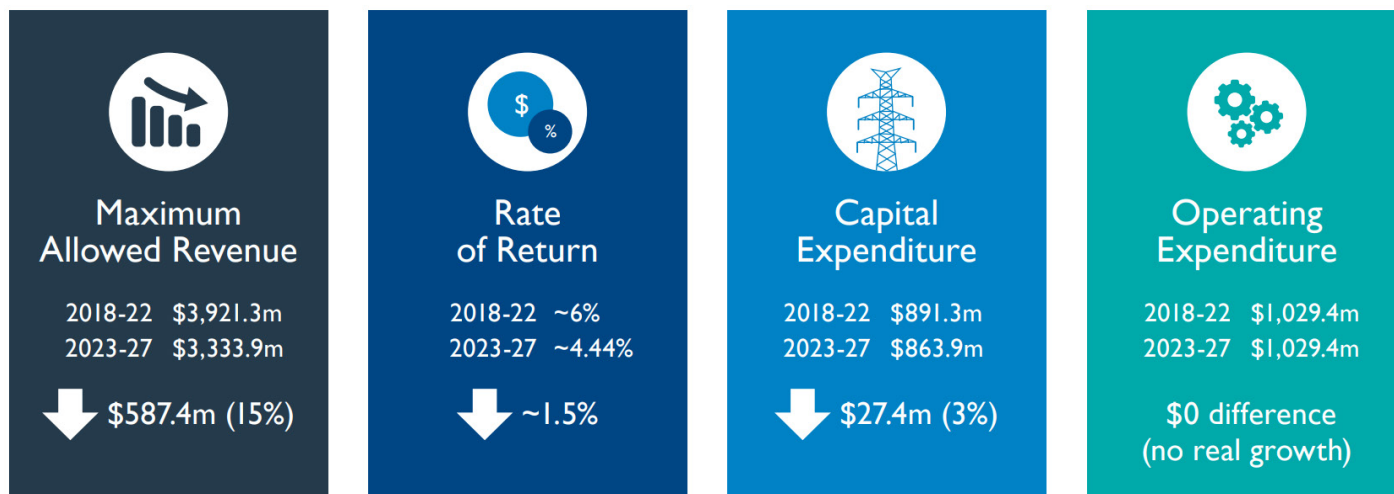


Revenue Proposal - Chapter Highlights

2023-27 Revenue Proposal | January 2021

A Snapshot¹



This document provides chapter by chapter highlights of our 2023-27 Revenue Proposal.

Business and Operating Environment

Affordability remains a key concern for customers.

There is significant change in energy markets as we transition to a low carbon future which necessitate changes to our patterns of operation.

We are in an uncertain economic environment, driven primarily by COVID-19, which has placed pressure on our business, our customers and stakeholders.

Customer Engagement

We are the first network business to co-design our engagement approach with customers and stakeholders.

We undertook extensive engagement with our customers, stakeholders, the Australian Energy Regulator (AER) and the AER's Consumer Challenge Panel (CCP23) on all key elements of our Revenue Proposal during its development.

This engagement has directly shaped many of the positions put forward in our Revenue Proposal, and helped us toward our overarching goal to deliver a Revenue Proposal that is capable of acceptance by our customers, the AER and ourselves at the time we lodged in January 2021. We also committed to a 'no surprises' approach to our engagement.

Historical Capital and Operating Expenditure²

Total capital expenditure (capex) for the 2018-22 regulatory period is forecast to be \$891.3m. This is \$1.8m (0.2%) lower than the AER's allowance of \$893.1m for the current 2018-22 regulatory period.

Total operating expenditure (opex), excl. debt raising costs, is forecast \$1,035.6m. This is \$9.5m (0.9%) higher than the AER's allowance of \$1,026.1m. When we adjust our opex to remove non-recurring items, such as movements in provisions, our total opex for the current 2018-22 regulatory period is \$1,029.4m.

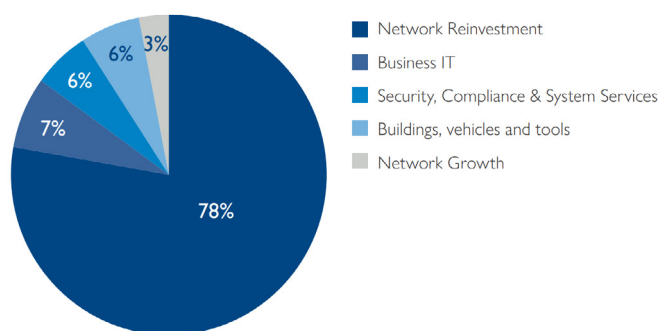
Our performance under the AER's economic benchmarking has improved over 2018-22.

