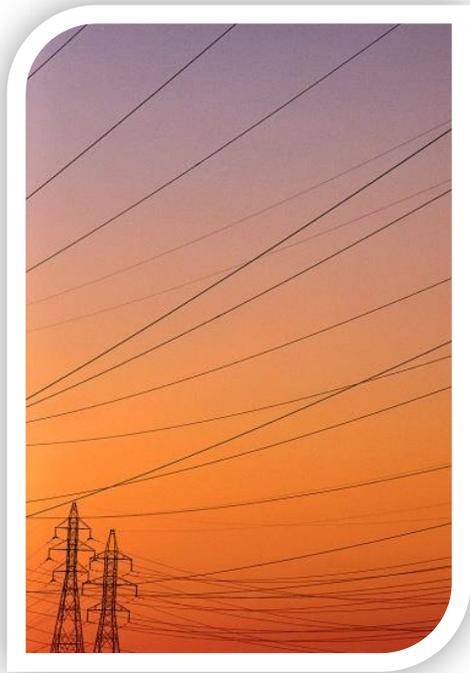


The Australian Energy Regulator



Murraylink decision 2018-23

Predetermination conference

11 October 2017

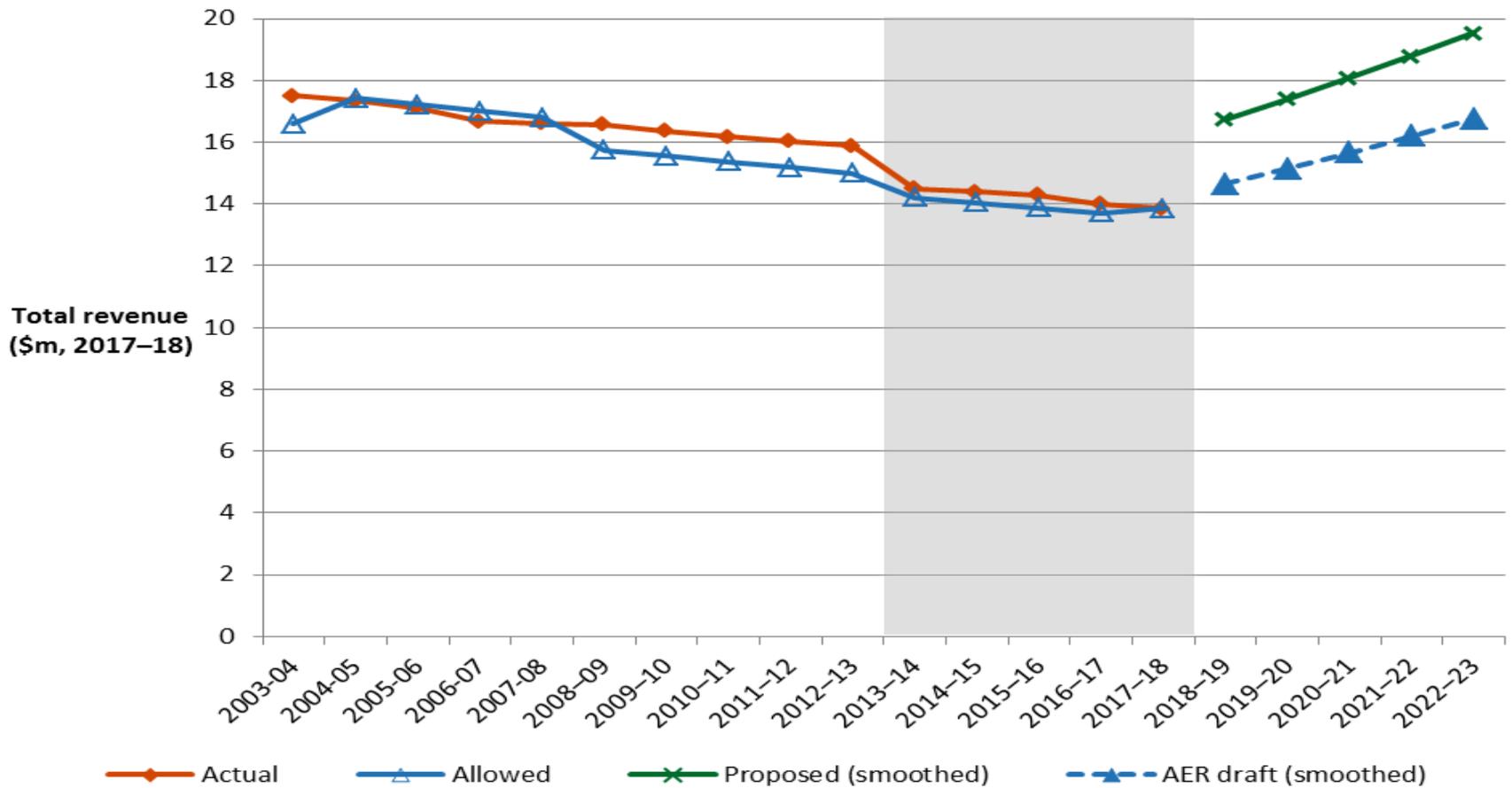
Agenda

Time	Item
2:00 pm	AER presentation of its draft decision
2:30 pm	CCP presentation
3 pm	Questions and Answers

