

Revised Revenue Proposal - Preliminary Positions

Context

Powerlink has until 3 December 2021 to lodge its Revised Revenue Proposal with the Australian Energy Regulator (AER). The Revised Revenue Proposal responds to the [AER's Draft Decision](#), published on 30 September 2021.

We value the input of our Customer Panel on our preliminary positions. We will discuss key positions for our Revised Revenue Proposal at our 22 October 2021 Customer Panel meeting.

Background

This background document has been prepared to inform the Customer Panel prior to the meeting about each of our preliminary positions. This document should also be read in conjunction with our [Overview of the AER's Draft Decision](#).

We have outlined each position in the table below, showing all key Revenue Proposal elements, the AER's Draft Decision outcomes and our preliminary Revised Revenue Proposal response. Where we refer to application of "standard updates" in the table below, we mean for things such as inflation and/or to reflect the most recent actual/forecast operating and capital expenditure for the current regulatory period.

Revenue Proposal element	AER Draft Decision outcome	Powerlink Preliminary Position for Revised Revenue Proposal
Customer engagement	Recognised our strong consumer engagement approach and expressed confidence that we are committed to putting consumers at the centre of our business ¹ .	Recognise the AER's positive feedback in relation to our engagement process. Note we have continued to engage with our customers to ensure their views are reflected in our Revised Revenue Proposal.
Forecast capital expenditure	Accepted our proposed total capital expenditure forecast of \$863.9m and our one proposed contingent project ² . Identified scope for potential improvements to our reinvestment practices. Noted that Powerlink has committed to a review of these practices, commencing 2022/23.	Accept , with an update for inflation.
Forecast operating expenditure	Accepted our total proposed operating expenditure forecast of \$1,046.4m (including debt raising) ³ . Updated several operating expenditure input parameters and made several minor adjustments and corrections to derive its alternative estimate ⁴ .	Accept the forecasting approach set out in the AER's Draft Decision. Update our forecast for inflation and consistent with the approach set out in the Draft Decision, while ensuring it retains our no real growth target. This will include higher than industry average productivity and no step changes.

¹ Powerlink transmission draft determination 2022-27, Overview, AER, pages 5-10.

² *Ibid*, Attachment 5 Capital Expenditure, AER, pages 5-8.

³ *Ibid*, Attachment 6 Operating Expenditure, AER, pages 4-6.

⁴ *Ibid*, pages 11-24.

Revenue Proposal element	AER Draft Decision outcome	Powerlink Preliminary Position for Revised Revenue Proposal
Escalation Rates and Project Cost Estimation	<p>Accepted our approach for materials escalation in line with CPI and our proposed approach to calculate internal labour cost escalation.</p> <p>Updated internal labour cost escalation to reflect the latest forecast from Deloitte Access Economics (DAE)⁵.</p> <p>Did not accept our approach to apply an external labour cost escalation above CPI⁶.</p>	Accept.
Regulated Asset Base (RAB)	<p>Accepted our proposed RAB values, with minor corrections to our modelling, and our net RAB transfer of approximately -\$2.4m⁷.</p> <p>Noted it is seeking additional information from Powerlink about the use of some of our assets.</p>	<p>Accept and apply standard updates.</p> <p>Provide further information to inform the AER's Final Decision about the use of some of our assets.</p>
Rate of Return, Tax, Inflation	<p>Accepted our proposed gamma and averaging periods for the risk-free rate and debt, as these elements were calculated consistent with the 2018 Rate of Return Instrument⁸.</p> <p>Accepted our tax approach⁹.</p> <p>Updated our approach to calculate forecast inflation to reflect the outcomes of its recent inflation review¹⁰.</p>	<p>Accept and apply standard updates.</p> <p>For simplicity, we are likely to apply the AER's Draft Decision Rate of Return of 4.65% in our Revised Revenue Proposal.</p> <p>Note - the AER will update the Rate of Return in its Final Decision.</p>
Depreciation	<p>Accepted all key aspects of our depreciation approach, subject to input updates, and our proposed depreciation tracking change¹¹.</p>	Accept and apply standard updates.
Maximum Allowed Revenue (MAR) and Price Impact	<p>Draft Decision MAR is \$3,414.9m. This amount is \$81m (2.4%) higher than our Revenue Proposal, of which \$70m is due to the higher Rate of Return¹².</p>	Our MAR will be updated to reflect all other building-block updates.

⁵ *Ibid*, pages 16-18.

