

# **AER Predetermination Conference**

## **2022–27 Draft Decision for Powerlink Queensland**

# AER welcome and introductions

Warwick Anderson

# Agenda

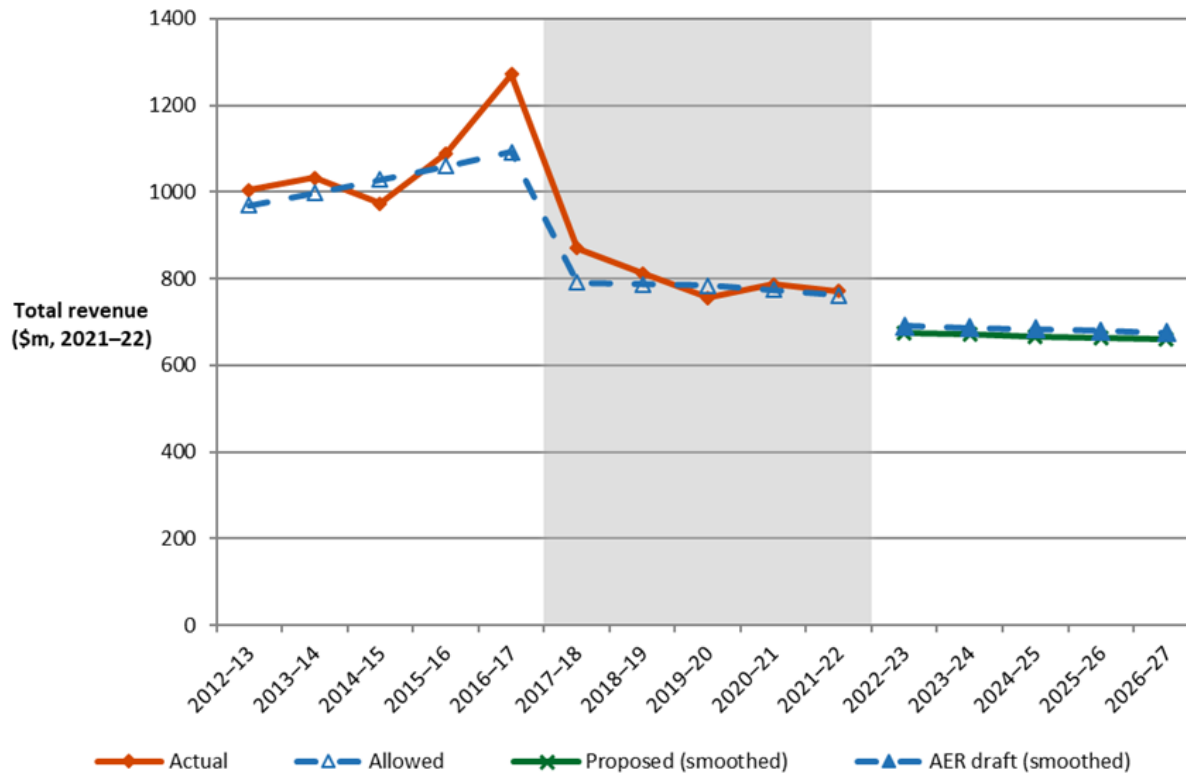
Time (AEDT)	Item
3:00 – 3:05pm	AER welcome and introductions
3:05 – 3:25pm	AER overview of draft decision
3:25 – 3:45pm	Consumer Challenge Panel (CCP23)
3:45 – 4:05pm	Powerlink Queensland
4:05 – 4:45pm	Questions and answers session
4:45 – 4:50pm	AER next steps and closing

# AER overview of draft decision

Eric Groom

# Draft decision revenue

- Approved revenue of \$3,652.2m (nominal) for 2022–27.
- Revenue is \$87.1m (2.4%) higher than proposed, due to the higher rate of return used to calculate the return on capital.
- Revenue for 2022–27 is \$482m (12.4%) lower than 2017–22.



# Estimated bill impacts

- Compared to the current total bill, the transmission component of the average annual bill (nominal) for Powerlink's consumers would:
  - decrease by 0.8% in the first year (2022–23):
    - \$12 lower for residential consumers
    - \$17 lower for low-usage small business consumers
    - \$44 lower for high-usage small business consumers;
  - increase on average by 0.2% in each of the following four years:
    - \$3 higher for residential consumers
    - \$4 higher for low-usage small business consumers
    - \$10 higher for high-usage small business consumers.

