

## Addressing capex and opex objectives, criteria and factors in the NT NER

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## 1. Purpose and structure of this document

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The purpose of this document is to address clauses 6.5.6 and 6.5.7 of the Northern Territory National Electricity Rules (NT NER). These provisions set out the objectives, criteria and factors relating to forecast capex and opex for Standard Control Services (SCS).

The NT NER provide a framework for the Australian Energy Regulator's (AER's) assessment of our forecast capex and opex. In this document, we show how our forecasting approaches for capex and opex align with the objectives, criteria and factors. We identify relevant attachments in our regulatory proposal that provide further information.

Section 2 discusses how we have met the capex objectives, criteria and factors, while section 3 discusses how we have met the opex objectives, criteria and factors.

## 2. Capex objectives, criteria and factors

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In this section we identify the supporting evidence to show that our SCS forecast capex meets the objectives, criteria and factors found in clause 6.5.7 of the NT NER.

### 2.1 Addressing the capex objectives

The NT NER require that our forecast capex for SCS achieves the following objectives:

- Objective 1 - Meet or manage the expected demand for SCS over that period.
- Objective 2 - Comply with all applicable regulatory obligations or requirements associated with the provision of SCS.
- Objective 3 - To the extent that there is no applicable regulatory obligation or requirement in relation to:
  - (i) the quality, reliability or security of supply of SCS; or
  - (ii) the reliability or security of the distribution system through the supply of SCS,to the relevant extent:
  - (iii) maintain the quality, reliability and security of supply of SCS; and
  - (iv) maintain the reliability and security of the distribution system through the supply of SCS.
- Objective 4 - Maintain the safety of the distribution system through the supply of SCS.

Our regulatory proposal breaks down our capex into AER RIN categories including replacement, augmentation, connection, non-network ICT and non-network other, and capitalised overheads. In section 6 to 11 of the "Capex Overview Document" (Attachment 4.1) we outline how we have prepared our forecasts for each category. Table 2.1 below discusses how each category aligns to the capex objectives.

**Table 2.1 – Aligning capex categories to capex objectives**

Capex Category	How we addressed the capex objectives
Replacement	We replace or refurbish network assets to address safety and reliability risks, typically driven by asset condition and related risks, including technical obsolescence. The primary objective is to maintain the reliability, security and safety of the distribution network, in accordance with our regulatory obligations. Replacement capex is clearly aligned to Objectives 2, 3 and 4.
Augmentation	We augment the network to increase the capacity of the network to meet growth in peak demand in a localised area of our network, as well as compliance with power quality and performance requirements. It is most closely associated with Objective 1, but is also aligned to Objectives 2 and 3 to maintain security, reliability and quality of supply of SCS.
Connection	We undertake connection capex to provide a reliable and secure supply of energy to a new customer that meets their expected demand. Our customers determine the nature, quantum and timing of our connections capex. It is most closely associated with Objective 1, but is also aligned to Objectives 2 and 3 to maintain security, reliability and quality of supply of SCS.
Non-network ICT and Non-network other	The forecast capex is for information and communication technology, building and property, fleet, and tools and equipment. The investments are critical inputs to support our network activities and are therefore indirectly aligned to Objectives 1 to 4. They are also integral to meeting our corporate and network obligations such as network billing, safety, and financial reporting. In this respect, some of the forecast capex is directly aligned to Objective 2.
Capitalised overheads	These are expenditure on overhead functions that is capitalised according to our regulatory capitalisation approach, as provided for in our AER-approved cost allocation method. They are the indirect costs necessary to support our replacement, augmentation, connection and non-network projects and programs. For this reason they support achieving Objectives 1 to 4.

We applied our forecast methods to determine the level of capex required to achieve the objectives efficiently. The starting point of our forecast methods was to:

- Consider whether we were complying with our current regulatory obligations. Broadly, we considered that our current capital program was achieving our obligations.
- Assess whether the reliability, safety, security and quality of our SCS services were appropriate. We engaged with our customers on whether the current level of service was appropriate. Our customers considered that we should maintain the current reliability at a system level, but that we should improve reliability for poor performing areas.
- Identify if we were currently meeting the maximum demand for electricity of our customers (our analysis showed that we were meeting current demand for electricity services.)



