AusNet Transmission Group Pty Ltd

Transmission Revenue Review 2023-2027

Revised Revenue Proposal

Appendix 4A: Labour cost escalation forecasts to FY2027

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BIS OXFORD ECONOMICS

LABOUR COST ESCALATION FORECASTS TO FY2027

PREPARED BY BIS OXFORD ECONOMICS
FOR AUSNET SERVICES

AUGUST 2021

BIS Oxford Economics

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August 2021

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1. SUMMARY

This report has been prepared for the purposes of AusNet Services' 2023-2027 Transmission Revenue Reset. This report provides forecasts on expected real labour escalators relevant to the Victorian electricity transmission and distribution industry from 2020/21 to 2026/27 (FY21 to FY27). Forecasts for wage escalation will be used by AusNet to develop the real price changes over its upcoming regulatory period, which, in turn, will be used by the business to construct its operating and capital expenditure forecasts. Two sets of forecasts are provided:

1. **Internal** electricity network-related labour cost escalation – represented by forecasts of the Electricity, Gas, Water and Waste Services (EGWWS or 'utilities') wage price index (WPI) for Victoria (with the Australian equivalent WPI provided for comparison).
2. **External** contractor labour cost escalation, represented by the Construction WPI for Victoria (with the Australian equivalent WPI provided for comparison).

For **internal** electricity network related labour, BIS Oxford Economics forecasts wage costs for the Victorian Electricity, Gas, Water and Waste Services (EGWWS or 'Utilities') sector — expressed in Wage Price Index (WPI) terms — will average 2.8% per annum over the six-year period from FY22 to FY27, 0.1% above the Australian EGWWS WPI average over the same period. For AusNet's next five-year regulatory period from FY23 to FY27, the average increase in the Victorian EGWWS WPI is forecast to be 2.9%, the same as the forecast for the Australian EGWWS WPI over the five years to FY27. In real terms, the Victorian EGWWS WPI is forecast to average 0.8% p.a. over the five years to FY27 (see Table 1.1 below).

Note that these forecasts include the impact of the proposed increases to the Superannuation Guarantee (SG) over the five years from FY22 to FY26 – note that there is no SG increase in FY27. We anticipate that the Australian EGWWS WPI will be, on average, -0.13% lower in each of those 5 years, than if the SG increases did not proceed. RBA research shows that employees tend to receive lower wages due to the imposition of a SG increase. In effect some of the employees' wage increase (which they would have received in the absence of the SG increase) is replaced with the extra superannuation contribution. This means that although the 'statutory' incidence of the higher superannuation contributions are borne by employers, over time a proportion of these higher SG costs are passed from employers to employees via lower wage growth. Section 1.1 includes a discussion of SG increases, how they apply to the WPI (and other wage measures) and the assumptions underpinning the impacts of the WPI forecasts in this document. Excluding the -0.13% annual impact of the SG increases, the forecast real growth in Australian EGWWS WPI would be 0.9% over the 5-year regulatory period to FY27, slightly less than the 1.0% p.a. averaged over the decade to FY20.

To deflate the nominal wages growth to real (inflation-adjusted) growth, we have incorporated the AER's changed methodology for calculating CPI inflation, according to the AER Final position paper "Regulatory Treatment of Inflation", released in December 2020. The main changes for the expected inflation projection are to reduce the length of the geometric average from 10 to 5 years and have a 'glide-path' from the latest RBA forecasts (covering the next two years) to the 2.5% mid-point by year 5 of the forecast period.

Initially during the COVID-19 crisis over the past year or so, the EGWWS sector fared much better than most other sectors in terms of wage increases over the year to the March quarter 2021. The Australian EGWWS WPI growth in the June quarter 2020 was 0.6% q/q in original terms (2.5% y/y), well above the All Industries WPI average of 0% q/q in original terms (1.8%y/y). This strong out-performance continued in the September and December quarters, before easing in the March 2021

quarter. However, the EGWWS June quarter WPI outcome was comparatively weaker than the All Industries WPI. We believe this was an aberration, related to the timing of wage increases. With the recent increases in the annual increases in enterprise wage agreements recently negotiated, we expect renewed strength in EGWWS wage increases over the next 2 years.

Over the forecast period, EGWWS WPI growth is expected to remain higher than the All Industries WPI average, with the Australian All Industries WPI forecast to average 2.4% over the six years to FY27. This means that the Australian EGWWS WPI is expected to be 0.3% higher than the All Industries average. Note that the impact of the SG Increases on the All Industries WPI is assumed to be -0.3% in each of the five years to FY26, higher than the impact on EGWWS wages. Excluding the SG increase impacts, the difference vis-a-vis the EGWWS and All Industries WPI would be 0.3%, which is slightly below the 0.4% average difference over the past decade.

