

**NATIONAL ELECTRICITY RULES
CLAUSES S6.1.1(5) AND S6.1.2(6)**

**CERTIFICATION OF REASONABLENESS OF KEY ASSUMPTIONS THAT UNDERLIE
CAPITAL EXPENDITURE AND OPERATING EXPENDITURE FORECASTS**

I certify that on 11 December 2019 the Directors of Powercor Australia Ltd (ACN 89 0640 651 109) passed the following resolution.

It was resolved to:

1. certify, in accordance with clause S6.1.1(5) of the National Electricity Rules, the key assumptions that underlie the capital expenditure forecast for Powercor are reasonable; and
2. certify, in accordance with clause S6.1.2(6) of the National Electricity Rules, the key assumptions that underlie the operating expenditure forecast for Powercor are reasonable.

The key assumptions that underlie the capital expenditure and operating expenditure forecasts referred to above are attached to this certification.



Peter Wilkins
Company Secretary
Powercor Australia Ltd

7 January 2020

Attachment 1

Key Assumptions	Supporting evidence
Assumptions applicable to operating and capital expenditure	
Forecast expenditure incorporates stakeholder engagement feedback	<ul style="list-style-type: none"> Completed Energised 2021-2026 program More than 4,000 touchpoints with customers and stakeholders since 2017 Draft Proposal released for feedback in February 2019
Labour escalation forecast	<ul style="list-style-type: none"> Based on BIS Oxford Victorian Electricity Gas Water and Waste Services wage growth forecasts, escalated for Superannuation Guarantee Levy reaching 12.0% by 2025
Contract escalation forecast (Only capital expenditure)	<ul style="list-style-type: none"> Based on BIS Oxford Victorian construction sector wage growth forecasts, escalated for Superannuation Guarantee Levy reaching 12.0% by 2025
Materials escalation forecast	<ul style="list-style-type: none"> No real escalation assumed, consistent with AER accepted approach
Assumptions applicable to capital expenditure forecast only	
Replacement	
Replacement asset management strategies and the scope of works selected for each asset category are appropriate to meet the capital expenditure objectives of the Rules	<ul style="list-style-type: none"> Asset management framework aligns with the requirements of ISO 55001 Forecasts for major plant and equipment are primarily based on a risk monetisation approach that identifies the least cost intervention option, consistent with the AER's asset replacement planning guideline Forecasts for routine replacement of high volume equipment, such as poles and wires, are primarily forecast based on historical trends and/or averages that reflect prudent asset management practices. Where new asset management policies are applicable, forecasts have been developed based on these policies Application of the AER replacement expenditure model to compare forecasts Volumes and unit rates are based on audited historical RIN data or observed actual costs for like projects
Augmentation	
Spatial peak demand growth as forecast	<ul style="list-style-type: none"> Demand forecasts prepared based on our bottom-up analysis and reconciled to the top-down forecasts prepared by the Centre for International Economics (CIE)
We forecast expenditure consistent with our compliance obligations under the Victorian Electricity Distribution Code	<ul style="list-style-type: none"> Version 9A of the Victorian Electricity Distribution Code

Key Assumptions	Supporting evidence
Network capacity planning strategies and the scope of works selected for each network category are appropriate to meet the capital expenditure objectives of the Rules	<ul style="list-style-type: none"> • 2018 Distribution Annual Planning Report • 2018 Transmission Connection Planning Report
Customer connections	
Customer connection expenditure as forecast	<ul style="list-style-type: none"> • Volume forecasts for residential and commercial connections prepared using the Australian Construction Industry Forum construction activity index • Internal estimates used to forecast large and renewable connections • Customer contributions based on historical percentages determined in accordance with Chapter 5A of the National Electricity Rules and the AER's connections charge guideline
Assumptions applicable to operating expenditure forecast only	
Base, step, trend approach applied to operating expenditure forecast	<ul style="list-style-type: none"> • Nominated 2019 as efficient revealed cost year
Rate of change as forecast	<ul style="list-style-type: none"> • Customer forecasts prepared by CIE • Maximum demand forecasts prepared by CIE • Circuit length forecasts based on historical trends • Output weights based on an average of two AER econometric models, as per advice from NERA • AER pre-emptive productivity adjustment applied