Our next step was to assess forecast drivers that would impact our future forecast capex in the context of the objectives. We considered:

- New compliance obligations that we were aware of as at 1 July 2017. We did not identify material new obligations that would impact the level of capex in the forthcoming period.
- The expected condition of assets in the future, and the consequent risks to safety, reliability, and security of the network. Based on our risk assessment approaches, we determined a replacement program that would maintain the current level of system reliability, and ensure the continued safety of network services. This included strengthening the power system to withstand significant events.
- Forecast maximum demand for electricity services – we engaged the Australian Electricity Market Operator (AEMO) to provide maximum demand and customer connections forecasts for the forthcoming period. This was a key input to determine the level of augmentation and connection capex required to meet forecast constraints from changes in expected demand.
- The level of non-network investment required to support our network activities, and to continue to meet our corporate compliance obligations.

## 2.2 Addressing the capex criteria

In making its capex decision, the AER must be satisfied that our proposed capex reasonably reflects the capex criteria<sup>1</sup>, which includes:

- (i) The efficient costs of achieving the capital expenditure objectives;
- (ii) The costs that a prudent operator would require to achieve the capital expenditure objectives; and
- (iii) A realistic expectation of the demand forecast and cost inputs required to achieve the capital expenditure objectives.

We consider the prudence of our forecast methods, the high-level checks we have undertaken, and our engagement with customers has resulted in forecast capex that meets the criteria. This is because:

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<sup>1</sup> In making its decision on capex, the AER also must consider whether we have any “restricted assets”. We confirm that we have not included capex related to a restricted asset.



- We have relied on an overarching asset management and risk management framework to guide our capital planning. Section 4.1 of the “Capex Overview Document” (Attachment 4.1) describes how our policies, strategies, plans and workplace management underpin our asset management decisions. Section 4.3 of that document explains how our risk management framework has been applied to the capex portfolio, major capex projects and specific replacement programs.
- We have largely used our ‘business as usual’ methods to forecast capex projects and programs for the forthcoming regulatory period. The approach relies on compliance obligations, historical spend, asset condition and demand data to identify capital needs, and to identify efficient options. Further information on our forecast methods for capex is found in section 5 of Attachment 4.1.
- Our forecast methods incorporated recent improvements to our business, which have driven greater efficiency. These include improving our approach to condition assessment, and introducing an asset health and criticality framework to improve our asset management decisions. Further information can be found in section 4.4 of Attachment 4.1.
- We have a well-defined investment governance framework that provides appropriate delegations and approvals to make prudent decisions at the time of investment. Our governance framework is explained in section 4.2 of Attachment 4.1.
- Our maximum demand forecasts relate to specific segments and location of network assets, allowing us to identify network constraints. We engaged AEMO to develop our maximum demand forecasts. AEMO is an expert and independent forecaster that the AER has relied on in past determinations. Further information on demand forecasts can be found in the AEMO report found at Attachment 4.4.
- Our cost estimates relied predominantly on historical data, and therefore provides a reasonable basis for identifying the realistic cost of capital projects and programs. Our cost estimation methods also compared our historical unit costs with external benchmarks including unit costs derived from the AER’s repex model. Further information can be found in section 5.1 of Attachment 4.1.
- We have also analysed where our capital costs may differ from other Distribution Network Service Provider’s (DNSPs). This provided an understanding of the prudent costs another DNSP may incur in our circumstances. These differences include our geographic remoteness, small scale, and extreme weather conditions which increase the inherent costs of capital projects compared to other DNSPs. Further information on our unique circumstances can be found in section 3.3 of our Regulatory Proposal (Attachment 1.2).
- We have tested and explained differences between our capital forecasts with the outcomes of the AER’s repex model. Further information can be found in “Nuttall Consulting – Repex Report” (Attachment 5.1).