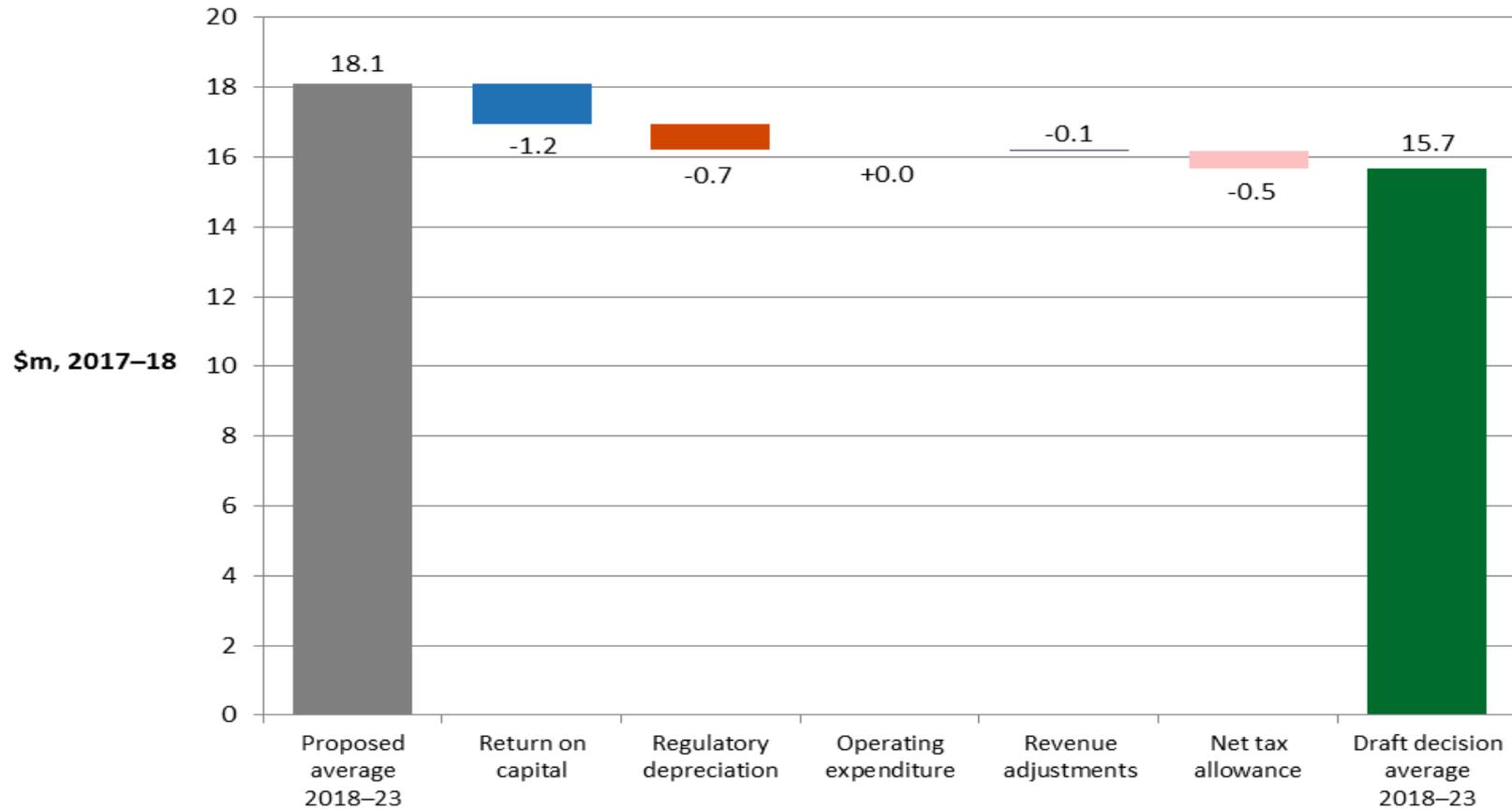
Overview

- On 27 September the AER released its draft decision for Murraylink
- This presentation:
 - Provides a summary of the decision