Table 1.1 Summary Table – Labour Cost Escalation Forecasts for Victoria and Australia – including Impact of Proposed Superannuation Guarantee Increases (financial years)

(per cent change, year ended June)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	5 yr Avg (f)
	Actuals					Forecasts	Next Regulatory Period					
NOMINAL PRICE CHANGES												
1. Electricity Network-Related Labour												
EGWWS WPI - Victoria (a)	**2.9**	**2.8**	**3.0**	**3.3**	**2.1**	**2.2**	**2.4**	**2.6**	**3.1**	**3.2**	**3.2**	**2.9**
EGWWS WPI - Australia (b)	2.2	2.0	2.8	2.7	1.8	1.8	2.5	2.7	3.1	3.2	3.2	2.9
2. Contractor Labour Cost Escalation												
Construction WPI - Victoria (c)	**2.8**	**1.8**	**2.4**	**2.2**	**1.0**	**1.6**	**1.9**	**2.3**	**2.9**	**3.2**	**3.1**	**2.7**
Construction WPI - Australia (b)	1.7	1.9	1.9	1.5	1.3	1.9	2.1	2.5	2.9	3.1	3.1	2.7
3. All Industries Wages												
All Industries WPI - Australia (d)	2.0	2.1	2.3	2.1	1.5	1.8	1.9	2.2	2.6	2.8	2.9	2.5
Consumer Price Index (headline) (e)	1.7	1.9	1.6	1.3	1.6	2.2	1.8	2.2	2.2	2.2	2.2	2.1
REAL PRICE CHANGES (g)												
1. Electricity Network-Related Labour												
EGWWS WPI - Victoria (a)	**1.2**	**0.9**	**1.4**	**1.9**	**0.5**	**0.0**	**0.6**	**0.4**	**0.9**	**1.0**	**1.0**	**0.8**
EGWWS WPI - Australia (b)	0.5	0.0	1.1	1.3	0.2	-0.4	0.7	0.5	0.9	1.0	1.0	0.8
2. Contractor Labour Cost Escalation												
Construction WPI - Victoria (c)	**1.1**	**-0.1**	**0.7**	**0.9**	**-0.7**	**-0.6**	**0.1**	**0.1**	**0.7**	**0.9**	**0.9**	**0.5**
Construction WPI - Australia (b)	0.0	-0.1	0.2	0.2	-0.3	-0.3	0.3	0.3	0.7	0.9	0.9	0.6
3. All Industries Wages												
All Industries WPI - Australia (d)	0.2	0.1	0.7	0.8	-0.1	-0.4	0.1	0.0	0.4	0.6	0.7	0.4

Sources: BIS Oxford Economics, ABS

(a) Electricity, Gas, Water and Waste Services (EGWWS) Wage Price Index (WPI) for Victoria
(b) Australian sector wage forecasts provided for comparison
(c) Construction Sector Wage Price Index (WPI) for Victoria
(d) Australian All Industries AWOTE and WPI provided for comparison.
(e) Inflation forecasts are RBA forecasts for the next 2 years from latest 'Statement of Monetary Policy'. Beyond that, inflation forecasts are based on a glide-path to the mid-point of RBA inflation target (2.5%) by year 5. The overall forecasts are then calculated as a geometric mean of the 'official' RBA inflation forecasts over the next 5 years or to the end of the regulatory period, with years 3,4 and 5 CPI equal to the calculated 5-year geometric mean. This methodology is the position adopted by the AER in its Final position paper "Regulatory treatment of inflation" of December 2020.
(f) Average Annual Growth Rate for 2022/23 to 2026/27 inclusive, ie for next regulatory period.
(g) Real price changes are calculated by deducting the inflation rate from nominal price changes.

Utilities wages are forecast to increase by more than the national average over the forecast period because of the following factors:

- the electricity, gas and water sector is a largely capital intensive industry whose employees have higher skill, productivity and commensurately higher wage levels than most other sectors

- strong union presence in the utilities sector will ensure outcomes for collective agreements, which cover 65% of the workforce, remain above the wage increases for the national 'all industry' average. In addition, with the higher proportion of employees on EBAs, compared to the national average (38%), and EBAs wage rises normally higher than individual agreements, this means higher overall wage rises in the EGWWS sector.
- increases in individual agreements (or non-EBA wages) are expected to strengthen from the current subdued pace as the labour market tightens, especially from 2024 when the unemployment rate is expected to fall below 4.5%.
- demand for skilled labour will pick up and strengthen with the high levels of utilities investment in from FY24 to FY28, with overall utilities investment levels expected to remain elevated over the next 7 years. This will also be a key driver of wages going forward.
- the overall national average tends to be dragged down by the lower wage and lower skilled sectors such as the Retail Trade, Wholesale Trade, Accommodation, Cafés and Restaurants, and, in some periods, also Manufacturing and Construction. These sectors tend to be highly cyclical, with weaker employment suffered during downturns impacting on wages growth in particular, such as occurred in the wake of the COVID-19 impacts. The EGWWS sector is not impacted in the same way due to its obligation to provide essential services and thus retain skilled labour.