# Capable of acceptance

- Powerlink put forward a well-informed proposal, underpinned by significant consumer engagement and its overarching goal of lodging a proposal that is acceptable to consumers and the AER.
- AER can see Powerlink's efforts reflected in the positive stakeholder views expressed in the submissions we received, in terms of the consumer engagement approach and proposed expenditures.
- AER considers Powerlink's proposal is capable of acceptance, and we have accepted all major aspects of it in our draft decision.
- There are few areas for resolution between draft and final decisions (application of incentive schemes/allowances and model data updates).

# Key themes in our draft decision

- Ensuring consumers pay no more than necessary for safe, secure and reliable electricity services.
- Powerlink's strong consumer engagement approach.
- Powerlink's commitment to advancing its asset management practices.



# Ensuring consumers pay no more than necessary

- A targeted review of Powerlink’s proposal, particularly capex.
- Compared to 2017–22, key aggregates and proposed expenditures for 2022–27 (\$2021–22) are moving in a direction that will benefit consumers:
  - Lower return on capital (down \$748.7m or 35.2%)
  - Lower opening RAB (down \$649.1m or 8.5%)
  - Lower tax (down \$83.9m or 77.9%)
  - Lower capex (down \$27.4m or 3.1%)
  - Lower opex (down \$4.6m or 0.4%).
- Powerlink’s Customer Panel and the EUAA told us that Powerlink’s proposal is “no ambit claim” and is “capable of support”.

# Powerlink's strong consumer engagement approach

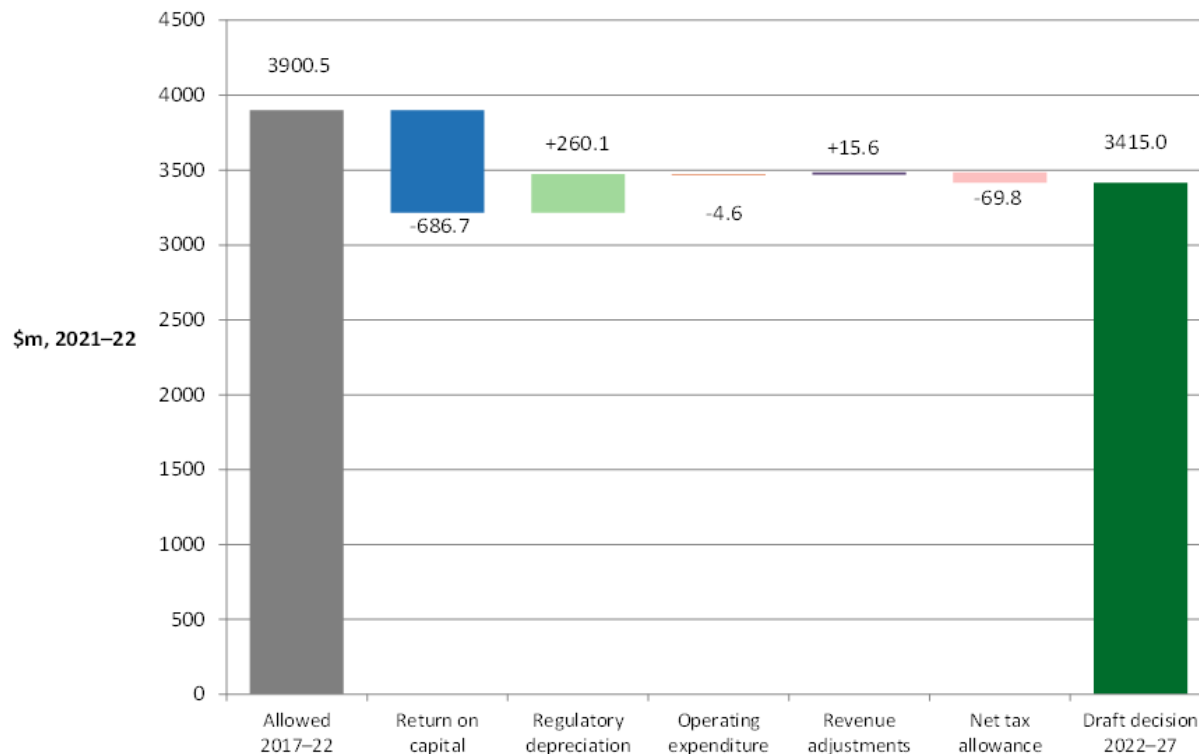
- Powerlink's engagement plan developed through a co-design process.
- Engagement activities based on May 2019 co-design workshop (e.g. meetings of Powerlink's Customer Panel and RPRG, consultation on draft expenditures, directly-connected cust. & regional engagement).
- Powerlink performed strongly against the AER's consumer engagement framework.
- AER is confident Powerlink is committed to putting consumers at the centre of its business and reflecting stakeholders' views in proposals.
- AER commends Powerlink on its consumer engagement approach to date, and notes Powerlink is further engaging on issues raised by stakeholders (e.g. DMIAM, and opex/capex productivity opportunities).