 - Explains outcome in the current regulatory period by way of context
 - Discusses the main issues of difference

What is our draft decision?



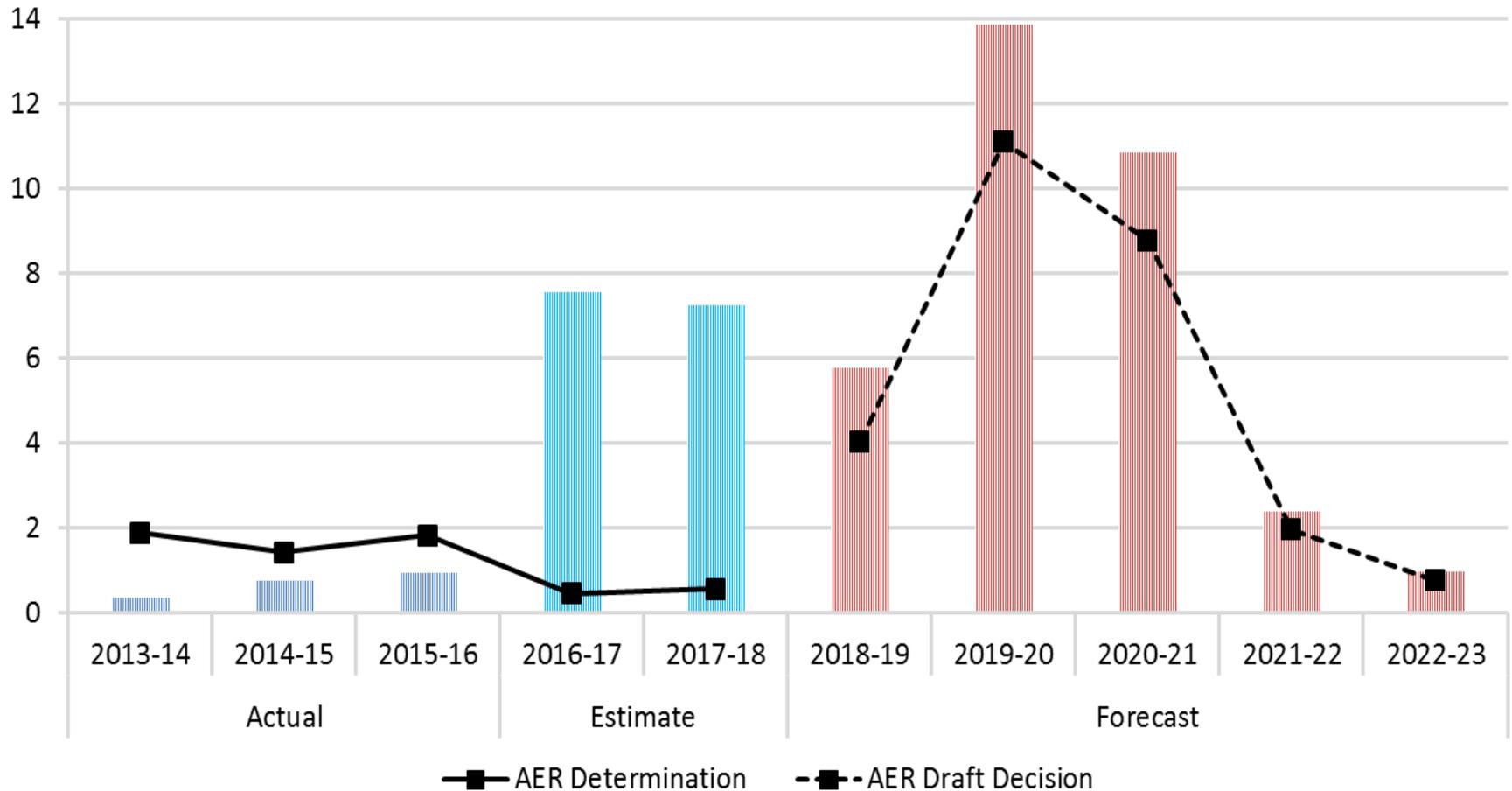
How do we differ from Murraylink?



