Revenue Determination Process

An Overview | January 2021

2023-27 Revenue Proposal

Each electricity transmission business in the National Electricity Market (NEM) is required to submit a Revenue Proposal to the Australian Energy Regulator (AER) every five years.

A Revenue Proposal sets out the business's forecast expenditure and revenue requirements for the upcoming regulatory period to provide safe, secure and reliable prescribed (regulated) transmission services in a prudent and efficient 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. The key milestones in our revenue determination process are illustrated below.

2019

- **Oct 19** – Powerlink notifies AER on need for Framework & Approach (F&A) stage.

2020

- **Feb 20** – AER publishes F&A Position Paper.
- **Jun 20** – Powerlink submits Expenditure Forecasting Methodology to the AER.
- **Jul 20** – AER publishes Final F&A Paper.

2021

- **Jan 21** – Revenue Proposal due.
- **May 21** – Submissions close on Revenue Proposal.
- **Sept 21** – AER publishes Draft Decision.
- **Nov 21** – Revised Revenue Proposal due.
- **Dec 21** – Submissions close on Revised Revenue Proposal.

2022

- **Apr 22** – AER publishes Final Decision.
- **Jul 22** – 2023-27 regulatory period starts (01/07/22).

Powerlink's Prescribed Revenue

Our Maximum Allowable Revenue (MAR) is set as part of the revenue determination process using a building-block approach.

MAR = Return on Capital (RAB x RoR) + Return of Capital (Depreciation) + Opex + Tax ± Incentives (EBSS and CESS)

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

Return on Capital

Return on capital is calculated by multiplying our Regulatory Asset Base (RAB) by the Rate of Return (RoR).

Return on Capital = RAB x RoR (or WACC)

RAB is the total value of Powerlink's regulated assets. This varies from year to year as new assets are built, disposed of and depreciated.

RoR is the cost to finance capital expenditure, sometimes referred to as the Weighted Average Cost of Capital (WACC). This is set by the AER in its Final Decision on a Revenue Proposal and is adjusted annually to account for changes in the cost of debt. Our RoR for the 2023-27 regulatory period will be calculated by applying the AER's binding 2018 RoR Instrument.

Return of Capital (Depreciation)

Depreciation is an annual allowance to reflect wear and tear on an asset over its life.

Opex

Powerlink's operating expenditure (opex) consists of expenditure to operate, maintain and support network and other assets and activities.

Taxes

Just like any other business, Powerlink is required to pay corporate income tax. We account for this as a component of our operating costs.

The forecast of taxes for the 2023-27 regulatory period applies the outcomes of the AER's 2018 Tax Review.

Incentives

The AER has several schemes to incentivise a business to pursue efficiency improvements and prudent and efficient investments, the benefits of which are shared between customers and the business.

The Efficiency Benefit Sharing Scheme (EBSS) is a scheme applied to operating expenditure to incentivise a business to pursue efficiency improvements. The scheme shares efficiency gains (or losses) between customers and the business in the ratio of approx. 70:30 in favour of customers.

The Capital Expenditure Sharing Scheme (CESS) is an incentive scheme applied to capital expenditure. Under the scheme, underspends relative to the AER's capex allowance are treated as an efficiency gain and overspends are treated as an efficiency loss. Like the EBSS, capex efficiencies are shared between customers and the business in the ratio of approx. 70:30.

The Service Target Performance Incentive Scheme (STPIS) incentivises a business to improve or maintain a high level of service for the benefit of participants in the National Electricity Market and end users of electricity.

In its Final Decision on a Revenue Proposal, the AER can adjust the MAR for net carryover amounts (+ or -) from the current regulatory period into the next for the EBSS and CESS.

Unlike the EBSS and CESS, adjustments to the MAR for a business' performance under the STPIS occur each year within a regulatory period and are subject to AER review and approval.

Where does Powerlink's revenue come from?

Each year, Powerlink collects revenue from its customers.

Our customers include electricity distribution networks owned by Energex and Ergon Energy (part of the Energy Queensland Group) and Essential Energy (in northern New South Wales) and industrial customers such as rail companies, mines and mineral processing facilities

Most transmission charges are passed through and form part of distribution network charges, which are then passed through to retailers and ultimately, end consumers of electricity.

Powerlink's costs represent about 9% of a typical Queensland residential electricity bill.

Approx. 80% of Powerlink's annual revenues are set by the AER through the revenue determination process.

For more information, refer to our *2023-27 Revenue Proposal* and *Incentive Schemes – An Overview.*