# Commitment to advancing asset management practices

- To capitalise on the significant gains Powerlink has made to its underlying asset management practices since the 2017–22 decision, it has committed to working with its consumers on a review of its approach to network asset reinvestment in 2022–23.
- AER considers Powerlink's models are well developed and generally provide a reasonable assessment of the expected benefits of the proposed investment.
- While overall, Powerlink's capex proposal appears reasonable, we identified scope for further improvement in the repex asset management approach – particularly transmission lines – to encompass a more targeted economic risk based practice.

# Building blocks – revenue drivers

- Shows the change in transmission revenue from 2017–22 to 2022–27 (\$m, 2021–22, unsmoothed).
- Reducing building blocks – return on capital, opex and tax.
- Increasing building blocks – depreciation and revenue adjustment.



# Return on capital

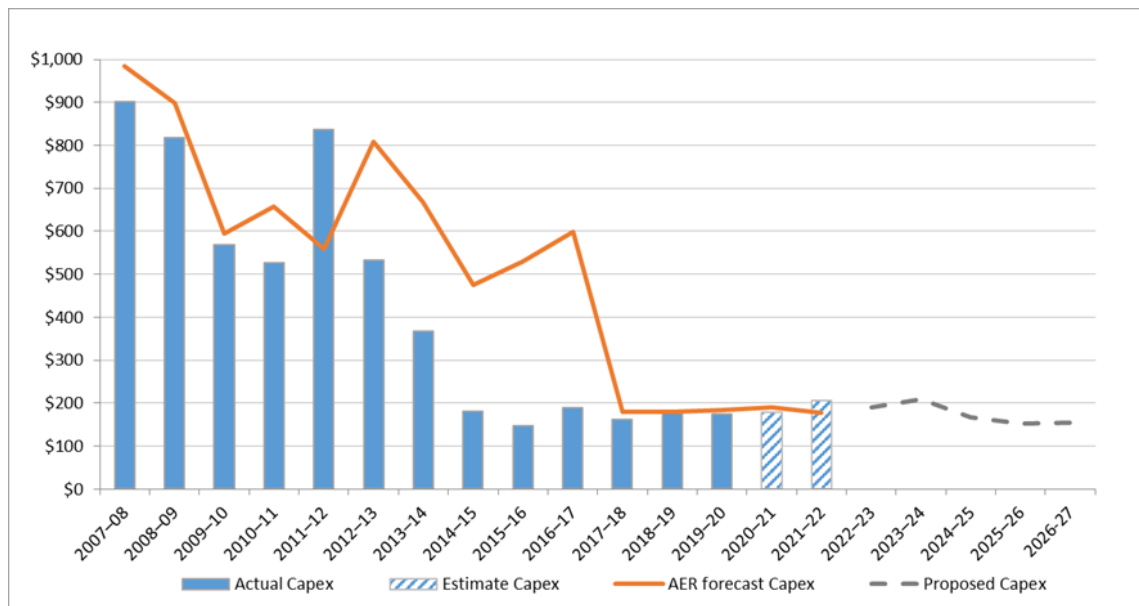
- Shows the AER's draft decision on Powerlink's rate of return (nominal %).
- 2022–27 draft decision on the return on capital is \$686.7m (32.3%) lower than for 2017–22 (\$2021–22).