- We have engaged with our customers in developing our forecast capex. Further information can be found in “Engagement Overview” (Attachment 1.4). In summary, our capital program reflects strong support from customers to maintain current reliability at a system level, and to improve reliability for poor performing areas. We have not proposed any new user funded initiatives as our customers only provided limited support for these initiatives. We have also proposed to re-design the Power and Water App in response to feedback from our customers on improving the way we communicate. There was also strong support for advanced meters with 89% of our customers agreeing with the proposal to have smart meters rolled out to new customers. We consider this measure will assist us to reduce capex in the future, as it will unlock opportunities for more cost-reflective prices.

### 2.3 Addressing the capex factors

The AER will examine particular factors in the NT NER when assessing our forecast capex. Table 2.2 outlines how our forecast capex addresses each factor. We note that factors 1 to 3 have been deleted from the NT NER.

**Table 2.2 –Addressing the capex factors**

Capex Factors	How we addressed the capex factor
Capex Factor 4 - The most recent <i>annual benchmarking report</i> that has been <i>published</i> under rule 6.27 and the benchmark capital expenditure that would be incurred by an efficient <i>Distribution Network Service Provider</i> over the relevant <i>regulatory control period</i> .	We have carefully reviewed the AER’s 2017 annual benchmarking report. We have outlined unique circumstances relevant to our network in section 3.3 of our Regulatory Proposal (Attachment 1.2) that impact our benchmarking performance. In terms of direct benchmarking, we compared the results of our replacement unit costs with other DNSPs. This was undertaken as part of the repex review model, which is set out in “Nuttall Consulting – Repex report” (Attachment 5.1).
Capex Factor 5 - The actual and expected capital expenditure of the <i>Distribution Network Service Provider</i> during any preceding <i>regulatory control periods</i> .	Section 3 of the “Capex Overview document” (Attachment 4.1) identifies our capex in the previous and current period, including the drivers of capex over this period. We have explained why our actual/estimated capex in the current period is higher than the allowance provided by the Utilities Commission, including the steps we have taken to improve our capital forecasting and delivery. We also show the drivers of capex in the forthcoming period in section 2.4 of Attachment 4.1, including changes from historical spend.
Capex Factor 5A - The extent to which the capital expenditure forecast includes expenditure to address the concerns of electricity consumers as identified by the <i>Distribution Network Service Provider</i> in the course of its engagement with electricity consumers.	In section 2.2 of this document, we summarise how our forecast capex responded to customers’ concerns and preferences. Further information on our engagement activities and outcomes can be found in: <ul style="list-style-type: none"> <li>• Section 6 of Power and Water’s Regulatory Proposal (Attachment 1.2)</li> <li>• “Engagement Overview” (Attachment 1.4)</li> <li>• Section 2.2 of the “Capex Overview Document”</li> </ul>



