

Australian Energy Regulator's Draft Decision

An Overview | September 2021
2023-27 Revenue Proposal







In January 2021, Powerlink lodged its 2023-27 Revenue Proposal with the Australian Energy Regulator (AER). This occurs every five years as part of our revenue determination process.

This process is a once-in-a-five-year opportunity to build more trust with our customers, stakeholders and the AER. It is important as it sets about 80% of our annual revenue, which funds the capital and operating expenditure we need to build, operate and maintain the prescribed (regulated) transmission network and is paid for by electricity customers across Queensland.

Prior to lodgement we undertook extensive engagement with our customers, stakeholders, the AER and the AER's Consumer Challenge Panel (CCP23) on all key elements of our Revenue Proposal. Our overarching goal was to deliver a Revenue Proposal that was **capable of acceptance by our customers, the AER and ourselves** at the time we lodged in January 2021.

Snapshot of the AER's Draft Decision

In September 2021, the AER published its Draft Decision on our Revenue Proposal. **The AER stated our Revenue Proposal was capable of acceptance, acknowledged our extensive consumer engagement and accepted all major aspects.**

	 Capital Expenditure ¹	 Operating Expenditure ¹	 Rate of Return ²	 Regulatory Asset Base ³	 Maximum Allowed Revenue ⁴	 Electricity prices ⁵
Revenue Proposal	\$863.9m	\$1,046.4m	4.44%	\$6,958.4m	\$3,333.9m	11% decrease
Draft Decision	\$863.9m	\$1,046.4m	4.65%	\$6,983.4m	\$3,414.9m	9% decrease
Difference	Nil	Nil	↑ 0.21%	↑ \$25m (0.4%)	↑ \$81m (2.4%)	↑ 2%

1 Capital and operating expenditure – real, \$21/22 for the full five-year regulatory period. Operating expenditure includes debt raising costs. Capital expenditure is net of disposals.

2 Rate of Return – nominal vanilla and represents the Rate of Return for the first year of the next regulatory period.

3 Opening RAB – represents opening RAB value as at 1 July 2022.

4 MAR – real, \$21/22, unsmoothed for the full five-year regulatory period.

5 Electricity prices – reflects the nominal, indicative impact to the transmission component of electricity prices in the first year of the next regulatory period for average residential and small business customers. The transmission component of electricity bills is based on information from the Australian Energy Market Commission (AEMC) Electricity Price Trends Report, December 2020. Assumed residential consumption is based on the Queensland Competition Authority's (QCA's) annual Tariff 11 (residential) median energy usage of 4,061kWh p.a. Assumed small business consumption is based on the QCA's annual Tariff 20 (small business) median energy usage of 6,831kWh p.a.

Key differences

All differences between the key aspects of our Revenue Proposal and the AER's Draft Decision relate to standard updates to financial/market parameters and minor forecasting adjustments made by the AER. The sections below outline these differences.



Capital expenditure

The AER accepted our capital expenditure forecast for 2023-27 of \$863.9m. This is \$27.4m (3.1%) lower than our actual/forecast capital expenditure for the 2018-22 regulatory period. The AER noted:

- we had undertaken excellent customer engagement;
- our forecasting methodology is a significant improvement on the methodology used for the previous regulatory period;
- our risk cost based analysis and supporting economic modelling was a significant step forward; and
- there is scope for further improvement of our reinvestment expenditure asset management. In line with our continuous improvement approach, we have committed to undertake a review of our reinvestment practices in 2022/23, report results publicly and implement results over the remainder of the 2023-27 regulatory period.



Operating expenditure

The AER accepted our operating expenditure forecast for 2023-27 of \$1,046.4m. This represents no real growth compared to our actual/forecast operating expenditure for the 2018-22 regulatory period (excluding debt raising costs). The AER noted:

- our operating expenditure proposal was well developed and largely consistent with the AER's standard approach to forecasting operating expenditure;
- given the proposal was well developed, the extent of the AER's review was less than would otherwise have been the case;
- the operating expenditure in our base year (2018-19) is "not materially inefficient"¹ and there is some benchmarking evidence of improved performance; and
- we may wish to update our Revised Revenue Proposal to account for updated inflation forecasts². We are likely to do this.

1 This reflects terminology used by the AER in its Expenditure Forecast Assessment Guideline for Electricity Transmission, November 2013 and recent other revenue determinations.

2 This statement by the AER recognises the significant difference between actual 2020/21 and the latest 2021/22 forecast inflation compared to the placeholder inflation estimates used for these years in our Revenue Proposal.



Rate of Return

The AER's estimated placeholder Rate of Return is 4.65% (nominal), which is higher than Powerlink's proposed Rate of Return of 4.44%, principally due to a higher risk free (Government bond) rate. This is a standard update which is not within Powerlink's control. The Rate of Return will be updated again by the AER in its Final Decision in April 2022 and during each year of the 2023-27 regulatory period.



Regulatory Asset Base (RAB)

There is a \$25 million increase (0.4%) to our RAB under the Draft Decision, driven by higher actual inflation in 2020/21 compared to the placeholder inflation we used in our Revenue Proposal.



Maximum Allowed Revenue (MAR)

The \$81m increase in MAR between our Revenue Proposal and the Draft Decision results in marginally higher prices than Powerlink proposed. Approximately \$70m of this increase is driven by a standard update to our Rate of Return to reflect the most recent financial/market conditions.



Transmission component of electricity prices

Under the Draft Decision, Powerlink's contribution to the average annual nominal electricity bill for the average residential and small business customer would decrease by 9% (\$12 and \$17 respectively) in the first year of the next regulatory period and then on average increase in line with forecast inflation (2.25%) in the remaining years.

Next steps

We will submit a Revised Revenue Proposal to the AER by 3 December 2021. Given the AER has accepted the majority of our Revenue Proposal, we are likely to accept all key elements of the Draft Decision, with minor updates (e.g. for inflation). We will continue to engage with customers and stakeholders to seek input in the development of the Revised Revenue Proposal.

The AER must publish its Final Decision by April 2022. Our next regulatory period will begin on 1 July 2022.

For further information, visit our website at www.powerlink.com.au or the AER's website at www.aer.gov.au.