



30 November 2023

Ausgrid's 2024-29 Revised Proposal

## **Attachment 2.2: Key assumptions and Directors' certification of key assumptions**

Empowering communities for a resilient,  
affordable and net-zero future.



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# 1. Introduction

## 1.1 Purpose

This document sets out the key assumptions that underlie Ausgrid's forecasts of capital and operating expenditure for standard control services for Ausgrid's Revised Proposal for the 2024-29 period, the process that Ausgrid adopted to identify them, and provides the basis for the reasonableness of these assumptions.

This document also provides a director's certification of the reasonableness of the key assumptions, on behalf of the Board. Together, this addresses the information compliance requirements in clauses S6.1.1 and S6.1.2 of the National Electricity Rules (**NER**).

## 1.2 This document in context

This document should be read with Chapters 5 and 6 of our Revised Proposal document, the suite of supporting attachments and Ausgrid's Initial Proposal (to the extent elements in the Initial Proposal are not updated by our Revised Proposal). In some cases, we have referred to a specific attachment in this document where further information or evidence has been provided.

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# 2. Background

## 2.1 Regulatory requirements

The NER require the AER to make a constituent decision on whether to accept, or reject and substitute, the forecast capital expenditure (**capex**) and forecast operating expenditure (**opex**) that Ausgrid sets out in its building block proposal for standard control services (NER clauses 6.12.1(3) and 6.12.1(4), respectively).

To enable the AER to make its constituent decision, Ausgrid's building block proposal must include the total forecast capex and opex for the relevant regulatory control period which Ausgrid considers is required to achieve the capital expenditure objectives<sup>1</sup> and operating expenditure objectives.<sup>2</sup>

The NER requires a distribution network service provider's (**DNSP**) building block proposal to contain information and matters relating to capital expenditure (**capex**) and operating expenditure (**opex**). This includes:

- **NER clause S6.1.1(4)-(5):** The key assumptions that underlie the capital expenditure forecast and a certification of the reasonableness of the key assumptions by the directors of the DNSP; and
- **NER clause S6.1.2(5)-(6):** The key assumptions that underlie the operating expenditure forecast and a certification of the reasonableness of the key assumptions by the directors of the DNSP.

This document meets these requirements by identifying the key assumptions that underlie the capex and opex forecasts for our building block proposal and by providing a basis for the certification of the reasonableness of those key assumptions by the directors of Ausgrid.

## 2.2 Interpretation of 'key assumption'

The term 'key assumption' is not a defined term in the NER or in the National Electricity Law (**NEL**). The relevant secondary materials (including determinations published by the Australian Energy Market Commission (**AEMC**)) do not provide any clear guidance on its interpretation. The term also does not have any well-established legal meaning.

In light of this, Ausgrid has given the terms their ordinary meanings and interpreted them in their context – that is, the term 'key assumption' has two components:

1. **An assumption that underpins the forecast capex and opex** – According to its ordinary meaning and in the context of forecasting expenditure for the 2024-29 period, an assumption is something accepted to be true for the purposes of forecasting expenditure. An assumption can be a fact or circumstance that forms the basis of the forecast; and

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<sup>1</sup> NER, cl 6.5.7(a).

<sup>2</sup> NER, cl 6.5.6(a).

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## 2. That assumption must be ‘key’ to the forecast capex and opex.

Our interpretation is that, for an assumption to be a ‘key’ assumption, it must be an assumed fact or circumstance that is of critical importance to the forecasting of expenditure requirements for the 2024-29 period. Not all assumptions underpinning the expenditure forecast must be outlined for the purposes of Schedule 6.1 of the NER – only the ‘key’ (i.e. critical) assumptions without which the forecast expenditure cannot be made.<sup>3</sup>

Consistent with our Initial Proposal, we have minimised our reliance on assumptions in our Revised Proposal by using the best available forecasts in relation to anything that we consider could be key to our forecast expenditure for the 2024-29 period. This has reduced the length of our key assumptions list from our last reset.

### 2.3 Reasonableness of key assumptions

The NER also require the Directors to certify the reasonableness of the key assumptions identified. While the concept of ‘reasonableness’ does not have a definition in the NER or the NEL, it is well understood as a legal concept, as being supported by logical reasons and/or evidentiary basis.

In accordance with the above interpretation, Ausgrid has undertaken a process where we identified assumptions underpinning our forecast opex and capex (or categories of capex) and assessed the criticality of each assumption to ensure that only key assumptions are captured. Reasons for each key assumption adopted are outlined to demonstrate their reasonableness.