Widespread wage freezes and very modest wage increases, due to COVID-19 impacts, has seen the Australian All Industries WPI growth weaken over FY21, to 1.5%, from 2.1% in FY20. However, the economy has rebounded well from the mid-2020 slump, while the labour market recovery continues to outpace expectations, with employment above its pre-pandemic level. However, the recent outbreak of the COVID Delta variant has led to widespread lockdowns, which will see a set-back to the current economic recovery over the second half of 2021. But a rebound is again expected to resume when restrictions are eased. As the economy and employment rebounds through FY22, growth in the All Industries WPI is also expected to exhibit a modest recovery, rising to 1.8%. Part of the rebound will be driven by deferred pay increases from 2020 and early 2021. The higher increase in the NMW – the Fair Work Commission awarded 2.5% effective July 2021 – will also underpin higher increases.

Another key element which will add to wage pressures over FY22 and FY23 is the rapid tightening in the labour market that is now apparent. Employment at June 2021 was well above pre-COVID levels. The cessation of international migration to Australia since March 2020 has seen population growth plummet to just 0.2% (est.) in the year to June 2021 (from around 1.5% previously), with the increase in the working age population (+15 years old) only 39,000 (+0.19%), compared to over 330,000 persons in FY19 and in the year to March 2020. Growth in the labour force has been facilitated by a marked increase in the labour force participation rate to record levels. However, there is now little scope to raise the participation rate further, the unemployment rate was 4.9% in June and, with the underemployment rate pushing lower and job vacancies well above pre-COVID levels, wage pressures are building.

As the economy continues to strengthen over FY23 to FY25, we expect to see further improvement in the labour market, with labour demand increasing and the unemployment rate falling below 4.5% by 2024 (see figure 1.2). At a rate below 4.5%, we would expect to see skill shortages manifest in many areas of the economy. The tightening labour market will see broad-based wage pressures increase, and the Australian All industries WPI is forecast to gradually rise to 2.8% and 2.9% in FY26 and FY27 respectively (see Table 1.1).

In particular, we expect to again witness the re-emergence of skilled labour shortages and competition for scarce labour, particularly from the mining and construction sectors, which will push up

Figure 1.1 Wage Price Index - Australia All Industries, Electricity, Gas, Water and Waste Services and Construction (includes SG increases impacts)