How do we differ from Murraylink?

- difference between our draft decision and Murraylink's proposal is driven by three things:
 - The allowed rate of return — which feeds into the return on capital
 - our decisions on capital expenditure and
 - corporate income tax driven by the value of imputation credits

Our draft capex forecast



Our draft capex forecast

- The key driver of Murraylink's capex is the proposed replacement of its control systems. This amounted to \$27 million (\$2017–18) or around 80 per cent of the proposed capex.
- We have made a \$4.5 million (\$2017–18) reduction to forecast capex for 'Control System Upgrade' related to the scope of APA management costs
- We made \$2.7 million of further reductions to other aspects of Murraylink's forecast

Capex contingencies

- Murraylink proposed a \$994 million contingent projects to enhance South Australia's interconnection capacity and address constraints in South Australia's network
- We have amended the trigger events for the contingent project to ensure the project is triggered only as part of an overall assessment of all credible options for augmenting South Australia's interconnection capacity that maximises net market benefits.

Rate of return

	AER previous decision (2014–18)	Murraylink proposal (2018–23) ^a	AER draft decision (2018–23)
Indicative nominal risk free rate (return on equity only)	3.52%	2.82% ^a	2.68% ^b
Equity risk premium	5.2%	5.74%	4.55%
Market risk premium	6.5%	7.18%	6.50%
Equity beta	0.8	0.8	0.7
Nominal post-tax return on equity	8.72%	8.6%	7.2%