	Previous regulatory control period (2017–22)	Powerlink's initial proposal (2022–27)	AER's draft decision (2022–27)	Allowed return over regulatory control period
Nominal risk free rate	2.85%	0.82%	1.53% <sup>d</sup>	
Market risk premium	6.5%	6.1%	6.1%	
Equity beta	0.7	0.6	0.6	
Return on equity (nominal post-tax)	7.4%	4.48%	5.19%	Constant (%)
Return on debt (nominal pre-tax)	5.1% <sup>b</sup>	4.42%	4.29% <sup>a</sup>	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	6.0% <sup>b</sup>	4.44%	4.65%	Updated annually for return on debt
Expected inflation	2.45%	2.25%	2.25%	Constant (%)

Source: AER analysis; Powerlink, *Revenue Proposal 2023-27*, January 2021, p. 119  
 (a) Calculated using a placeholder averaging period of 20 business days ending 30 June 2021.  
 (b) Applied to the first year of the 2017–22 period.

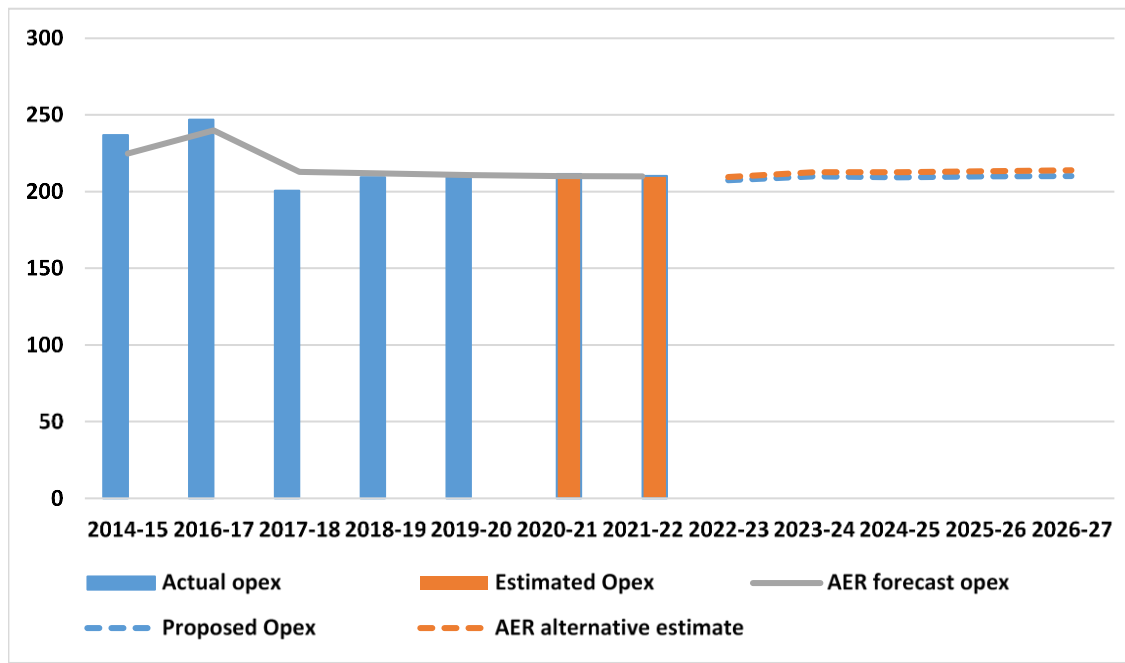
# Capital expenditure

- Shows historical and forecast capex over time (\$m, 2021–22).
- AER draft decision accepts Powerlink’s proposed capex of \$863.9m (\$2021–22) for 2022–27; \$27.4m (3.1%) lower than act./est. for 2017–22.
- Iterative approach used to gather and respond to feedback.
- Scope for further improvement in the repex asset management approach. Powerlink has agreed to undertake a review.
- AER draft decision approves Powerlink’s one proposed contingent project (\$52.3m), with amended wording to the load-related trigger.