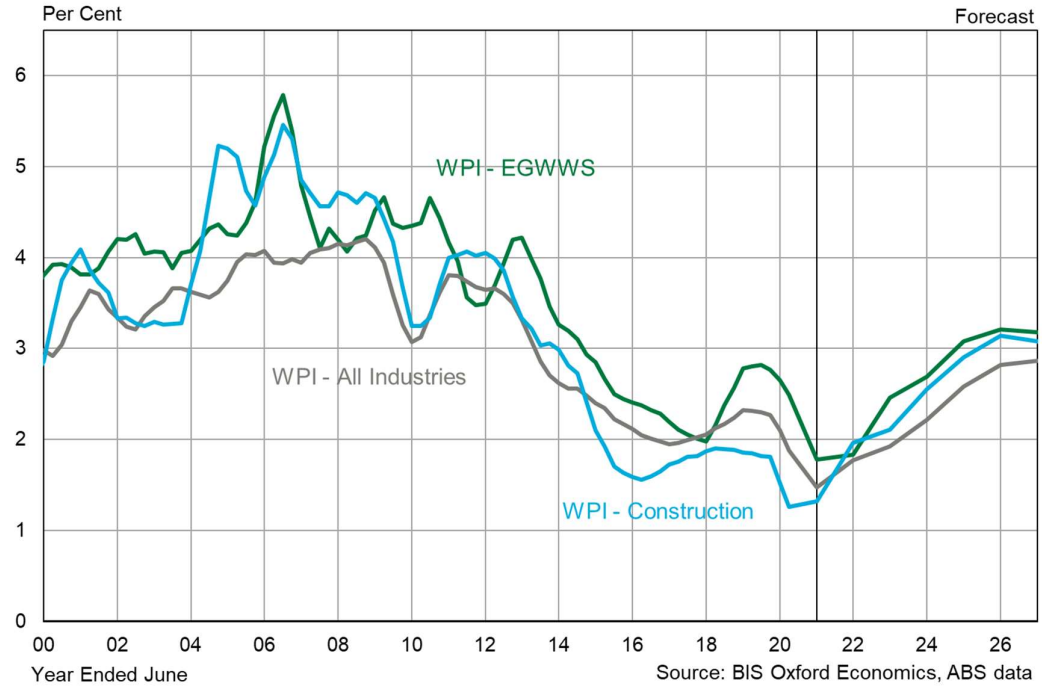
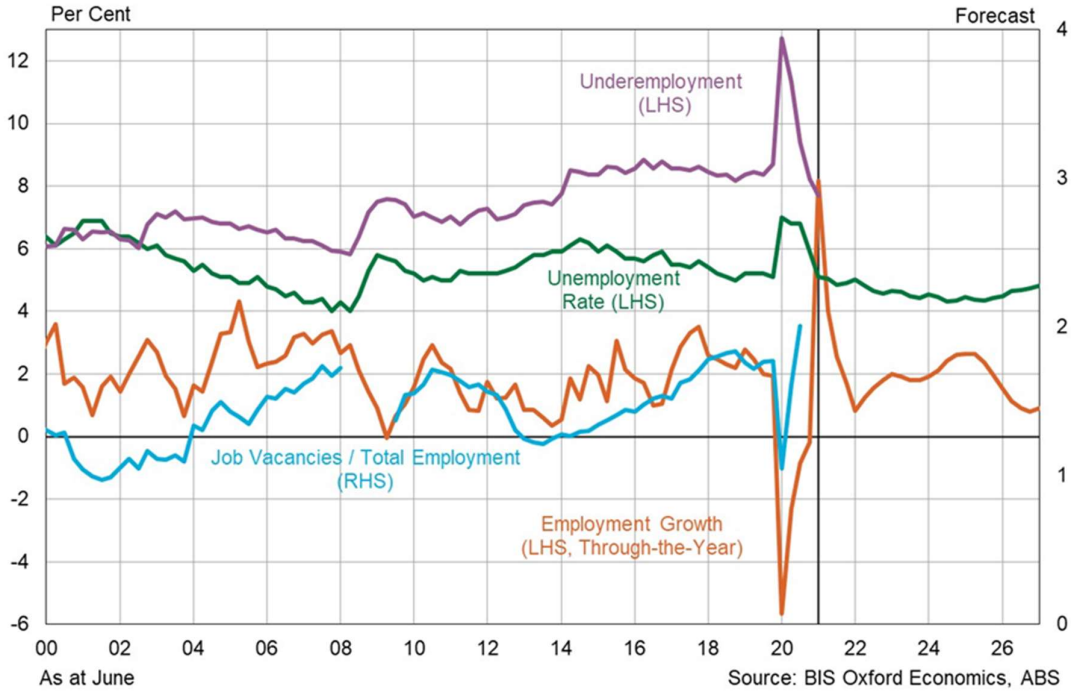


Figure 1.2 Australia: Employment and Unemployment



wage demands in the utilities sector. Mining investment is now picking up and is forecast to see significant increases over the next 3 years to FY24 and remain at elevated levels to the end of the decade. Meanwhile, there is similar strong growth coming through in in the Construction sector, which, after a short-term set-back due to COVID-19, we expect to see solid increases across all segments of the overall construction sector (residential construction, non-residential building and civil engineering & infrastructure construction) over FY23 to FY25, leading to strong labour demand in that sector, particularly from FY24 when activity surpasses the 2018 levels (see figure 1.3).

Employers are again beginning to report an increasing shortage of technicians and trade workers, and employees with STEM skills. These are essential workers in the utilities sector. A key problem is that the TAFE (technical and further education) systems across the country have simply not been training enough workers. BIS Oxford Economics research shows this is being compounded by new graduates in the trades stream, in particular, not increasing fast enough to replace retiring workers, with some numbers actually falling. Despite government announcements that they are moving to address the TAFE system, it is unlikely that these issues will be addressed within the next 5 years. Added to this is that skilled immigration has been suspended. When it does return, it is likely to be a slow ramp-up, meaning that the skill shortages will persist and won't be easily or quickly solved by migration.

With strong competition for similarly skilled labour from the mining and construction industries, firms in the utilities sector will need to raise wages to attract and retain workers. In other words, the mobility of workers between the EGWWS, mining and construction industries means that demand for workers in those industries will influence employment, the unemployment rate and hence spare capacity in the EGWWS labour market. Businesses will find they must 'meet the market' on remuneration in order to attract and retain staff and we expect wages under both individual arrangements and collective agreements to increase markedly over the FY24 to FY26 period.

Wages in the Victorian utilities sector are expected to move in line with the national utilities sector average over AusNet's upcoming regulatory period and virtually match the national average (see table 1.1). This is a departure from most of the past decade, including FY21, with the Victorian EGWWS WPI outpacing the national average over the decade since FY12 (including FY21), by an average of 0.5 percentage points. This Victorian out-performance was somewhat boosted temporarily during the 2016-2018 period when the NSW government was privatising the electricity networks in the state and forced wages lower, as it attempted to make the networks look attractive in terms of their overall cost structure. This was a 'one-off' influence on both NSW and Australian EGWWS wages growth, which has now been fully unwound. Nevertheless, Victoria utilities workers also enjoyed relatively higher enterprise bargaining outcomes than their interstate counterparts – which also provided a significant boost because collective bargaining dominates the pay setting arrangements in the utilities sector. However, recent EBA outcomes and formalised agreements have seen a narrowing of the differentials between Victoria and the national average, as NSW and particularly Queensland agreements have improved. With Victoria now 'coming back to the pack', we expect the historical out-performance of Victorian utilities wages to effectively end and for Victoria to match the national average over the next few years.