Capex Factors	How we addressed the capex factor
	(Attachment 4.1).
Capex Factor 6 - The relative prices of operating and capital inputs.	<p>Our opex and capex forecasts both rely mostly on historical data as a basis for forecasting expenditure, providing for a consistent approach to pricing opex and capex inputs.</p> <p>We also applied consistent values for real changes in input costs for both capex and opex forecasts.</p>
Capex Factor 7 - The substitution possibilities between operating and capital expenditure.	<p>We considered substitution possibilities between capex and opex including:</p> <ul style="list-style-type: none"> <li>• Non-network solutions - Our response to question 8 of Schedule 1 of the AER's Regulatory Information Notice (Attachment 11.1) demonstrates how we considered non-network solutions. As a consequence of our analysis, we did not identify any non-network opex that could defer forecast capex.</li> <li>• Replacement and maintenance opex – We considered whether replacement activity would have a consequential impact on maintenance opex. We did not identify a consequential impact as our replacement program only seeks to maintain current system reliability.</li> </ul>
Capex Factor 8 - Whether the capital expenditure forecast is consistent with any incentive scheme or schemes that apply to the <i>Distribution Network Service Provider</i> under clauses 6.5.8A or 6.6.2 to 6.6.4.	<p>We note that incentive schemes will only start to apply in the NT in the next regulatory period.</p> <p>Our forecast capex provides a neutral target to apply the Capital Expenditure Sharing Scheme (clause 6.5.8A) This incentive scheme will provide strong incentives to undertake efficient capex in the future, and allow benefits to be shared with our customers.</p> <p>We propose that the Service Target Performance Incentive Scheme (clause 6.6.2) will not apply in the next regulatory period, which is consistent with the approach outlined in the Framework and Approach.</p> <p>The Demand Management Incentive Scheme (clause 6.6.3) and Demand Management Innovation Allowance Mechanism (clause 6.6.3A) will provide incentives to undertake efficient non-network investments that have not been included in our capex and opex forecast. As explained in our response to question 8 of Schedule 1 of the AER's Regulatory Information Notice (Attachment 11.1) we have not identified any viable and efficient non-network solutions for forecast capex at this stage of the planning process. We consider that the demand management incentives will provide continuous incentives to pursue non-network solutions if opportunities arise in the planning process.</p> <p>No small-scale incentive scheme (clause 6.6.4) will apply in the forthcoming period, consistent with the</p>





Capex Factors	How we addressed the capex factor
	AER's Framework and Approach paper.
Capex Factor 9 - The extent the capital expenditure forecast is referable to arrangements with a person other than the <i>Distribution Network Service Provider</i> that, in the opinion of the <i>AER</i> , do not reflect arm's length terms.	We have not identified capex that does not reflect arm's length terms.
Capex Factor 9A - Whether the capital expenditure forecast includes an amount relating to a project that should more appropriately be included as a contingent project under clause 6.6A.1(b).	Our proposed capex does not include an amount relating to a project that should be more appropriately included as a contingent project under clause 6.6A1(b).
Capex Factor 10 - The extent the <i>Distribution Network Service Provider</i> has considered, and made provision for, efficient and prudent non-network options.	Our response to question 8 of Schedule 1 of the <i>AER's</i> Regulatory Information Notice (Attachment 11.1) provides information on how we have assessed non-network solutions for our forecast capex.
Capex Factor 11 - Any relevant final project assessment report (as defined in clause 5.10.2) <i>published</i> under clause 5.17.4(o), (p) or (s).	We have not published any final project assessment report under clause 5.17.4.
Capex Factor 12 - Any other factor the <i>AER</i> considers relevant and which the <i>AER</i> has notified the <i>Distribution Network Service Provider</i> in writing, prior to the submission of its revised <i>regulatory proposal</i> under clause 6.10.3, is a <i>capital expenditure factor</i> .	The <i>AER</i> has not notified us of any other factor.

### 3. Opex objectives, criteria and factors

In the sections below, we identify the supporting evidence to show that our SCS forecast opex meets the opex objectives, criteria and factors found in clause 6.5.6 of the NT NER.

#### 3.1 Addressing the opex objectives

The opex objectives mirror the capex objectives. Please refer to section 2.1 where we identify each of the 4 objectives.

We have provided a description of our key opex activities in sections 4 to 9 of the document "Opex Base Year Justification" (Attachment 3.1). These categories align with the *AER's* RIN requirements. Table 3.1 shows how each category aligns to the opex objectives.