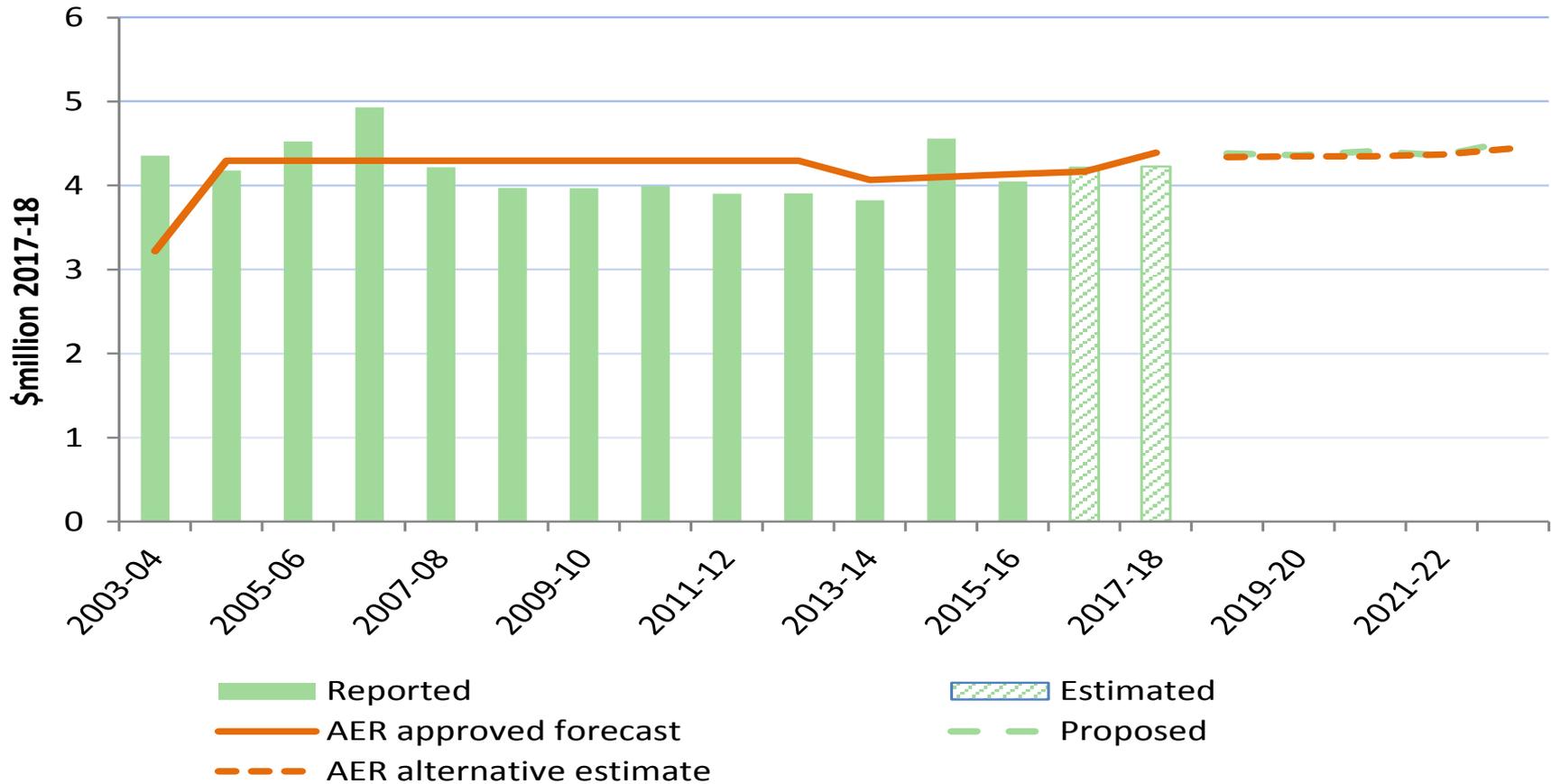
Rate of return

- Our rate of return has been developed using the same approach we applied in our most recent decisions.
- Murraylink proposed departing from the approach in our rate of return Guideline. We are not satisfied that doing so would result in an outcome that better achieves the allowed rate of return objective.

Tax allowance

- The reason for our reduced tax allowance is the calculation of the value of imputation credits
- Murraylink proposed a value of imputation credits of 0.25
- We have applied a value of 0.4
- This approach is consistent with the approach we have adopted in our recent decisions which have been upheld by the Full Federal Court

Operating expenditure



Consumer engagement

- We consider that Murraylink has not taken any steps to engage with its customers, as required by the rules and consistent with our consumer engagement guideline.
- Our consultation on Murraylink's proposal has shown that there is stakeholder interest in the proposal.
- We consider that Murraylink's revenue proposal would have benefited from stakeholder engagement on these matters at an early stage.

Next steps

Task	Date
Revised revenue proposal due	1 December 2017
Submissions due	12 January 2018
AER release of final decision	No later than 30 April 2018

AER contact: Murraylink2018@aer.gov.au