







2018-22

POWERLINK QUEENSLAND
REVISED REVENUE PROPOSAL OVERVIEW








Delivering better value

Overview of Powerlink's 2018-22 Revised Revenue Proposal

This document provides an overview of Powerlink's Revised Revenue Proposal to the Australian Energy Regulator (AER) for the 2017/18-2021/22 regulatory period. The Revised Revenue Proposal applies only to Powerlink's prescribed (regulated) services.

Its purpose is to provide a summary of the key elements of the Revised Revenue Proposal including:

- Pricing
- Revenue
- Rate of return
- Capital expenditure
- Operating expenditure
- Stakeholder engagement.

To view the complete Revised Revenue Proposal, please visit the Regulated Revenue section of the Powerlink website at www.powerlink.com.au.

Revised Revenue Proposal Snapshot

Powerlink is focused on doing its part in the overall electricity supply chain to deliver better value to Queensland consumers and customers.

Key highlights of Powerlink's Revised Revenue Proposal include:

Electricity Prices

31% drop in indicative transmission price in the first year of the 2018-22 regulatory period, up from 28% in Powerlink's January 2016 Revenue Proposal

Between **$25 and $41** savings for the average Queensland residential household annual electricity bill, up from $22 to $37 in Powerlink's January 2016 Revenue Proposal

Price growth remains within CPI over the balance of the regulatory period

Maximum Allowed Revenue

7% lower than Powerlink's January 2016 Revenue Proposal for the 2018-22 period

0.6% higher than AER's Draft Decision due to revised capital expenditure forecast

Forecast Capital Expenditure

7% lower than Powerlink's January 2016 Revenue Proposal for the 2018-22 period

15% higher than the AER's Draft Decision

Forecast Operating Expenditure

No change. Powerlink has accepted the AER's Draft Decision operating expenditure allowance.

Rate of Return

No change from the AER's estimate of 5.48%.

Note that this may change when the AER updates the rate of return in its Final Decision.

In developing both its Revenue Proposal and Revised Revenue Proposal, Powerlink focused on responding to consumer concern over electricity prices by driving increased efficiency and delivering cost reductions.

Powerlink continues to align with the AER's guidelines and approach and submit a Revised Revenue Proposal to meet the needs of customers, while allowing for the continued delivery of a reliable supply of electricity.

AER Draft Decision

In its Draft Decision, the AER accepted most elements of Powerlink's January 2016 Revenue Proposal, including the operating expenditure forecast and rate of return methodology.

The key element of Powerlink's Revenue Proposal that was not accepted by the AER was forecast capital expenditure required for network reinvestment.

Powerlink has not accepted the AER's Draft Decision on forecast capital expenditure. Powerlink's Revised Revenue Proposal responds to the matters raised by the AER and includes a revised capital expenditure forecast.

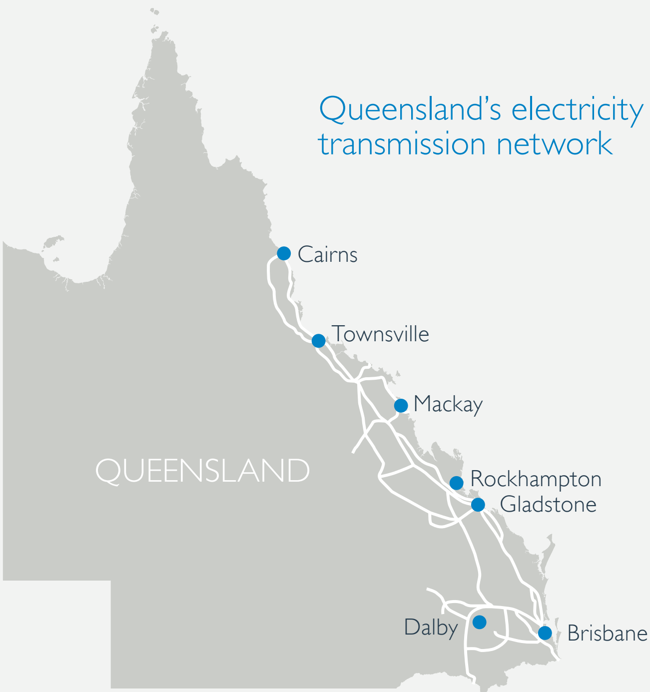
About Powerlink

Powerlink is a Government Owned Corporation that owns, develops, operates and maintains the electricity transmission network in Queensland.

With electricity being a key enabler of the economy and supporter of our lifestyles, we have an important responsibility to deliver electricity to almost four million Queenslanders.

Powerlink also transports electricity to large industrial customers such as rail companies, mines and mineral processing facilities that are directly connected to the transmission network.