**Table 3.1: Aligning opex activities to opex objectives**

Opex Category	Alignment to opex objectives
Routine and Non-Routine Maintenance	This includes operational repairs and maintenance of the distribution system. The activities are required to comply with our regulatory obligations, and to maintain the safety, security, reliability and quality of supply. In this respect, the activity is aligned to Objectives 2, 3 and 4.
Emergency response	This only includes expenditure associated with our initial response to outages and other high-risk events that require the immediate dispatch of crews. We have specific emergency response obligations to arrange for restoration following an interruption. Our restoration activities are also vital to maintaining the safety, security, reliability and quality of the network. To this extent, emergency response activities relate to Objectives 2,3, and 4.
Vegetation management	This includes managing vegetation to maintain safe clearances from network assets. It also includes activities that prevent fast growing vegetation. These activities maintain the safety, security, reliability and quality of network services by preventing outages and preventing safety incidents. To this extent, emergency response activities relate to Objectives 3 and 4.
Non-network	This relates to the maintenance and operation of non-network assets, excluding motor vehicle assets, building and property assets and IT and communications assets. The activities support our network activities and are therefore indirectly aligned to Objectives 1 to 4. They are also integral to meeting our corporate and network obligations such as billing, safety, and financial reporting. In this respect, some of the forecast opex is directly aligned to objective 2.
Network overheads	These relate to indirect expenses such as strategy and planning including network development and planning, asset management, major projects and network engineering. It also includes indirect costs associated with service delivery and business management. These are activities required to deliver our network activities and therefore are a critical input to achieving all four objectives.
Corporate Overheads	These are activities carried out by several corporate functions within our business that are allocated to business units – including Power Networks – according to our corporate cost allocation process. Activities include human resources, health and safety, corporate communications, and learning and development. The costs are required to meet our corporate obligations and provide the necessary support to provide our network activities. In this respect, they align to all four objectives.



Our forecast method considered the level of opex required to achieve the opex objectives efficiently. Our initial step was to consider whether our base year opex reflected the efficient costs required to achieve the objectives. In particular:

- We examined whether our opex activities in the base year were achieving an appropriate level of reliability, safety and security of supply. In this respect, we received feedback from customers that the current level of reliability should be maintained at a system level.
- We considered whether our current activities were achieving compliance with our obligations. For example, we considered whether our emergency response activities were complying with our obligations to restore power after an interruption. Our analysis indicated we were largely achieving our obligations.
- As noted in 3.2 below, we considered whether we could incorporate any cost reductions to achieve the objectives more efficiently. Based on our analysis, we proposed a top down efficiency reduction of 10 per cent to our proposed base year.

Our forecast method then considered the drivers of change impacting the change in opex from the base year. Our method considered:

- Changes in our compliance obligations that could impact our opex activities. We assessed known changes in compliance obligations as at 1 July 2017. Based on our analysis, we included efficient step changes that would allow us to comply with our changed obligations.
- We considered ‘rate of growth’ factors that would impact our ability to achieve the opex objectives. For example, we applied a growth factor to our forecast opex to reflect the expected increase in customer connections, circuit length and ratcheted maximum demand. These factors increase the cost of maintaining the network, and meeting expected demand.

### **3.2 Addressing the opex criteria**

The opex criteria mirror the capex criteria. Please refer to section 2.2 for a description of the criteria. We consider our forecast method and supporting inputs demonstrate that we have met the opex criteria. In particular:

- We used a base-step-trend method to forecast opex. This is a well-accepted method to forecast opex, and is consistent with the AER’s preferred approach as detailed in its Expenditure Forecast Assessment Guideline.
- We provided robust justification for our proposed 2016-17 base year expenditure (in Attachment 3.1). This year is the most recent full regulatory year of actual reported expenditure that we have at the time of preparing this regulatory proposal, and is therefore our best view of what it costs to meet current demand and regulatory obligations. It also reflects the efficiencies that have been achieved in the current regulatory period.



