Australian Energy Regulator's Final Decision

2023-27 Revenue Proposal | An Overview | April 2022

The Australian Energy Regulator (AER) published its Final Decision on our 2023-27 Revenue Proposal on 29 April. This decision 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 our prescribed (regulated) transmission network over the next five years, and is paid for by electricity customers across Queensland.

The AER recognised the collaborative efforts of Powerlink and its stakeholders, particularly our Customer Panel and Revenue Proposal Reference Group, who worked together constructively in developing our proposal over almost three years, in the long-term interests of consumers.

The AER considered we put forward a well-informed and high-quality Revenue Proposal, underpinned by significant consumer engagement and our **overarching goal of capable of acceptance by our customers, the AER and ourselves**.

In its Draft Decision (September 2021) the AER considered that our Revenue Proposal was capable of acceptance and accepted all major aspects of it, including our capital and operating expenditure forecasts. As part of finalising our Revised Revenue Proposal (November 2021) our Customer Panel confirmed that capable of acceptance had been met from its point of view.

Snapshot of the AER's Final Decision

	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
Revised Revenue Proposal (RRP)	$882.4m	$1,071.4m	4.65%	$7,140.2m	$3,427.6m	5% decrease
Final Decision (FD)	$882.4m	$1,071.4m	5.08%	$7,157.9m	$3,514.8m	2.5% decrease
Difference (FD vs RRP)	Nil	Nil	↑ 0.43%	↑ $17.7m (0.2%)	↑ $87.2m (2.5%)	↑ 2.5%

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

Our Revised Revenue Proposal accepted all of the key elements of the AER's Draft Decision with updates for inflation and updated actual and forecast expenditure for 2020/21 and 2021/22. All differences between the key aspects of our Revised Revenue Proposal and the AER's Final Decision relate to standard updates to financial/market parameters and minor adjustments from incentive schemes. These differences are outlined below.

Capital Expenditure

The AER accepted our forecast capital expenditure for 2023-27 of $882.4m. This is $29.1m (3.2%) lower than our actual/forecast capital expenditure for the 2018-22 regulatory period. In its Final Decision the AER noted:

- the increase in capital expenditure from the Draft Decision is driven by an increase in inflation;
- our forecasting methodology is a significant improvement on the methodology used for the previous regulatory period; and
- the overall capital expenditure proposal was reasonable, and consistent with the capital expenditure criteria.

Operating Expenditure

The AER accepted our forecast operating expenditure for 2023-27 of $1,071.4m. This represents no real growth compared to our actual/forecast operating expenditure for the 2018-22 regulatory period (excluding debt raising costs). That is, our operating expenditure is forecast to increase in line with forecast inflation. In its Final Decision the AER noted:

- the increase in operating expenditure from the Draft Decision is driven by an increase in inflation;
- our forecast operating expenditure is $15.7m (1.5%) lower than the AER's alternative estimate; and
- our proposed annual productivity growth exceeds the industry average and commends Powerlink on its philosophy of 'constructive discomfort'.

Rate of Return

The rate of return is calculated consistent with the AER's binding Rate of Return Instrument (2018). The rate of return that will apply to the first year of our 2023-27 regulatory period is 5.08% (nominal), which is higher than the AER's Draft Decision of 4.65%, principally due to a higher risk free (Government bond) rate. This is a standard update required by the AER's Rate of Return Instrument. The rate of return will be updated by the AER in each of the remaining years of our regulatory period to reflect the annual update to the return on debt component.

Regulatory Asset Base (RAB)

The Final Decision increases the value of our RAB at the start of the 2023-27 regulatory period by $17.7m (0.2%). This is due to an increase in the Reserve Bank of Australia's forecast for inflation since our Revised Revenue Proposal forecast.

Maximum Allowed Revenue (MAR)

The $87.2m increase in MAR between our Revised Revenue Proposal and the Final Decision is primarily driven by two key parameters:

- a higher rate of return, which **increases** MAR by around $166m; and
- a higher forecast inflation, which **decreases** MAR by around $88m.

These are both standard AER updates to reflect the most recent financial/market conditions.

Transmission Component of Electricity Prices

Under the Final Decision, Powerlink's contribution to the average annual electricity bill ($, nominal) for the typical residential and small business customer will decrease by 2.5% ($3 and $4 respectively) in 2022/23 and then increase on average in line with forecast inflation (2.65%) in the remaining four years of the regulatory period.

Demand Management Innovation Allowance Mechanism (DMIAM)

The AER accepted our proposal to not apply the DMIAM for the 2023-27 regulatory period. In its Final Decision the AER noted:

- we had specifically consulted with our Customer Panel on this matter and received its support; and
- we had explained how we will undertake demand management research and development activities and share our learnings with stakeholders, both within and outside Australia.

Next Steps

With the publication of the AER's Final Decision, our 2023-27 revenue determination process is now completed. Our next regulatory period will begin on 1 July 2022 to 30 June 2027.