Powerlink's transmission network runs approximately 1,700km from Cairns down to the New South Wales border.



9%

The cost of Powerlink's high voltage electricity grid represents around 9%* of the total delivered cost of electricity for the typical Queensland residential electricity consumer.

Electricity supply chain components	Proportion of electricity bill
Generators and retailers	36%
High voltage transmission	9%
Electricity distribution	42%
Environmental policies	13%

*AEMC 2015 Residential Electricity Price Trends Report

Pricing, Revenue & Rate of Return

Pricing

For the average Queensland residential electricity consumer, Powerlink's Revised Revenue Proposal is expected to deliver a 31% reduction in the indicative transmission price in the first year of the next regulatory period (2017/18).

On the basis of typical tariffs and consumption, this will reduce the average residential electricity bill by 2.9%, which represents an estimated saving of between $25 and $41.

Indicative transmission prices over the balance of the regulatory period out to 2021/22 are expected to remain within CPI growth on average.

The following table provides an estimate of how the transmission component of the typical residential and business electricity bill will be impacted by the Revised Revenue Proposal:

		Final Year Of Current Regulatory Period	First Year Of Next Regulatory Period	Reduction
		2016/17	2017/18	2017/18
Average annual residential electricity bill* (based on annual usage range of 2,500kWh and 5,173 kWh)	Transmission Component	$80 - $134	$55 - $93	$25 - $41 (31%)
Average annual business electricity bill* (based on annual usage range of 10,000kWh and 20,000 kWh)	Transmission Component	$280 - $488	$193 - $337	$87 - $151 (31%)

*The transmission component represents around 9% of the total delivered cost of electricity for the typical Queensland residence and business

Revenue

In its Revised Revenue Proposal for the 2018-22 regulatory period, Powerlink has proposed a Maximum Allowed Revenue (MAR) of $3.74 billion.

This reflects a $303 million (or 30%) reduction in annual revenue in the first year of the 2018-22 regulatory period and a $905 million (or 19%) reduction in total MAR compared to the current regulatory period. Revenue growth over the remainder of the 2018-22 regulatory period will be within CPI.

Rate of return

In its Revised Revenue Proposal, Powerlink has applied 5.48% for the rate of return, consistent with the estimate in the AER's Draft Decision.

The AER will update the rate of return in its Final Decision by April 2017 based on the latest financial market data and agreed averaging periods.