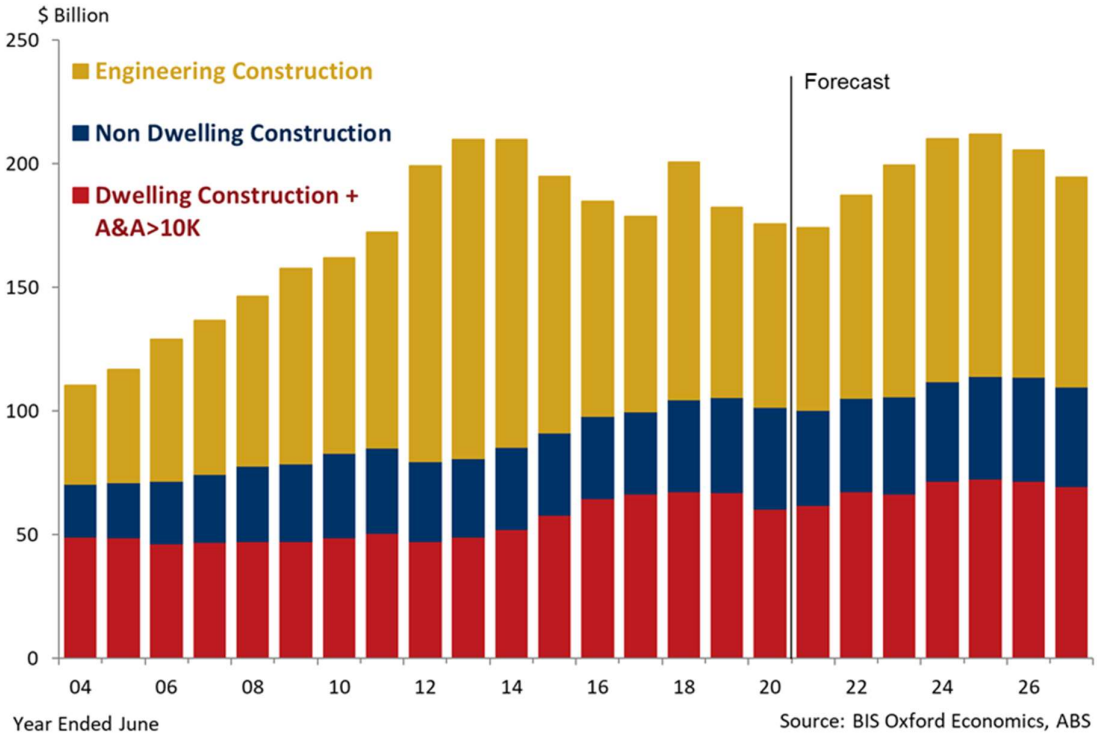
Another factor which will help the other states effectively catch up to Victoria's utilities wage growth is stronger increases in utilities engineering construction in other states, relative to Victoria. Victoria had very high levels of overall utilities engineering construction over FY19 and FY20, but has now fallen sharply over FY21, with further small declines expected in FY22 and FY23, according to BIS Oxford Economics forecasts (source: *Engineering Construction in Australia, 2021-36*). This will see stronger demand for utilities-related labour (and for out-sourced labour, usually from the construction sector), which will add to wage demands in NSW, Queensland and Western Australia. Nevertheless, we forecast that Victoria will experience solid growth in utilities related engineering construction over the

four years from FY24 to FY27 inclusive, which will see Victoria compete with the other states for similarly skilled labour.

Accordingly, from FY24 there will be strong wage pressures in Victoria, particularly from high and increasing levels of construction activity, while the Victoria utilities sector will face competition for key skilled workers from interstate utilities, construction and mining sectors. With strong competition for similarly skilled labour from the mining and construction industries, firms in the Victorian utilities sector will need to raise wages to attract and retain workers. This is expected to be accompanied by increases in utilities related construction in the state, mining-related investment and construction activity across Australia. The overall strengthening in the labour market, and particularly in the Construction and Mining sectors – which are key competitors to the utilities sector in terms of 'similarly' skilled workers - is expected to result in utilities WPI growth accelerating over the 2024 to 2026 period, and subsequently remain elevated over FY27.