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<sup>3</sup> Our response to the AER’s Reset Regulatory Information Notice (RIN) dated 26 October 2022 sets out and describes all material assumptions relied upon for the purposes of preparing Ausgrid’s regulatory proposal (as required by RIN 4.2.1(b), 4.2.2). We have interpreted ‘key assumption’ to be a higher threshold than ‘material assumption’.

# 3. Key assumptions

The 2024-29 regulatory control period will be one of significant change as we transition to a net zero future. It is in this context of rapid policy development and changing consumer expectations that we outline our key assumptions.

The table below lists the key assumptions which we consider are of critical importance to the forecasting of our proposed capex and opex for the 2024-29 regulatory period.

In **Section 4** below, we set out the reasons underlying the assumptions made.

**Figure 3.1 Summary of key assumptions**

Category	Key assumption(s)	Applicability
1. Regulatory obligations	<p>We have assumed that:</p> <ul style="list-style-type: none"> <li>The Federal Government's official valuation of emissions reduction (that will only become available after our Revised Proposal is lodged) will not drive a materially different need for investment than we have proposed;</li> <li>The scope of our cyber security obligations will increase over the next regulatory period. We have therefore proposed additional expenditure to reflect that increased scope;</li> <li>The recommendations contained in the AEMC's final report on its 2023 metering review will be given effect via a change to the National Electricity Rules. The AEMC's report recommended that certain metering data be provided to electricity networks at no cost. We have therefore proposed a reduced cost for purchasing smart meter data, relative to the Initial Proposal.</li> </ul>	Capex and opex



Category	Key assumption(s)	Applicability
<b>2. Demand and customer connections</b>	<p>The forecast growth (augmentation and connection) capex and forecast opex are based on certain assumptions regarding spatial peak demand and customer connections over the 2024-29 period, as set out in:</p> <ul style="list-style-type: none"> <li>• <b>Attachment 5.6</b> – Maximum demand forecast to our Initial Proposal,<sup>4</sup> and as updated by latest AEMO inputs for our CER Integration expenditure;<sup>5</sup> and</li> <li>• <b>Attachment 8.9</b> – Demand, consumption and customer number forecasts.<sup>6</sup></li> </ul> <p>These attachments outline why the assumptions were chosen over others.</p>	Capex and opex
<b>3. Base year opex</b>	<p>Ausgrid’s forecasting approach adopts the AER’s preferred method, which assumes that the amount of opex required to meet the opex objectives over the 2024-29 period will broadly reflect current opex requirements, with adjustments to reflect changes in input costs, outputs delivered, productivity and step changes. This is preferred over alternative assumptions because it is the standard, proven framework for forecast opex.</p>	Opex

<sup>4</sup> See: <https://www.aer.gov.au/documents/ausgrid-att-56a-maximum-demand-forecast-31-jan-2023>.

<sup>5</sup> See **Attachment 5.1: Revised Proposal Capital Expenditure** for updated CER asset forecasts.

<sup>6</sup> This attachment is an updated version of **Attachment 8.12 – Demand forecast volumes and customer numbers** to our Initial Proposal.

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# 4. Basis of key assumptions

In the following sections, we set out the reasons for adopting each of the above key assumptions and why each key assumption is reasonable. We also set out new or updated information relevant to Key Assumption 1 since we submitted our Initial Proposal capex and opex forecasts in January 2023.

## 4.1 Key assumption 1 – Regulatory obligations

We have made 3 assumptions with respect to regulatory obligations in the 2024-29 period.

*The Federal Government's official valuation of emissions reduction (that will only become available after our Revised Proposal is lodged) will not drive a materially different need for investment than we have proposed*

'Emissions reduction' has been added to the National Electricity Objective (**NEO**) and the Federal Government is currently developing a value of emissions reductions for the AER to apply to our 2024-29 regulatory reset.

Our expenditure proposal – including for CER integration – reflects a placeholder value for emissions reductions in lieu of the Federal Government's official value being provided to the AER. We understand that the AER will substitute our placeholder value for the Federal Government's interim value when available after Ausgrid submits the Revised Proposal.

We assume the Federal Government's interim value for emission reductions will have an immaterial impact on the need for investment over the next regulatory period. However, if this is not the case, we will engage with the AER on how to appropriately reflect any update in our expenditure forecasts.

*The scope of our cyber security obligations will increase over the next regulatory period. We have therefore proposed additional expenditure to reflect that increased scope*

Our cyber security capex forecast includes a 'scope' adjustment that assumes the government will increase our cyber security regulatory obligations during the next regulatory control period. This assumption is based on the dynamic nature of cyber security threats which means that the minimum level of regulatory compliance is likely to increase in scope over the 2024-29 regulatory period. It is reasonable to assume that, as cyber security threats evolve, governments will continue to implement new requirements to keep pace with the changing threat landscape.