- We proposed a top down efficiency reduction of 10 per cent to our proposed base year. Our adjustment was informed by an analysis of category benchmarking data of Australian DNSPs. In particular, we considered that there was room for improvement in our maintenance and network overhead opex. Section 2 of the document “Opex Base Year Justification” (Attachment 3.1) provides further information.
- We undertook a detailed review of each category of opex expenditure to identify activities and obligations. We also sought to compare our performance with other DNSPs, noting where we had unique drivers that explained differences in performance. Further information is provided in sections 4 to 9 of Attachment 3.1.
- We identified justifiable and efficient step changes from the base year. Our analysis identified how changes in regulation are expected to impact our SCS opex activities. We also examined the most efficient options to address the change in regulatory obligation. Further information can be found in the document “SCS and ACS Opex Step Changes” (Attachment 3.2).
- Our rate of change factors and weightings were informed by previous AER decisions, and were justifiable in relation to our circumstances. We applied forecast real changes in input costs, forecast output levels (linked to AEMO’s demand forecasts), and assumed productivity. We have provided further justification of our proposed inputs and weightings to determine the rate of change in sections 11.7 to 11.9 of our Regulatory Proposal document (Attachment 1.2).

### **3.3 Addressing the opex factors**

The opex factors mirror the capex factors. Table 3.2 provides information to the AER on how and we have addressed each opex factor. We note that factors 1 to 3 are no longer part of the NT NER.



Table 3.2 – Addressing the opex factors

Opex Factors	How we addressed the opex factor
<p>Opex Factor 4 - The most recent <i>annual benchmarking report</i> that has been <i>published</i> under rule 6.27 and the benchmark operating expenditure that would be incurred by an efficient <i>Distribution Network Service Provider</i> over the relevant <i>regulatory control period</i>.</p>	<p>We consider that it is problematic to compare our provision of distribution services with other DNSPs in the NEM and that it would not be meaningful or appropriate to use benchmarking deterministically to set our regulated revenues and prices. This is discussed further in sections 3.3 and 11.3 of our Regulatory Proposal (Attachment 1.2) in the context of benchmarking our opex forecasts.</p> <p>We have reviewed the AER's 2017 annual benchmarking report and the supporting material to it. We relied on the econometric inputs and outputs as inputs to our opex forecast, most notably the rate of change.</p> <p>We have also examined the underlying techniques in the AER's report – and the category analysis data collected annually by the AER – and used these metrics and data to compare our opex to that of our peers. This can be demonstrated by the following analysis:</p> <ul style="list-style-type: none"> <li>• In Section 2.3 of the document “Opex Base Year Justification” (Attachment 3.1) we compare our 2016-17 base year opex for SCS to data from other networks using their 2016 or 2015-16 RIN data as this was the best publicly available information. We identify the external cost drivers that affect our opex in Attachment 3.1, and which include extreme weather conditions and lack of scale.</li> <li>• In the same document, we compare our base year costs for FY17 to other DNSPs for each RIN opex category. Based on this analysis we proposed a 10 per cent overall opex reduction to target areas for improvement such as maintenance and network overheads. This is discussed in section 2.4 of Attachment 3.1.</li> </ul>
<p>Opex Factor 5 - The actual and expected operating expenditure of the <i>Distribution Network Service Provider</i> during any preceding <i>regulatory control periods</i>.</p>	<p>We propose using our actual 2016-17 expenditure as the base for applying the base, step and trend opex forecasting method. As noted above, our choice to use 2016-17 is based on analysis of our expenditure against our network peers, and our historical expenditure.</p> <p>Section 2.1 of Attachment 3.1 provides more detail on our trends for each category of opex in the current period, and provides further information on the drivers of the efficiency improvements.</p> <p>We note that a relevant factor for choosing 2016-17 as our base year was the level of opex reduction over the current period. Between 2013-14 and 2016-17, we reduced opex by 18% and spent less than the allowance set by the Utilities Commission.</p>