Given service providers outsourced labour is mostly supplied by firms in the construction industry, we proxy AusNet's **external** labour cost escalation by wages growth (as measured by the WPI) in the Victorian construction industry. Our research has shown that construction activity (ie work done in the sector) normally has a strong influence on construction wages, although changes in wages tend to lag construction (in work done terms) by around one year. Hence, our wage forecasts are based on BIS Oxford Economics forecasts of construction activity by state (which includes residential and non-residential building, plus engineering construction) as well as predicted movements in the construction wages at the national level.

Figure 1.3 Australia – Construction Activity (real work done)



Our forecast is for the Australian Construction WPI to average 2.7% over the five-year period to FY27 at the national level, with **Victorian construction wages** growth forecast to be also be 2.7% per annum – or 0.5% per annum on average in real (inflation-adjusted) terms (see Table 1.1). While this is a marked improvement on the past five years, it is still well down on the 4.3% annual national average (nominal terms) of the decade to 2011/12. Note that these wage forecasts for the Construction WPI include the impacts of the SG increase over FY22 to FY26 (i.e. the first four years of AusNet's next regulatory period). In the construction industry sector, we estimate the impacts will be -0.3% for each year of the SG increase.

In Victoria, the state's construction sector has recorded higher growth (in overall work done terms) than the national average over the 6 years from FY15 to FY20 inclusive. This resulted in higher construction WPI outcomes in 5 out of those past 6 years, FY18 being the exception. Not only did higher growth in construction activity drive higher wages growth, but much higher EBA outcomes in Victoria's construction sector also contributed significantly to the comparatively higher wages growth in the state over the past few years.

Australian and Victorian construction sector activity and wages growth have been impacted by COVID-19 over the past year. The ABS wage data showed that the Victorian construction WPI recorded zero growth in the June quarter 2020, but this was a better outcome than the Australian construction WPI, which fell -0.5% in the June quarter (which was the first quarterly decline since the inception of the WPI in 1997). But wages growth has been much weaker in Victoria than the national average over subsequent quarters (September 2020 to March 2021). This is expected to see the Victorian construction WPI average 1.1% in FY21, below the national average of 1.3%. A larger decline in construction activity in FY21 in Victoria (compared to other states) may have also contributed to the weaker outcome.

Higher construction sector EBAs in the state (compared to the national average) will help limit the comparative weakness in overall construction WPI growth over the next 2-3 years, with EBAs approved over the past 1 to 3 years being 0.3% to 0.5% higher than the national average.

We are now forecasting Victoria's overall construction activity to suffer a small decline in FY22, followed by moderate growth over FY23 to FY25, but the growth in activity in the state will lag the national average over FY21 to FY24. We are then forecasting state construction activity to outstrip the national average over FY25 to FY27. This will see Victoria's construction WPI growth lag the national average over FY21 to FY24, before matching or slightly outpacing the national increases over FY25 to FY27 (see Table 1.1).

Australian and Victorian construction wages are expected to gradually pick up over FY22 and FY23 and then strengthen appreciably over FY24 to FY26, particularly as construction activity levels surpass the previous highs of FY18 and FY13 (in 2024 – see figure 1.3) and skills shortages begin to manifest. The increases in construction activity from FY23 will be driven by higher levels of residential and non-dwelling building and particularly by strong increases in engineering construction, boosted by a new wave of mining investment and a plethora of publicly funded transport infrastructure projects (particularly in NSW, Victoria and Queensland). The stronger activity will underpin higher wages due to strong labour demand and expected widespread skill shortages in the construction industry.

1.1 SUPERANNUATION GUARANTEE INCREASES & THEIR IMPACT ON LABOUR COSTS

In light of the proposed increases to the Superannuation Guarantee, BIS Oxford Economics researched the treatment of superannuation contributions in regard to how the ABS measures labour costs. The Superannuation Guarantee is proposed to increase from the current 9.5% over the forecast period, rising 0.5% in July each year from July 2021 to 12% in July 2025.

To summarise, the Superannuation Guarantee Charge (SGC) is **not** included in the regular wage measure preferred by the Australian Energy Regulator – the Wage Price Index (WPI). The SGC is in effect **a labour 'on-cost'**. In terms of escalating wage costs over the regulatory period, the SGC therefore needs to be **added** to the forecast increases in the WPI. The exception to this rule would be where an employer already pays a superannuation amount higher than the legislated minimum (currently 9.5%), and chooses not to increase the super % until that proportion reaches the legislated minimum.

Assumptions regarding Superannuation Guarantee Increases & Their Impact on Forecasts Wage Increases and Labour Costs

The superannuation guarantee (SG) as it is currently legislated, has the contributions from employers increasing from the current 9.5% by 0.5% on 1st July each year from 2021 to 1st July 2025. This means that it will increase in the first four of the five years of AusNet's next regulatory period.

