

## AER decision – Powercor contingent project application – tranche 1

21 August 2017

On 21 August 2017, the AER Board determined that the Powercor application for contingent project funding was approved but with modifications to the amounts sought in the proposal lodged on 28 March 2017. Powercor submitted their application in \$nominal terms. We have used real, \$2015 as the basis for presenting the calculations of incremental capital and operating expenditure in each remaining year of the regulatory control period. This is because the determination is expressed in real, \$2015. In accordance with clause 6.6A.2(e)(1) we have determined:

- The amount of capital and incremental operating expenditure, for each remaining year of the regulatory control period that we consider is reasonably required for the purpose of undertaking the contingent project is:<sup>1</sup>

**Table 1 - Capital and incremental operating expenditure (real, \$2015)**

	2016	2017	2018	2019	2020
Incremental capital expenditure	0.0	43.4	33.9	0.0	0.0
Incremental operating expenditure	0.0	2.11	2.11	0.33	0.67

- The total capital expenditure we consider is reasonably required for the purpose of undertaking the contingent project is \$85.2m (\$nominal).<sup>2</sup>
- The contingent project has commenced and the likely completion date is 30 April 2019.<sup>3</sup>
- On the basis of the capital and incremental operating expenditure stated in Table 1 above, and otherwise in accordance with clause 6.6A.2(b)(4),<sup>4</sup> we have calculated the incremental revenue which is likely to be required by Powercor for each remaining regulatory year as a result of the contingent project being undertaken to be:<sup>5</sup>

**Table 2 – Incremental revenue calculation and x-factors (\$nominal)**

	2016	2017	2018	2019	2020
Return on Capital	0.0	0.0	2.8	4.9	4.7
Return on Capital (regulatory depreciation)	0.0	0.0	2.3	3.2	3.4
Operating Expenditure	0.0	2.2	2.3	0.4	0.8
Revenue Adjustments	0.0	0.0	0.0	0.0	0.0
Net Tax Allowance	0.0	0.0	0.3	0.3	0.4
<b>Incremental Annual Revenue Requirement (unsmoothed)</b>	<b>0.0</b>	<b>2.2</b>	<b>7.8</b>	<b>8.8</b>	<b>9.2</b>

<sup>1</sup> NER clause 6.6A.2(e)(1)(i).

<sup>2</sup> NER clause 6.6A.2(e)(1)(ii).

<sup>3</sup> NER clause 6.6A.2(e)(1)(iii).

<sup>4</sup> NER clause 6.6A.2(e)(2).

<sup>5</sup> NER clause 6.6A.2(e)(1)(iv).

<b>Incremental Annual Revenue Requirement (smoothed)</b>	<b>0.0</b>	<b>0.0</b>	<b>7.0</b>	<b>10.5</b>	<b>11.0</b>
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% change	0.00%	0.00%	1.13%	1.63%	1.63%
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In accordance with clause 6.6A.2(h), we have used the capital expenditure and incremental operating expenditure determined in accordance with clause 6.6A.2(e)(1)(i) to amend the post-tax revenue model to determine the effect of any resultant increase in forecast capital and operating expenditure on:

- (i) the annual revenue requirement for each regulatory year in the remainder of the regulatory control period; and
- (ii) the X factor for each regulatory year in the remainder of the regulatory control period.<sup>6</sup>

We determine the effect to be:

**Table 3 – Annual revenue requirement and x-factors (\$nominal)**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Annual Revenue Requirement (unsmoothed)</b>	<b>587.23</b>	<b>590.11</b>	<b>637.45</b>	<b>684.43</b>	<b>705.70</b>
<b>Annual Revenue Requirement (smoothed)</b>	<b>621.77</b>	<b>606.45</b>	<b>627.55</b>	<b>653.69</b>	<b>686.26</b>
X Factors	7.80%	4.68%	-1.13%	-1.80%	-2.60%

We also determine the total smoothed annual revenue requirement should be adjusted to \$3 195.7 million (\$nominal), based on the revenue requirements and X factors set out in Table 3. This corresponds to a total unsmoothed annual revenue requirement of \$3 204.9 million (\$nominal).

We have not amended the roll-forward model.

We will publish the reasons for decision by 31 August 2017.

<sup>6</sup> NER clause 6.6A.2(h)(3).