⁶ *Ibid*, Attachment 5 Capital Expenditure, AER, pages 21-22.

⁷ *Ibid*, Attachment 2 Regulatory Asset Base, AER, pages 4-8.

⁸ *Ibid*, Attachment 3 Rate of Return, AER, page 5.

⁹ *Ibid*, Attachment 7 Corporate Income Tax, AER, pages 4-5.

¹⁰ *Ibid*, Attachment 3 Rate of Return, AER, page 6.

¹¹ *Ibid*, Attachment 4 Regulatory Depreciation, AER, page 4.

¹² *Ibid*, Attachment 1 Maximum Allowed Revenue, AER, pages 4-6.

Revenue Proposal element	AER Draft Decision outcome	Powerlink Preliminary Position for Revised Revenue Proposal
	Applied the same X-factors as our Revenue Proposal ¹³ .	
Cost pass through events	Accepted our proposed cost pass through events, with minor adjustments to cost pass through event definitions to align with other recent determinations ¹⁴ .	Accept.
Shared Assets	Did not adjust our MAR ¹⁵ .	Accept and apply standard updates.
Expenditure Incentive Schemes	Adjusted our Efficiency Benefit Sharing Scheme (EBSS) 2018-22 carryover for minor corrections and updates ¹⁶ . Did not accept our proposal to exclude the Australian Energy Market Commission (AEMC) Levy from the calculation of the EBSS 2023-27 target ¹⁷ . Made standard updates to our Capital Expenditure Sharing Scheme (CESS) carryover and target ¹⁸ .	Accept and apply standard updates.
Service Target Performance Incentive Scheme (STPIS)	On the Service Component (SC), did not accept our proposed alternative target setting (one in lieu of zero) for the large loss of supply sub-parameter ¹⁹ . On the Market Impact Component (MIC), did not accept our proposed use of 2015-21 as target setting years and have applied the 2014-20 years ²⁰ . Noted we did not propose any Network Capability Incentive Parameter Action Plan (NCIPAP) projects.	Accept and apply standard updates. Note we remain of the view that an urgent review of the STPIS is required.

¹³ *Ibid*, pages 13-15.

¹⁴ *Ibid*, Attachment 12 Pass through events, AER, page 4.

¹⁵ *Ibid*, Attachment 1 Maximum Allowed Revenue, AER, page 16.

¹⁶ *Ibid*, Attachment 8 Efficiency Benefit Sharing Scheme, AER, pages 4-5.

¹⁷ *Ibid*, page 12.

¹⁸ *Ibid*, Attachment 9 Capital Expenditure Sharing Scheme, AER, pages 7-9.

¹⁹ *Ibid*, Attachment 10 Service Target Performance Incentive Scheme, AER, pages 11-14.

²⁰ *Ibid*, pages 15-18.

Revenue Proposal element	AER Draft Decision outcome	Powerlink Preliminary Position for Revised Revenue Proposal
Proposed Pricing Methodology	Accepted our Proposed Pricing Methodology ²¹ .	<p>Acknowledge and agree with the AER's Draft Decision.</p> <p>However, we will propose a minor revision to our Proposed Pricing Methodology to provide clarity and consistency with recent changes to the National Electricity Rules²².</p> <p><i>More at the October 2021 Customer Panel meeting.</i></p>
Demand Management Innovation Allowance Mechanism (DMIAM)	<p>Noted that after lodgement of our Revenue Proposal, we requested the AER not apply the DMIAM in the 2023-27 regulatory period.</p> <p>AER did not accept this proposal and intend to apply the DMIAM²³.</p>	<p>In September 2021, we proposed to empower²⁴ our Customer Panel to decide whether or not we should seek to apply the DMIAM in the 2023-27 regulatory period, and committed to implement their decision in our Revised Revenue Proposal.</p> <p><i>More at the October 2021 Customer Panel meeting.</i></p>

²¹ *Ibid*, Attachment 11 Pricing Methodology, AER, page 4.

²² Australian Energy Market Commission (AEMC), Rule Determination Connection to Dedicated Connection Assets, July 2021.

²³ Powerlink transmission draft determination 2022-27, Attachment 13 Demand Management Innovation Allowance Mechanism, AER, page 4.

²⁴ As per the International Association of Public Participation (IAP2) framework. Engagement at the empower level of the framework means our Customer Panel has decision-making power on this item and we commit to implement the Customer Panel's decision.