

## **AER Draft Decision**

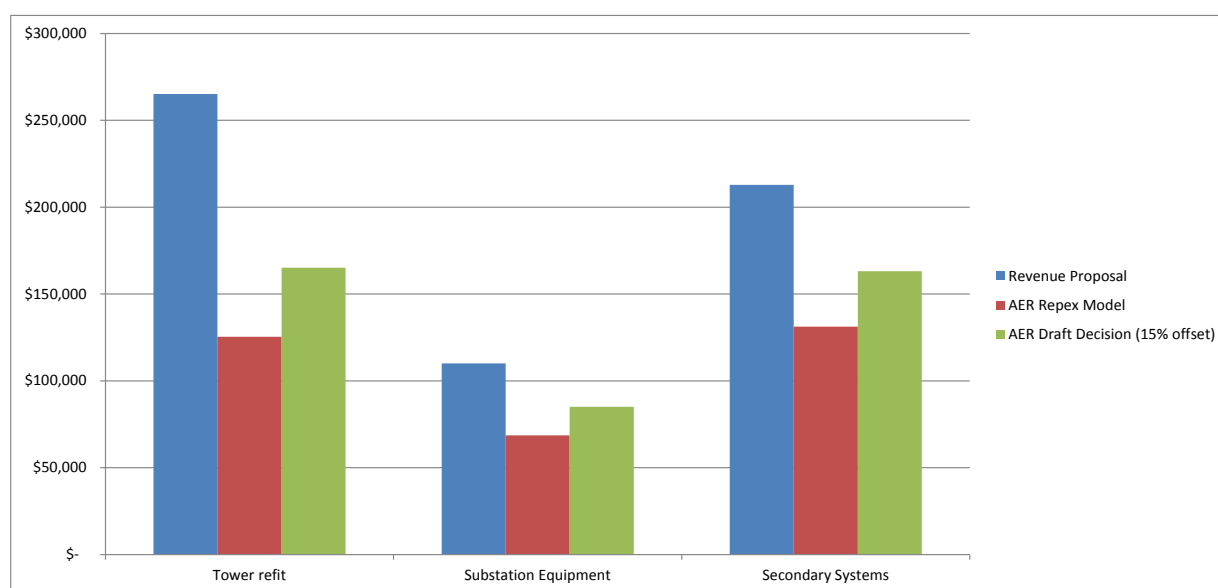
Powerlink submitted its Revenue Proposal to the AER on 28 January 2016. Powerlink proposed forecast capital expenditure of \$957.1m, which represented a 31% reduction in capital expenditure compared to the 2013-17 regulatory period. The majority (83%) of Powerlink's forecast capital expenditure is reinvestment in the existing network. An overview of Powerlink's proposal can be found via this [link](#).

The AER's Draft Decision is to not accept Powerlink's total forecast capital expenditure of \$957.1m and to substitute a forecast of \$772.6m, a reduction of \$184.5m or 19.3%. All of this reduction is in reinvestment capital expenditure.

Within the Reinvestment category of capital expenditure the AER has accepted those aspects of Powerlink's capital expenditure that have been forecast on a bottom up basis or using trend analysis. These were power transformers, Energy Management System replacement and other minor asset replacements.

Powerlink applied the AER's Repex Model to provide a top down forecast for the balance of reinvestment expenditure – further information about the Repex Model can be found via this [link](#). The AER's Draft Decision is to make changes to the mean replacement lives in the Repex Model for a number of asset categories. For example, the AER deferred the replacement lives of secondary systems equipment from 20.4 to 24.7 years. These changes reduce the forecast capital expenditure from the Repex Model by 39% overall, and by 44% for those assets that have been adjusted (i.e. transmission towers, substation switchgear and secondary systems).

As an offset to this reduction the AER has allowed an additional amount equal to 15% of Powerlink's Revenue Proposal forecast for those asset categories the AER has adjusted. The AER have said that this offset is to provide for additional preventative and corrective asset reinvestment. The AER's Draft Decision on replacement capital expenditure for each asset category is illustrated below.



### **Preliminary Powerlink Position**

Powerlink is reviewing the AER's Draft Decision and will submit an updated capital expenditure forecast as part of its Revised Revenue Proposal. The updated forecast will be based on the same forecasting methodology as the Revenue Proposal (i.e. continuation of the hybrid forecasting methodology) with updates to the key inputs and assumptions.

### **Reinvestment Capital Expenditure**

Powerlink needs to ensure that it achieves a balance between the level of forecast reinvestment capital expenditure and its ability to deliver reliable and cost effective prescribed transmission services over the next regulatory period.

With respect to the AER's Draft Decision Powerlink has identified some areas of concern:

- Trend analysis – the AER appears to have focused primarily on the level of expenditure and not on the quantity of asset reinvestments, both historical and forecast.
- Mean replacement lives – the AER and EMCa have extended mean replacement lives used in the Repex Model based on an assumption that the observed replacement age for a small number of existing assets is reflective of the mean replacement age of an entire population of new assets.
- 15% offset – this item appears to be an adjustment to correct for the significant reduction in reinvestment expenditure caused by the AER's changes to mean replacement lives in the Repex Model.

From its engagement with stakeholders, Powerlink understands that customers and consumers expect reductions in electricity price without reducing current levels of reliability of supply. In its presentation to the panel, Powerlink will outline the potential impacts of the reduction in its reinvestment program as a result of the Draft Decision.

*Powerlink is interested in the Panel's views on these areas where Powerlink has identified concerns with the AER's approach.*

*Powerlink will be seeking feedback and input from panel members on the potential impacts of a reduced program of reinvestment.*

*Are there other areas of the Draft Decision on forecast capex about which Panel members wish to provide feedback or input?*

### **Contingent Projects**

The AER has not accepted two of the seven proposed contingent projects. For the remaining five contingent projects accepted by the AER, the AER requires changes to the proposed trigger events.

Powerlink intends to accept the AER's Draft Decision to exclude the North West Surat Basin project as the latest demand forecasts for existing and potential new customers

now indicate it is very unlikely for there to be a need for significant investment in the next regulatory period.

Powerlink intends to not accept the AER's Draft Decision to exclude the Southern Galilee Basin project as the most recent information suggests the customer projects are still progressing, albeit on a delayed timeframe.

*Powerlink is interested in Panel members' views and input on Powerlink's proposed position on contingent projects.*

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