¹ All figures are in \$m real, 2021/22 and are for the full five-year regulatory period. MAR is compared to the AER allowance for the 2018-22 regulatory period. Rate of return is nominal vanilla. Capital and operating expenditure are compared to the actuals/forecast for the 2018-22 regulatory period. Capital expenditure figures are net of disposals. Operating expenditure figures reflect underlying operating expenditure, which excludes movements in provisions, Network Capability Incentive Parameter Action Plan (NCIPAP) project costs, debt raising and network support costs.

² Total outcomes reflect actual expenditure in the first years of our regulatory period and forecast expenditure in the final two years.

Forecast Capital Expenditure

Our total forecast capex for the 2023-27 regulatory period is \$863.9m. This is \$27.4m (3.1%) lower than the AER's allowance of \$891.3m for the 2018-22 regulatory period. This comprises primarily reinvestment due to end of asset life, obsolescence and reliability or safety requirements:



We adopted a Hybrid+ approach to forecast our capex, which integrates top-down and bottom-up methods. Project-specific justification was provided for about 70% of our forecast capex.

We have proposed one contingent project, Central to North Queensland Reinforcement, at an indicative cost of \$52m.

Forecast Operating Expenditure

We have targeted no real growth in opex compared to our forecast outcome for the current regulatory period. Our total operating expenditure forecast for the 2023-27 regulatory period is therefore \$1,029.4m.

To meet this target we have proposed, in combination:

- a productivity factor of 0.5% per annum, which is higher than the industry average of 0.3%; and
- no step changes.

Our forecast is based on the AER's base-step-trend model and a category specific forecast for the AEMC levy.

HoustonKemp independently assessed the efficiency of our proposed base year.

Escalation Rates and Project Cost Estimation

We forecast an average annual growth rate of 0.7% above inflation for internal and external labour for the 2023-27 regulatory period. We have proposed an annual increase in the cost of materials in line with the Consumer Price Index.

We sought independent advice from BIS Oxford Economics on wages growth and GHD Advisory on unit rates.

We applied our standard internal cost estimating approach to develop estimates for our forecast capital projects and to update our unit rates in the Repex Model.

Regulatory Asset Base (RAB)

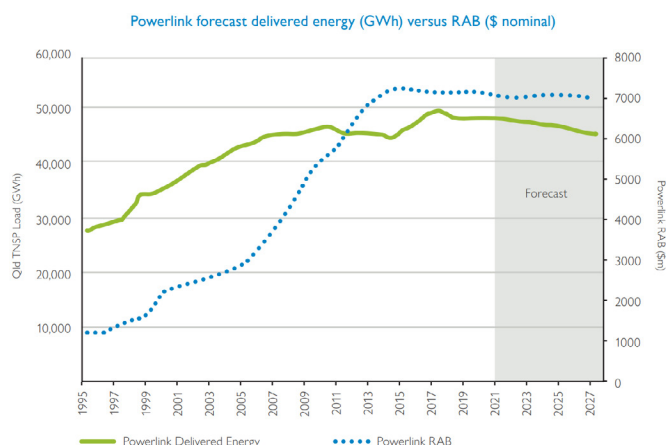
Our opening RAB at 1 July 2022 is forecast to be \$6,958.4m, in nominal terms.

We propose to transfer \$2m of non-prescribed assets into our RAB and \$4.4m out of our RAB at 30 June 2022 that have been repurposed for non-prescribed services.

We forecast a decline in our RAB in both nominal and real terms over the current and 2023-27 regulatory periods, as follows:

- 2018-22 RAB is forecast to decrease by \$111.0m (nominal) and \$621.9m (real 2021/22).
- 2023-27 RAB is forecast to decrease by \$19.4m (nominal) and \$749.6m (real 2021/22).

The decline in our RAB aligns with our flat or declining forecasts of delivered energy, and demonstrates that where reinvestment is required to address a network need we consider a range of options and do not necessarily replace like-for-like.



Rate of Return, Taxation & Inflation

We applied the AER's 2018 Rate of Return Instrument to calculate our estimated post-tax nominal rate of return of 4.44% in the first year of the 2023-27 regulatory period.

