

Operating Expenditure Forecasting Methodology

An Overview | June 2020
2023-27 Revenue Proposal

What is Operating Expenditure?

Powerlink's operating expenditure (opex) consists of spending to operate and maintain our network and other assets, as well as the business activities required to support those areas of work.

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 Levy¹ and debt raising costs.

Forecasting Methodology

Powerlink will forecast its operating expenditure 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 may be used to forecast other operating expenditure items.

Base-step-trend approach

A simplified version of the AER's base-step-trend approach is shown below. A more detailed explanation and diagram is included in Powerlink's Expenditure Forecasting Methodology:

$$\text{Forecast opex} = \text{Base year} \times \text{Rate of change} \pm \text{Step changes}$$

¹We are considering alternative ways to treat the AEMC Levy cost.

Base Year

A base year is selected, with any one-off or non-recurrent expenditure removed, to ensure that it represents ongoing, efficient expenditure.

Rate of Change

A forecast annual rate of change will be applied to the base year 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:

$$\text{Rate of change} = \text{Output change} + \text{Real price change} - \text{Productivity change}$$

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. These forecast items are added to the base-step-trend.

For more information about Powerlink's expenditure forecasting methodologies (including capital expenditure), refer to Powerlink's 2023-27 Revenue Proposal Expenditure Forecasting Methodology.