficient nor out of line with other TNSPs.
  - Our 2018/19 revealed operating expenditure is efficient.
  - Trend results show improvements in our performance and that we have responded to incentives to become more efficient.
- Our draft Revenue Proposal will reflect this information at a high level. Detailed information will be provided in January 2021, after the AER's Final Benchmarking Report for 2020 is publicly released.