

## Introduction to the December 2019 initial forecast

Powerlink has prepared an initial, high-level forecast of its capital expenditure (capex), operating expenditure (opex), Maximum Allowed Revenue (MAR) and Regulated Asset Base (RAB) for the purposes of early discussion with customers, stakeholders and the Australian Energy Regulator (AER).

The intent of this forecast is to establish an initial view, to identify and frame the assumptions and inputs which will change through the development of Powerlink's Revenue Proposal.

## Key inputs and assumptions

Topic	Element	Inputs and assumptions
Capital expenditure	Load-driven and non-load driven capex	<ul style="list-style-type: none"> <li>A 'central case' has been used based on Powerlink's June 2019 Transmission Annual Planning Report (TAPR).</li> <li>A band of approx. +20%,-15% has been applied to the 'central case' to provide a reasonable range. This is based on inclusion of ~\$200m of potential capex at the high end and removal of ~\$150m of capex at the low end.</li> </ul>
	Non-network capex	<ul style="list-style-type: none"> <li>Initial view based on existing internal plans and strategies. No detailed analysis undertaken at this point in time.</li> </ul>
	Capex/opex trade offs	<ul style="list-style-type: none"> <li>None assumed within the initial forecast.</li> </ul>
Operating expenditure	Base year	<ul style="list-style-type: none"> <li>Powerlink has assumed an opex range for the potential base year (2019/20 in this forecast), plus years 2020/21 and 2021/22. The range reflects uncertainty of some elements of the opex spend in those years.</li> </ul>
	Step changes	<ul style="list-style-type: none"> <li>No potential step changes assumed at this point in time.</li> <li>Powerlink is considering a range of potential step changes which it will discuss with customers in early 2020.</li> </ul>
	Trend – output growth	<ul style="list-style-type: none"> <li>Sourced from existing data (e.g. Regulatory Information Notices (RIN) information) and trended forward.</li> </ul>
	Trend – price growth	<ul style="list-style-type: none"> <li>Utilised Deloitte Access Economics (DAE) Wage Price Index (WPI) forecast to 2024/25 utilities wages in Queensland, then trended forward for remaining two years of forecast.</li> <li>This formed a 'low case'. Powerlink then applied a higher value using forecasts from alternative sources to obtain a range.</li> </ul>
	Trend – productivity	<ul style="list-style-type: none"> <li>Applied a band of 0% → 0.5%, based on recent AER determinations for TransGrid (May 18), ElectraNet (Apr 18) and TasNetworks (Apr 19), transmission industry productivity trend of ~0.15% and a higher productivity of 0.5% based on the AER's productivity target for distribution businesses, published March 2019.</li> </ul>
Finance	Weighted Average Cost of Capital (WACC)	<ul style="list-style-type: none"> <li>Assumes a nominal vanilla WACC range of between 4.3%-5.0%.</li> <li>Cost of debt is based on estimate of the AER's trailing average approach for 2022.</li> <li>Cost of equity is based on a risk free rate range of 0.8%-1.7%.</li> <li>Refer to internal forecast slide deck for further breakdown.</li> </ul>
	Taxation	<ul style="list-style-type: none"> <li>Impact of new AER tax ruling is currently being assessed.</li> <li>Estimate of immediately deductible capex has been included based on historic data.</li> </ul>
	RAB	<ul style="list-style-type: none"> <li>No asset disposals forecast.</li> </ul>
	Debt raising	<ul style="list-style-type: none"> <li>Assumes a 5.5 basis point, consistent with recent Energex and Ergon Energy Draft Decisions (October 2019).</li> </ul>
	CPI	<ul style="list-style-type: none"> <li>Assumes forecast CPI of 2%. This is a mid-point of 2.45% (based on AER's current approach) and 1.45% (market-based forecast).</li> </ul>

## Initial forecast – high level figures

The table below summarises key aspects of the initial forecast against Powerlink’s current regulatory allowance (2018-22). All figures are in \$m (2021/22 real) and are for the full five-year regulatory period.

Key component	Current allowance 2018-2022	Dec 2019 initial forecast 2023-2027	Difference	
			\$	%
Capex	\$916.6	\$942.1 – \$1,274.7	\$25.5 – \$358.1	3.4% – 39.8%
Opex	\$1,074.9	\$1,087.7 – \$1109.7	\$12.8 – \$34.8	1.2% - 3.2%
RAB	\$7,684.9 (2017/18)	\$6,469.5 – \$6,792.6 (2026/27)	(\$1,215.5) – (\$892.4)	(15.8%) – (11.6%)
Rate of Return	~6%	4.3% – 5.0%	N/A	(1.7%) – (1.0%)
MAR	\$4,034.6	\$3,533.6 – \$3,844.9	(\$501.0) – (\$189.7)	(12.4%) – (4.7%)