*The AEMC's final decision on the metering review will be given effect via a rule change, and we have proposed reduced smart meter data expenditure to reflect this assumption.*

The AEMC's Metering Review Final Report recommends that DNSPs receive basic power quality data for free from 1 January 2026. Given the breadth of stakeholder support for this recommendation, it is reasonable to assume that it will be given effect via a change to the National Electricity Rules prior to 1 January 2026. We have therefore reduced our smart meter data purchase step change in our Revised Proposal to reflect that we will need to purchase less data than initially expected.



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## 4.2 Key assumption 2 – Demand and customer connections

The forecasts of growth (augmentation and connection) capex and forecast opex are based on a set of assumptions regarding peak demand and new customer connections over the 2024-29 period. Assumptions are also made regarding the uptake of EVs and solar and updated in **Attachment 5.1 – Proposed capital expenditure**. These assumptions are set out in detail in **Attachment 5.6 – Maximum demand forecast** to our Initial Proposal<sup>7</sup> and the updated **Attachment 8.9 – Demand, consumption and customer number forecasts** included in our Revised Proposal.<sup>8</sup> These assumptions are crucial as they underpin our forecast growth capex and opex and are also a key input for deriving the optimal timing for major replacement projects. We consider our peak demand and customer connections forecasts to be reasonable as they are based on the best available data and our process for forecasting is based on standard practices.

## 4.3 Key assumption 3 – FY2022/23 underlying opex provides a reasonable baseline for forecasting efficient costs of achieving the opex objectives

We have used the ‘base-step-trend’ methodology to forecast the majority of our opex requirement over the 2024-29 regulatory period. We consider that this approach (in preference to other methodologies, such as a zero-based or ‘bottom-up’ build of costs) is reasonable because it is:

- The approach preferred by the AER in assessing DNSPs' proposed forecast opex – as stated in its Expenditure Forecast Assessment Guideline, Distribution November 2013. Specifically for Ausgrid's 2024-29 Regulatory Proposal, the AER has stated that it intends to apply this assessment guideline in its review of Ausgrid's proposed expenditure forecast for the 2024-29 period;<sup>9</sup>
- Simple and transparent; and
- Used by other DNSPs to forecast opex.

The ‘base-step-trend’ methodology requires an assumption regarding the ‘baseline’ level of expenditure – that is, the base from which step changes and trend adjustments are to be applied. Under the AER's base-step-trend methodology, the baseline is based on the level of expenditure in a chosen ‘base year’. Inherent in the selection of the base year is an assumption that this provides a reasonable basis for forecasting the efficient costs of achieving the opex objectives over the forthcoming regulatory period.

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<sup>7</sup> While we are not updating Attachment 5.6 for the purposes of our Revised Proposal, we note updated CER asset forecasts are reflected in our CER integration augex modelling. See **Attachment 5.1: Revised Proposal Capital Expenditure** for the updated forecasts.

<sup>8</sup> This attachment is an updated version of **Attachment 8.12 – Demand forecast volumes and customer numbers** to our Initial Proposal.

<sup>9</sup> AER (2022), [Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy](#), pp 2, 51-52.

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The 'base year' (or baseline) assumption is a key assumption underlying the forecast using a base-step-trend methodology. Without this assumption the forecast cannot be made.

For the base year we have used our estimated underlying opex for FY2022/23. We selected FY2022/23 as the base year for our opex forecasts for 2024-29 because:

- It is the most recent regulatory year for which audited regulatory accounts and other financial information will be available when the AER makes its final decision in April 2024; and
- We consider it best represents our underlying operating conditions in the current 2019-24 period, and the conditions we expect for the 2024-29 period. It does not include unusual events or factors that indicate it is not reflective of our normal operating environment for example significant redundancy costs.

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# 5. Director's certification

## Certification under clauses S6.1.1(5) and S6.1.2(6) of the National Electricity Rules

The undersigned Chairman of Ausgrid certifies that:

- In accordance with clause S6.1.1 (5) of the *National Electricity Rules*, the key assumptions that underlie the capital expenditure forecast as set out in this document are reasonable.
- In accordance with clause S6.1.1 (6) of the *National Electricity Rules*, the key assumptions that underlie the operating expenditure forecast as set out in this document and are reasonable.
- The key assumptions that underlie the capital expenditure and operating expenditure forecasts referred to above are attached to this certification.

Signed in accordance with a resolution of directors.



Chairman

28 November 2023