As discussed above, the SG increases are not included in the wage price index, but will impact the quantum of the WPI increases in each year from FY22 to FY26 (i.e. 2021/22 to 2025/26). This is based on the notion that a proportion of the costs associated with SG increases will be ultimately borne by employees, via lower wage growth than would be the case if there was no SG increase. The Reserve Bank of Australia has estimated that around 80% of the increase in non-cash benefits, such as superannuation, are passed on to employees in the form of lower wage increases. This is referred to as the 'economic incidence' of the SG increase, whereas the 'statutory incidence' of the whole 0.5% annual SG increase falls on the employers. However, the proportion of the cost borne by employees would differ according to the form of pay-setting method and other intrinsic factors. Those employees who have their pay rises set under collective bargaining **and** who belong to a strong union with considerable industrial power are expected to ultimately receive a much higher proportion of their pay increase than those who receive their pay increase via the annual minimum wage increase (set by the Fair Work Commission) and those employees on 'individual arrangements'.

In terms of overall wage costs, network businesses need to add the full 0.5% for the SG increases each year to the forecast WPI increases each year for internal wages and also external wages, to arrive at the total percentage increase in labour costs. This is in line with advice from Deloitte Access Economics (DAE) to the AER in their Superannuation Guarantee paper, that "…taking into account the uncertainty regarding how individual NSPs will respond to changes in the minimum superannuation guarantee, it is recommended that the full 0.5 percentage point annual increase to the superannuation guarantee be added to forecast WPI growth" (page 5 of DAE impact of *Changes to the Superannuation Guarantee on Forecast Labour Price Growth,* July 2020).

In deriving the WPI forecasts, we have made the following assumptions when applying a 'discount' to the WPI in the All Industries and specific industry WPI forecasts:

1. The key underlying assumption assumes that around 55% of the economic incidence of the Superannuation Guarantee (SG) increases are passed on to employees, with employers only paying for 45% of the cost of the SG increases. This is in line with RBA research, but with adjustments for certain industries, with the incidence much lower for employees in government-dominated industries and in sectors with stronger unions. This means that All Industries WPI growth is equivalent to 55% less than it would be in the 'alternative' case, where no SG increase occurred. In the context of a 0.5% increase each year, the impact on All Industries WPI is -0.28%.
2. The impact on employees is assumed to be evenly spread in each year, rather than unevenly spread over time. This implies wages are negotiated prior to the SG increase and spread evenly over the whole year - i.e. the impact is the same on the two half-year periods (with regard to the half-year forecasts). We acknowledge this is a simplified assumption, given that

often the economic incidence is not spread evenly across years, with the ultimate impacts going beyond the period of SG increases.

3. The incidence of the SG increase differs across the three different segments of pay methods. Those 13.1% of employees (full-time adults) who receive their annual pay rise via the Minimum wage case by the Fair Work Commission are assumed to receive 70% less, with those who receive payments via individual arrangements also receiving 77% less. At the All Industries level, it assumed that the average of the 38.4% of employees who rely on collective bargaining will receive 36% less. However, this %age for those on collective bargains or EBAs will markedly differ across industry sectors.
4. For employees in the **EGWWS** sector, the base assumption is that those 64.6% of employees on EBAs will receive 5% less, with employers paying the other 95%. This assumption is based on the strength of the unions covering the EGWWS sector, plus the fact that many on EBAs in the sector have a higher superannuation rate than the base 9.5%, providing added scope to not increase the superannuation rate but pay full wage increases. Overall, the impact on the whole EGWWS WPI will be -0.13% for each of the 5 years from FY22 to FY26 inclusive.
5. Indeed, in the **Construction** sector, we are assuming that the discount to wages negotiated by the construction unions covering that industry will also be only 5% - due to the strength of the construction sector unions. Overall, the impact on the whole Construction WPI will be -0.26% for each of the 5 years from FY22 to FY26 inclusive.

1.2 ALTERNATIVE SCENARIO – SUPERANNUATION GUARANTEE INCREASES ARE DEFERRED &/OR EMPLOYERS PAY FOR ALL OF THE SG INCREASE

The scenario which the AER has effectively adopted is to assume that the SG increases as currently legislated proceed under the proposed timetable of increases, i.e. the first 0.5% increases the minimum superannuation guarantee occurs on 1st July starting 1 July 2021 and is increased 0.5% each 1 July until 1st July 2025 inclusive. This is effectively the 'base' scenario which is presented in this document and the associated forecasts on which the AusNet is to base it's submissions to the AER.

However, there is a plausible 'alternative' scenario, whereby the proposed SG increases are again deferred. There is a reasonably high probability that the proposed increases in the Superannuation Guarantee Charge (SGC) will again be deferred, as they were in the second half of last decade. BISOE believes there will be considerable pressure from businesses, state and local governments to push out the 'legislated' start of the SGC increases at least 3 years, to say July 2024, given the impacts of COVID-19 on the economy and their perceived ability to pay. It should be remembered that the Commonwealth government decided to defer the original timetable of the SGC increases (then due to occur from the second half of the 2010s) because of the perceived weakness of the economy in 2014/15. The economy is much, much weaker now. However, as there is considerable uncertainty surrounding both the actual timing and quantum of the SGC increases, in the forecasts in the table below, we have assumed that the SG increases are pushed out beyond FY26 (except for July 2021, which covers FY22).