We estimated our taxation allowance using the AER's 2019 Post-Tax Revenue Model (PTRM), Version 4. This includes changes arising from the AER's 2018 Regulatory Tax Approach Review.

Our forecast for inflation is 2.25%, based on the AER's current inflation approach. The AER intends to apply its revised inflation approach in our Draft and Final Decisions.

Depreciation

Our proposed regulatory depreciation forecast for the 2023-27 regulatory period is \$881.3m.

We proposed a change to our depreciation forecasting method to the more accurate year-by-year depreciation tracking approach, with a minor transitional adjustment to smooth the revenue impact of this change on customers.

Maximum Allowed Revenue (MAR) and Price Impact

Our forecast MAR for the 2023-27 regulatory period is \$3,333.9m. This is \$587.4m (15%) lower than the AER's allowance for the current regulatory period.

The reduction in MAR results in a forecast reduction in the indicative transmission price in the first year of the next regulatory period (2022/23) of 11%. This represents the following nominal price impact in 2022/23 for average customers³:

- a reduction of \$13 for residential customers; and
- a reduction of \$23 for small business customers.

Prices are forecast to stay in line with inflation over the remainder of the regulatory period.

Pass Through Events

We nominated the following pass through events for the 2023-27 regulatory period:

- Insurance Coverage event;
- Insurer Credit Risk event; and
- Natural Disaster event.

We also proposed a \$0 network support allowance within our forecast opex and will seek a pass through for any necessary network support costs in the 2023-27 regulatory period.

We will assess the most efficient way to manage any new regulatory obligations imposed within the next regulatory period, which may result in a cost pass through application to the AER.

Shared Assets

We assessed that forecast shared asset unregulated revenues for the 2023-27 regulatory period are not material. Therefore, no revenue adjustment has been applied in our Revenue Proposal.

Expenditure Incentive Schemes

For the Efficiency Benefit Sharing Scheme (EBSS), we calculated a net positive carryover of \$8.4m from the 2018-22 regulatory period, and proposed that \$999.7m of our forecast operating expenditure be subject to the EBSS in the 2023-27 regulatory period.

For the Capital Expenditure Sharing Scheme (CESS), we calculated a net negative carryover amount of \$3.7m from the 2018-22 regulatory period, and proposed that \$858.9m of our forecast capital expenditure be subject to the CESS in the 2023-27 regulatory period.

³ This is on the basis of assumed tariffs and consumption. Assumed residential consumption is based on the Queensland Competition Authority's (QCA's) annual Tariff 11 (residential) median energy usage of 4,061 kWh p.a. Assumed small business consumption is based on the QCA's annual Tariff 20 (small business) median energy usage of 6,831 kWh p.a.

Service Target Performance Incentive Scheme

We improved our performance in the Service Component (SC) and Network Capability Component (NCC) of the scheme during the current 2018-22 regulatory period. Changes in power flows and the emergence of system strength constraints have impacted our Market Impact Component (MIC) performance. This is expected to continue into the 2023-27 regulatory period.

We proposed SC and MIC targets consistent with the AER's historical data ranges and our alternative proposed data range, which incorporates the most recent calendar year. This is to ensure our 2023-27 target incorporates the impact of significant changes in our operating environment.

We proposed an alternative target of one in lieu of zero for the large loss of supply event sub-parameter of the SC.

We did not propose any Network Capability Incentive Parameter Action Plan (NCIPAP) projects in our Revenue Proposal.

We engaged WSP to independently assess the robustness of our methodology to determine the best fit statistical distributions for the SC.

Pricing Methodology

We have proposed one key amendment to our existing Pricing Methodology as a result of our Transmission Pricing Consultation. This amendment will progressively transition customers to locational charges based on peak demand only over the next two regulatory periods (or 10 years), commencing 1 July 2022.

We also proposed five other minor amendments to our existing methodology to improve consistency with regulatory requirements and clarity in application.

Demand Management Innovation Allowance Mechanism (DMIAM)

The DMIAM is expected to be finalised by the AER in June 2021, after which time we will consider the detailed operation of the mechanism.

We seek to have the DMIAM apply to us during the 2023-27 regulatory period and we will provide additional information to the AER as part of our Revised Revenue Proposal, which will be lodged with the AER around December 2021.

More information on our 2023-27 Revenue Proposal, including an overview of our Revenue Proposal and other supporting information, is [available on our website](#).