Capital & Operating Expenditure

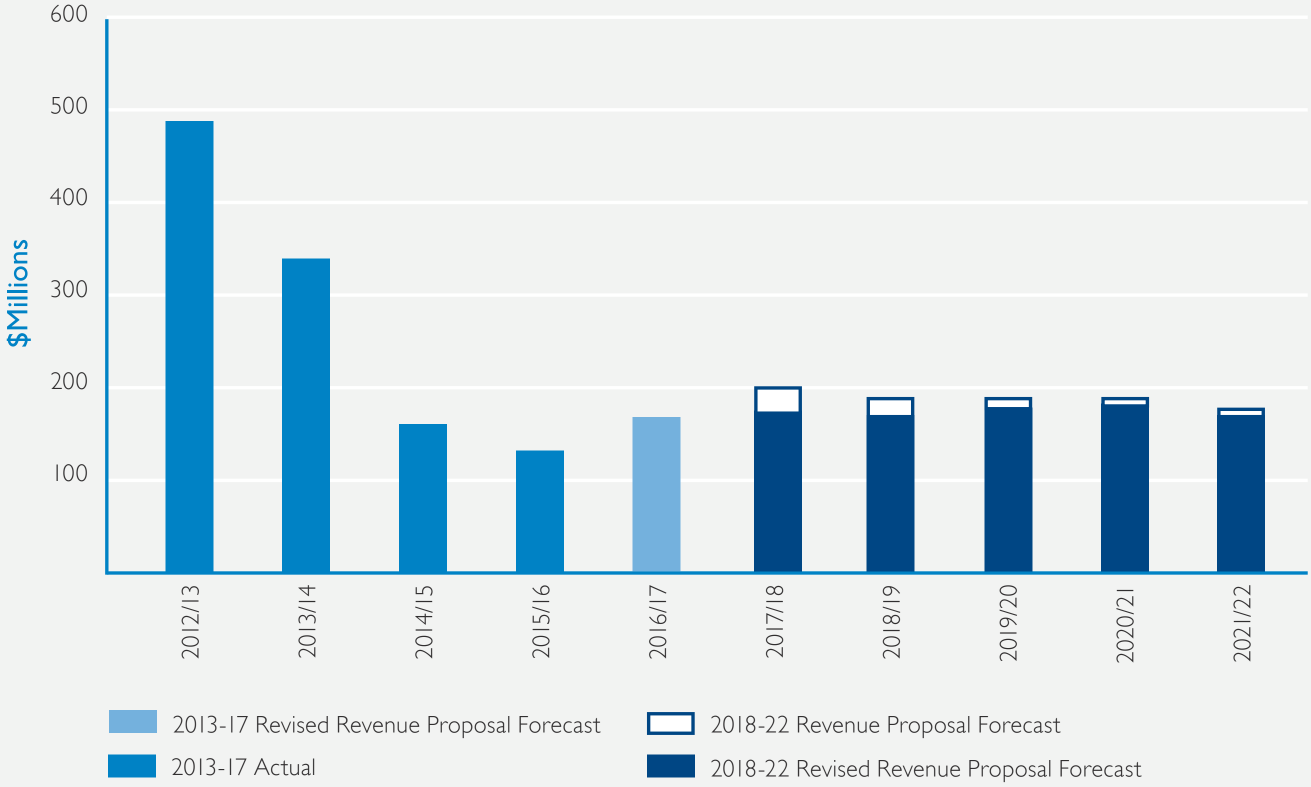
Capital expenditure

Powerlink proposed total forecast capital expenditure of $957.1 million in its January 2016 Revenue Proposal for the 2018-22 regulatory period, which was 31% lower than actual expenditure in the 2013-17 regulatory period.

In its Draft Decision, the AER reduced the total forecast capital expenditure proposed by Powerlink by 19% to $772.6 million. This reduction related only to network reinvestment, with the AER accepting all other categories of capital expenditure.

Powerlink has reviewed the AER's Draft Decision and proposed a revised total capital expenditure forecast of $886 million, which is 7.4% less than the forecast in its Revenue Proposal.

Powerlink considers this revised level of reinvestment capital expenditure achieves an appropriate balance between driving a reduction in electricity prices while maintaining the level of reliability consumers have come to expect.



Operating expenditure

In its Draft Decision, the AER accepted Powerlink's proposed total forecast operating expenditure of $976.7 million, reflecting our focus on delivering increased efficiency and cost reductions. Powerlink accepts the AER's Draft Decision regarding operating expenditure.

Stakeholder Engagement

Powerlink continued to engage with key stakeholders based on its customer and consumer engagement framework through activities which included:

- Powerlink Transmission Network Forum
- Demand and Energy Forecasting Forum
- Powerlink Customer and Consumer Panel
- One-on-one stakeholder briefings.

In its Draft Decision the AER acknowledged Powerlink had taken important steps to engage with its customers and that the engagement undertaken had significantly built on the engagement program undertaken in previous regulatory reviews for other network service providers.

Powerlink's approach to stakeholder engagement has continued to evolve based on feedback received from customers and consumers about engagement activities and discussion topics. We have focused on providing relevant information in advance of face-to-face discussions to try to ensure that stakeholders are adequately prepared to provide input during engagement activities.

Powerlink continues to take a long term view of engagement, with stakeholder input informing better decision-making as part of business as usual, not just for Powerlink's revenue determination process.

How did engagement influence the Revised Revenue Proposal?

With the AER accepting most elements of Powerlink's Revenue Proposal, engagement on the Revised Revenue Proposal focused on two key areas which the AER did not accept in its Draft Decision:

- Capital expenditure forecast
- Service Target Performance Incentive Scheme (STPIS).

Topic	Feedback received	How Powerlink used the feedback in the Revised Revenue Proposal
Capital Expenditure Forecast	Value in understanding how Powerlink's mean asset replacement lives compare against other transmission network businesses.	Included information on mean replacement lives for assets across various transmission network businesses.
	Need to quantify the longer-term impacts of reduced replacement expenditure on customer reliability to allow a better understanding of risk/cost balance for consumers.	Provided supporting information to clarify longer-term impacts on network performance indicators regarding risks to customer supply reliability.
Service Target Performance Incentive Scheme (STPIS)	Stakeholders noted the disproportionate penalty of the Network Capability Component (NCC) of STPIS, but said this risk should be considered while looking at the incentive scheme as a whole.	Took a holistic approach to the risk associated with STPIS and sought clarification from the AER regarding the disproportionate nature of the NCC incentive.

Next Steps

The next steps in Powerlink's Transmission Determination process are:

Date	Action
1 December 2016	Powerlink submitted Revised Revenue Proposal
23 December 2016	Closing date for public submissions on Revised Revenue Proposal
By 30 April 2017	AER releases its Final Determination
1 July 2017	Start of new regulatory period

Further information

A full copy of the Revised Revenue Proposal is available on the Regulated Revenue section of Powerlink's website at www.powerlink.com.au.

Contact us

You can contact us in the following ways:

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