The forecasts in the table below can also be used if AusNet proposes to effectively pay for all of the SG increases and does not 'discount' wage increases (i.e. pass on the cost of the SG increase to employees).

Table1.2 Alternative Scenario: SG Increases are Deferred – Labour Cost Escalation Forecasts: Victoria & Australia, Financial Years

(per cent change, year average, year ended June)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	5 yr Avg (f)
	Actuals					Forecasts	Next Regulatory Period					
NOMINAL PRICE CHANGES												
1. Electricity Network-Related Labour												
EGWWS WPI - Victoria (a)	**2.9**	**2.8**	**3.0**	**3.3**	**2.1**	**2.3**	**2.6**	**2.8**	**3.2**	**3.4**	**3.2**	**3.0**
EGWWS WPI - Australia (b)	2.2	2.0	2.8	2.7	1.8	2.0	2.6	2.8	3.2	3.3	3.2	3.0
EGWWS AWOTE - Australia (b)	4.3	2.3	1.3	2.9	2.8	2.6	2.9	3.1	3.4	3.6	3.4	3.3
2. Contractor Labour Cost Escalation												
Construction WPI - Victoria (c)	**2.8**	**1.8**	**2.4**	**2.2**	**1.0**	**1.9**	**2.1**	**2.6**	**3.1**	**3.4**	**3.1**	**2.9**
Construction WPI - Australia (b)	1.7	1.9	1.9	1.5	1.3	2.1	2.3	2.8	3.2	3.4	3.1	2.9
Construction AWOTE - Australia (b)	2.2	1.0	-0.6	7.2	0.4	3.1	2.7	3.2	3.5	3.7	3.4	3.3
3. All Industries Wages												
All Industries WPI - Australia (d)	2.0	2.1	2.3	2.1	1.5	2.0	2.2	2.5	2.9	3.1	2.9	2.7
Consumer Price Index (headline) (e)	1.7	1.9	1.6	1.3	1.6	2.2	1.8	2.2	2.2	2.2	2.2	2.1
REAL PRICE CHANGES (g)												
1. Electricity Network-Related Labour												
EGWWS WPI - Victoria (a)	**1.2**	**0.9**	**1.4**	**1.9**	**0.5**	**0.1**	**0.8**	**0.5**	**1.0**	**1.2**	**1.0**	**0.9**
EGWWS WPI - Australia (b)	0.5	0.0	1.1	1.3	0.2	-0.2	0.8	0.6	1.0	1.1	1.0	0.9
EGWWS AWOTE - Australia (b)	2.6	0.4	-0.3	1.6	1.1	0.4	1.1	0.9	1.2	1.3	1.1	1.1
2. Contractor Labour Cost Escalation												
Construction WPI - Victoria (c)	**1.1**	**-0.1**	**0.7**	**0.9**	**-0.7**	**-0.3**	**0.3**	**0.3**	**0.9**	**1.2**	**0.9**	**0.7**
Construction WPI - Australia (b)	0.0	-0.1	0.2	0.2	-0.3	-0.1	0.5	0.6	0.9	1.2	0.9	0.8
Construction AWOTE - Australia (b)	0.5	-0.9	-2.2	5.9	-1.2	0.9	0.9	0.9	1.3	1.5	1.2	1.2
3. All Industries Wages												
All Industries WPI - Australia (d)	0.2	0.1	0.7	0.8	-0.1	-0.2	0.4	0.3	0.6	0.9	0.7	0.6

Sources: BIS Oxford Economics, ABS

(a) Electricity, Gas, Water and Waste Services (EGWWS) Wage Price Index (WPI) for Victoria
(b) Australian sector wage forecasts provided for comparison, including Average Weekly Ordinary Time Earnings (AWOTE).
(c) Construction Sector Wage Price Index (WPI) for Victoria
(d) Australian All Industries AWOTE and WPI provided for comparison.
(e) Inflation forecasts are RBA forecasts for the next 2 years from latest 'Statement of Monetary Policy'. Beyond that, inflation forecasts are based on a glide-path to the mid-point of RBA inflation target (2.5%) by year 5. The overall forecasts are then calculated as a geometric mean of the 'official' RBA inflation forecasts over the next 5 years or to the end of the regulatory period, with years 3,4 and 5 CPI equal to the calculated 5-year geometric mean. This methodology is the position adopted by the AER in its Final position paper "Regulatory treatment of inflation" of December 2020.
(f) Average Annual Growth Rate for 2022/23 to 2026/27 inclusive, ie for next regulatory period.
(g) Real price changes are calculated by deducting the inflation rate from nominal price changes.

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