Operating Expenditure Forecasting Methodology

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The purpose of this information sheet is to provide a high-level overview of the methodology for forecasting operating expenditure.

What is Operating Expenditure?

Powerlink's operating expenditure (opex) consists of spending to enable the safe and reliable operation and maintenance of our network and other assets, as well as the business activities required to support those areas of work.

Operating Expenditure Categories

Controllable – Direct operating and maintenance items, which include field maintenance, operational refurbishment, maintenance support and network operations. This expenditure also includes other items such as asset management and corporate support costs

Non-controllable – Insurances, network support, AEMC Levy, AEMO participant fees and debt raising costs.

Forecasting Methodology

Powerlink will forecast its operating expenditure per the requirements of the National Electricity Rules and consistent with the AER's Expenditure Forecast Assessment (EFA) Guideline.

The AER's preferred 'base-step-trend' approach will be applied to controllable operating expenditure, while a 'category specific' approach may be used to forecast other operating expenditure items.

Base-step-trend Approach

A simplified version of the AER's base-step-trend approach is shown below. A more detailed explanation and diagram is included in Powerlink's Expenditure Forecasting Methodology:

Forecast opex = Base year × Rate of change + Step change

Base Year

A base year is selected, with any one-off or non-recurrent expenditure removed, to ensure that it represents ongoing, efficient expenditure.

Rate of Change

A forecast annual rate of change will be applied to the base year operating expenditure for each year of the forecast regulatory period. The rate of change is made up of three components:

- *Output change* – the forecast change in network output (network size).
- *Real price change* – the forecast change in the real cost of labour and materials.
- *Productivity change* – the productivity expected to be achieved by the business throughout the regulatory period.

The rate of change is calculated as follows:

Rate of change = Output change + Real price change − Productivity change

Step Changes

Step changes are expected changes in costs that have not been captured in the base year or rate of change but are applicable to the next regulatory period. Step changes can include new costs that will be incurred in the regulatory period and/or costs that will no longer apply.

Category Specific

Category specific forecasting uses an external estimate or bottom-up cost build-up to estimate the total cost of a particular activity. These forecast items are added to the base-step-trend.

For more information about Powerlink's expenditure forecasting methodologies, (including capital expenditure), refer to Powerlink's *2027-32 Revenue Proposal Expenditure Forecasting Methodology*.