Key Assumptions

This document summarises the key assumptions that underlie the building block proposal's operating and capital expenditure forecasts. The document also addresses the requirements in Schedule 1 of the Australian Energy Regulator's 7 March 2014 Regulatory Information Notice to provide information on the material assumptions relied upon for the purposes of the preparation of the regulatory proposal.

Key Assumption	Summary	Further detail available
Base year forecasting approach	To forecast the operating expenditure allowance, ActewAGL Distribution used a base year forecasting approach for 'network operating' and 'other operating' cost categories. These categories represent approximately $136 million and $130 million of the operating expenditure forecast for the 2014-19 period respectively. ActewAGL Distribution selected 2012/13 as the base year in accordance with the efficiency benefit sharing scheme.	Chapter 8: Operating Expenditure
Zero based forecasting approach	To forecast the operating expenditure allowance, ActewAGL Distribution used a zero based forecasting approach for 'network maintenance' and 'vegetation management'. These categories represent approximately $111 million and $19 million of the operating expenditure forecast for the 2014-19 period. The zero based approach uses Riva asset management software to develop asset maintenance plans that optimise the safety and reliability of the network whilst optimising life cycle costs. Forecast expenditure is the result of inputs and parameters of each asset combined with algorithms that prioritise the maintenance schedule. ActewAGL Distribution's proposed capital expenditure has been mostly forecast using a zero based approach. A smaller part of the capital expenditure forecasts (plant and equipment and some non-system assets) are based on historical estimates and represent provisional amounts.	Chapter 8: Operating Expenditure Chapter 7: Capital Expenditure
Allocation of corporate costs	Costs for shared corporate services are allocated to the electricity distribution business in accordance with ActewAGL Distribution's approved Cost Allocation Methodology (CAM). ActewAGL Distribution's share of corporate services costs to the electricity distribution business is forecast to be $124.7 million over the 2014-19 period. Of this,	Chapter 8: Operating Expenditure, Attachment x: Cost Allocation Methodology.

	approximately $74.2 million will be capitalised, leaving $50.5 million as operating expenditure.	
Cost escalators	ActewAGL Distribution's expenditure forecasts have been escalated throughout the regulatory period in line with independently verified material and cost escalators. Escalators have been applied for labour costs. Real cost escalation indices for certain material and labour cost drivers were calculated by Competition Economists Group (CEG) and annual labour cost escalators specific to the ACT by Independent Economics.	Chapter 7: Capital Expenditure Chapter 8: Operating Expenditure
The weighting of project components underlying capital expenditure forecasts	The material and labour cost escalators have been applied to various asset classes for forecast capital expenditure for the 2014-19 period, using weightings that have been independently verified by SKM to determine the impact that cost escalators have on the overall price of specific assets.	Chapter 7: Capital Expenditure
Capital contribution forecasts based on historical trends	Forecast capital contributions are based on ActewAGL Distribution's Connection policy (approved by the Australian Energy Regulator) for each category of customer initiated capital expenditure. ActewAGL Distribution is forecasting approximately $41 million in capital contributions in the 2014-19 period.	Chapter 7: Capital Expenditure
Demand forecasts have been used to develop augmentation related capital expenditure forecasts	Ten-year forecasts of maximum summer and winter load demands at all zone substations have been developed. ActewAGL Distribution's zone substation forecasts use multiple-linear regression to model the historical trend of demand growth, and to forecast future peak demand. Two separate forecast scenarios are produced, for summer and winter peak demands.	Chapter 5: Demand and energy forecasts
Energy forecasts have been used to calculate the average revenue cap	Weather-normalised energy forecasts have been developed for four customer segments for the forthcoming regulatory period. The forecasts use regression analysis and ex post adjustments to account for forecast demographic and economic conditions and energy efficiency savings.	Chapter 5: Demand and energy forecasts