Opex Factors	How we addressed the opex factor
<p>Opex Factor 5A - The extent to which the operating expenditure forecast includes expenditure to address the concerns of electricity consumers as identified by the <i>Distribution Network Service Provider</i> in the course of its engagement with electricity consumers.</p>	<p>In section 2.2 of this document, we summarise how we responded to customers' concerns and preferences. Further information on our engagement activities and outcomes can be found in:</p> <ul style="list-style-type: none"> <li>• Section 6 of Power and Water's regulatory proposal (Attachment 1.2).</li> <li>• "Engagement Overview" (Attachment 1.4)</li> </ul>
<p>Opex Factor 6 - The relative prices of operating and capital inputs.</p>	<p>Our opex and capex forecasts both rely on historical data as a basis for forecasting expenditure, providing for a consistent approach to pricing opex and capex inputs.</p> <p>We also applied consistent values for real changes in input costs for both capex and opex forecasts. As explained in Chapter 11 of our Regulatory Proposal document, the forecast real rates of change used were sourced from recent AER determinations.</p>
<p>Opex Factor 7 - The substitution possibilities between operating and capital expenditure.</p>	<p>We considered substitution possibilities between capex and opex including:</p> <ul style="list-style-type: none"> <li>• Non-network solutions - Our response to question 8 of Schedule 1 of the AER's Regulatory Information Notice (Attachment 11.1) demonstrates how we considered non-network solutions. As a consequence of our analysis, we did not identify any non-network opex that could defer forecast capex.</li> <li>• Replacement and maintenance opex – We considered whether replacement activity would have a consequential impact on maintenance opex. We did not identify a consequential impact as our replacement program only seeks to maintain current system reliability.</li> </ul>
<p>Opex Factor 8 - Whether the operating expenditure forecast is consistent with any incentive scheme or schemes that apply to the <i>Distribution Network Service Provider</i> under clauses 6.5.8 or 6.6.2 to 6.6.4.</p>	<p>We note that incentive schemes will only start to apply in the NT in the next regulatory period.</p> <p>Our forecast opex provides a reasonable target to apply the Efficiency Benefit Sharing Scheme (6.5.8) and will result in a fair sharing of benefits with customers. This is because we applied the AER's preferred method of base-step-trend to forecast opex, and provided support to justify the inputs.</p> <p>We propose that the Service Target Performance Incentive Scheme will not apply in the next regulatory -period.</p> <p>There is no demand management costs included in our forecast opex, as we are not aware of any viable and efficient non-network solutions at this stage of the capital planning process. This means there is no possibility of double counting a reward under the Demand Management Innovation Scheme (6.6.3) We also note that the Demand Management Innovation Allowance Mechanism (clause 6.6.3A) is calculated as part of the revenue calculation in the PTRM,</p>



Opex Factors	How we addressed the opex factor
	<p>and not our forecast opex.</p> <p>No small scale incentive (6.6.4) will apply in the forthcoming period consistent with the AER's Framework and Approach paper.</p>
<p>Opex Factor 9 - The extent the operating expenditure forecast is referable to arrangements with a person other than the <i>Distribution Network Service Provider</i> that, in the opinion of the <i>AER</i>, do not reflect arm's length terms.</p>	<p>We have not identified opex that does not reflect arm's length terms.</p>
<p>Opex Factor 9A - Whether the operating expenditure forecast includes an amount relating to a project that should more appropriately be included as a contingent project under clause 6.6A.1(b).</p>	<p>Our proposed opex does not include an amount relating to a project that should be more appropriately included as a contingent project.</p>
<p>Opex Factor 10 - The extent the Distribution Network Service Provider has considered, and made provision for, efficient and prudent non-network options.</p>	<p>Our response to question 8 of Schedule 1 of the AER's Regulatory Information Notice (Attachment 11.1) provides information on how we have considered non-network solutions for our forecast opex.</p>
<p>Opex Factor 11 - Any relevant final project assessment report (as defined in clause 5.10.2) <i>published</i> under clause 5.17.4(o), (p) or (s).</p>	<p>No final project assessment report has been published by Power and Water under clause 5.17.4.</p>
<p>Opex Factor 12 - Any other factor the <i>AER</i> considers relevant and which the <i>AER</i> has notified the <i>Distribution Network Service Provider</i> in writing, prior to the submission of its revised <i>regulatory proposal</i> under clause 6.10.3, is an <i>operating expenditure factor</i>.</p>	<p>The AER has not notified Power and Water of any other factor.</p>