

# Final decision: Powerlink Electricity transmission determination 2017–22

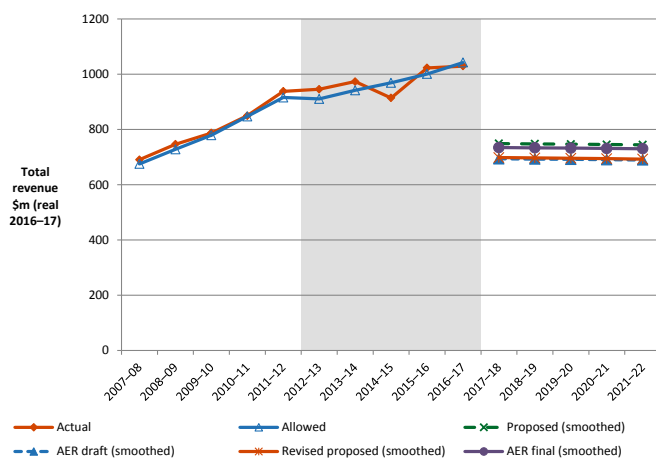
## Overview

The Australian Energy Regulator (AER) regulates the revenues of Powerlink by setting the annual revenue requirement it may recover from its customers.

Our final decision allows Powerlink to recover \$3940.2 million (\$nominal) from its customers over five years commencing 1 July 2017. This results in average annual revenues over the 2017–22 regulatory period of \$732.5 million (\$2016–17), compared to \$972.9 million (\$2016–17) over the previous (2012–17) regulatory period.

The figure below shows the difference between Powerlink's proposed revenue, and what we have allowed for each year of the regulatory period.

**Powerlink's past and proposed total revenue and AER final decision revenue allowance (\$million, 2016–17)**



Powerlink consulted with its customers and proposed substantial savings in operating its transmission network. As a consequence, in our final decision we have been able to accept Powerlink's operating expenditure forecast and most of its capital expenditure forecast. We also accepted the methodology proposed by Powerlink to calculate its rate of return, which we have updated to reflect prevailing market conditions.

Our final decision allows Powerlink to recover more revenue than in its revised proposal and our draft decision, due to an increase in the allowed rate of return. This increase is reflective of a rise in government bond rates since Powerlink submitted its revised proposal and ensures that the rate of return reflects prevailing market conditions.

## Estimated impact on customer bills

Our final decision on Powerlink's revenue affects the transmission component of Queensland customers' electricity bills. Transmission charges make up approximately 9.3 per cent of the bill for a typical Queensland residential customer.

As a result of the reductions proposed in our final decision, we expect that the transmission component of the average annual residential electricity bill in 2021–22 would reduce by about \$32 below the current 2016–17 level. We also expect the transmission component of the average annual small business electricity bill in 2021–22 would reduce by about \$59 below the 2016–17 level.

Other components of customer bills include the cost of generation, distribution, network charges and retailer costs. The AER regulates the transmission and distribution components only, it does not influence the cost of generation or set retail prices.

## Key elements of our decision

We based our assessment of Powerlink's proposed revenue on a number of components. These include expenditures to maintain and operate the network, and the return to shareholders on their investment. Together, these determine the revenue Powerlink may recover from its customers.

Two components of our final decision drive most of the difference between the revenue that Powerlink was allowed to recover in the 2012–17 regulatory period, and the level of revenue approved for the 2017–22 regulatory period: rate of return, and capital expenditure (capex).

We discuss each of these below.

## Rate of return

Significant investment is required to build a transmission network. The return Powerlink must pay lenders and investors is referred to as the rate of return. Even a small difference in the rate of return can have a big impact on revenues.

Our final decision sets the allowed rate of return (or 'cost of capital') at 6.0 per cent for 2017–18. This is a significant decrease compared to the rate of return approved in our previous (April 2012) final decision for Powerlink of 8.61 per cent.

We set out our approach to determining the rate of return in the Rate of Return Guideline (Guideline) we published in

December 2013. In its proposal, Powerlink proposed to use the methodology set out in our guideline. We have accepted the approach proposed by Powerlink for calculating the rate of return.

This approach requires us to consider prevailing market conditions. The investment environment has improved since our previous decision, which was made during the period of uncertainty surrounding the global financial crisis. This improved investment environment translates to lower financing costs necessary to attract efficient investment.

The lower rate of return in this final decision will reduce Powerlink's average annual revenue requirement compared to the previous regulatory control period.

### **Capital expenditure**

Capex refers to the capital expenses incurred in the provision of network services. Factors that influence the required level of capex include the age and condition of existing assets.

Powerlink proposed substantially lower capex for the 2017–22 regulatory control period than was included in the 2012–17 revenue determination. This is due to reduced demand growth in the 2017–22 regulatory control period and consequent lack of augmentation expenditure. Our final decision further reduces the allowed capex for the 2017–22 regulatory control period from that proposed by Powerlink.

The lower capex allowance in this final decision will reduce Powerlink's average annual revenue requirement compared to the previous regulatory control period.

### **For more information**

More information on Powerlink's proposal, and our final decision is available on our website: [www.aer.gov.au](http://www.aer.gov.au).