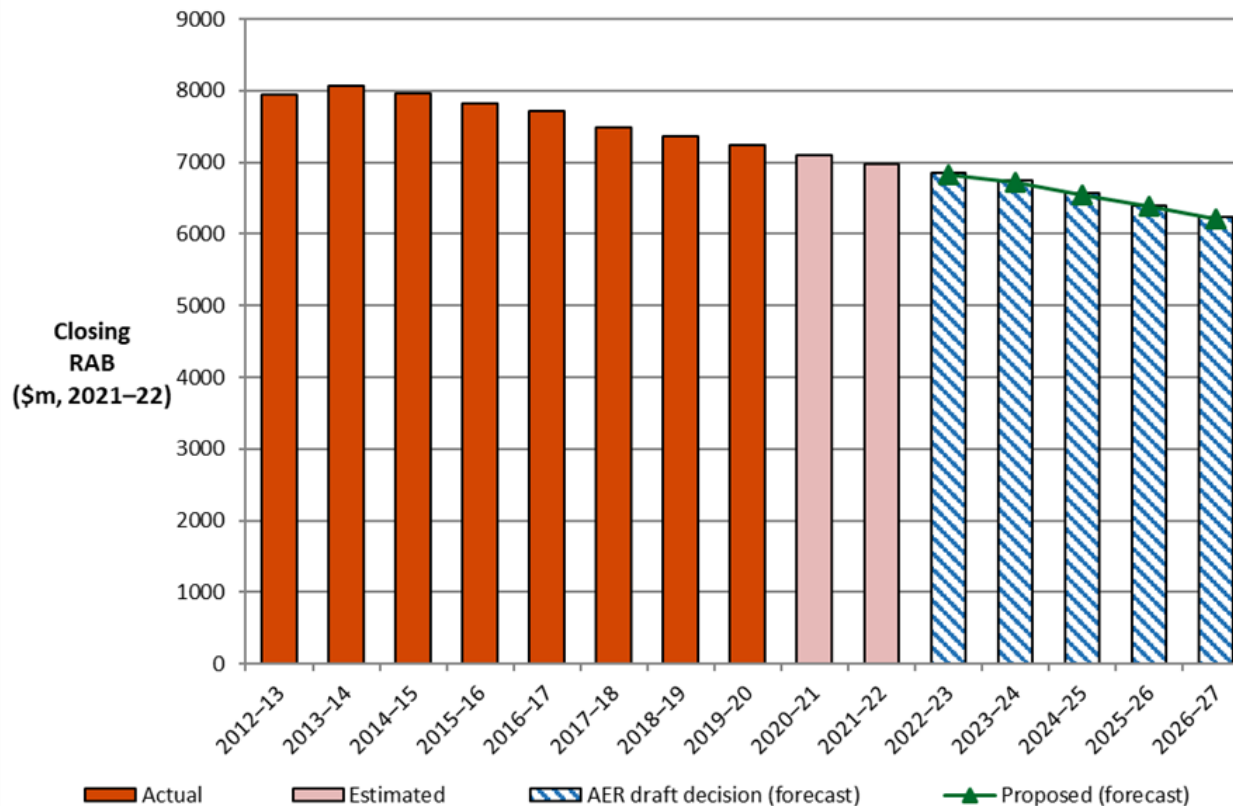
# Operating expenditure

- Shows historical and forecast opex over time (\$m, 2021–22).
- AER draft decision accepts Powerlink’s opex forecast of \$1,046.4m (including debt raising costs) for 2022–27; represents no real growth in opex for 2022–27 relative to act./est. opex for 2017–22.
- AER draft decision accepts Powerlink’s opex proposal because our (2.1% higher) alternative estimate of \$1,068m is not materially different.
- Powerlink’s opex proposal was well developed and largely consistent with our standard approach to forecasting opex; no step changes.



# Regulatory asset base (RAB)

- Shows the value of Powerlink's RAB over time – Actual RAB, proposed forecast RAB, and AER draft decision (\$m, 2021–22).
- AER draft decision results in a declining RAB over 2022–27. It is the lowest closing RAB value compared to the previous two regulatory periods.





# Depreciation

- Shows the AER's draft decision on Powerlink's regulatory depreciation for the 2022–27 period (\$ nominal, million).
- AER draft decision approves a depreciation allowance of \$946.5m for 2022–27; \$2.8 million (0.3%) higher than proposed, primarily reflecting our decision on the opening RAB (as at 1 July 2022).
- AER draft decision accepts Powerlink's proposed:
  - straight-line depreciation method
  - application of the year-by-year tracking approach
  - asset classes and standard asset lives.

	2020–21	2021–22	2022–23	2023–24	2024–25	Total
Straight-line depreciation	326.9	338.6	348.7	356.4	364.9	1,735.5
Less: inflation indexation on opening RAB	157.1	157.7	158.6	158.1	157.4	789.0
<b>Regulatory depreciation</b>	<b>169.8</b>	<b>180.9</b>	<b>190.1</b>	<b>198.3</b>	<b>207.4</b>	<b>946.5</b>

# Corporate income tax

- Shows the AER's draft decision on Powerlink's cost of corporate income tax for the 2022–27 period (\$ nominal, million).
- AER determines an estimated cost of corporate income tax of \$41m for Powerlink for 2022–27.
- This is \$15m (58%) higher than Powerlink's proposal of \$25.9m, mainly reflecting our draft decision to increase the rate of return on equity for updated market data, as required by the 2018 Rate of Return Instrument.

	2020–21	2021–22	2022–23	2023–24	2024–25	Total
Tax payable	12.3	8.2	15.2	31.2	31.8	98.8
Less: value of imputation credits	7.2	4.8	8.9	18.3	18.6	57.8
<b>Net cost of corporate income tax</b>	<b>5.1</b>	<b>3.4</b>	<b>6.3</b>	<b>13.0</b>	<b>13.2</b>	<b>41.0</b>

# Incentive schemes & allowances

- For the 2022–27 period, our draft decision is to apply the:
  - Efficiency benefit sharing scheme (EBSS)
  - Capital expenditure sharing scheme (CESS)
  - Service target performance incentive scheme (STPIS)
  - Demand management innovation allowance mechanism (DMIAM).
- STPIS:
  - AER did not accept Powerlink’s proposal to change the selection of reference years for setting the market impact component performance targets, nor its proposal to adjust the loss of supply event from the historical average.
- DMIAM:
  - AER did not accept Powerlink’s late request to not apply DMIAM.
  - Stakeholders’ views on the matter were mixed.
  - Powerlink has since committed to engage further with stakeholders and will update its position in its revised proposal.

# AER next steps

# Next steps

Milestone	Date
Powerlink submitted its proposal	28 January 2021
AER published its issues paper	24 March 2021
AER held public forum on issues paper & proposal	8 April 2021
Submissions closed on issues paper & proposal	24 May 2021
AER published its draft decision	30 September 2021
<b>➔ AER predetermination conference on draft decision</b>	<b>13 October 2021</b>
Powerlink submits its revised proposal	3 December 2021
<b>Submissions due on draft decision &amp; revised proposal</b>	<b>14 January 2022</b>
AER publishes its final decision	29 April 2022

# How you can get involved

- Write a submission to the AER.
  - Stakeholder submissions are due by **14 January 2022**.
- Subscribe to the AER's website for updates:
  - <https://www.aer.gov.au/newsletter/subscribe>
- Contact the AER:
  - [Powerlink2022@aer.gov.au](mailto:Powerlink2022@ aer.gov.au)

# Questions?



# Consumer Challenge Panel (CCP23)

Mark Henley (Chair)

Bev Hughson

David Prins



# Powerlink Queensland

Paul Simshauser AM, Chief Executive  
Matthew Myers, Manager Revenue Reset

# Questions and answers session



# Questions and answers

- Please raise your hand if you would like to speak.
- We will let you know when it is your turn to ask a question or make a comment.

# AER closing



# How you can get involved

- Write a submission to the AER.
  - Stakeholder submissions are due by **14 January 2022**.
- Subscribe to the AER's website for updates:
  - <https://www.aer.gov.au/newsletter/subscribe>
- Contact the AER:
  - [Powerlink2022@aer.gov.au](mailto:Powerlink2022@ aer.gov.au)