Powerlink's Customer Panel Meeting

28 July 2020

Agenda

- Welcome and introductions
- Update from Revenue Proposal Reference Group
- Revenue Determination process – Preliminary Positions and Forecasts Paper (PPFP)
- Introduction and key focus areas from Powerlink's new Chief Executive, Paul Simshauser
- Energy Charter Disclosure Statement
- Close and thanks

Update from Revenue Proposal Reference Group

Mark Grenning
Customer Panel member – Energy Users Association of Australia

2023-27 Revenue Proposal
Preliminary Positions and Forecasts Paper

Matthew Myers
Manager Revenue Reset

Dana Boxall
Reset Stream Lead – Finance and Modelling

Greg Hesse
Reset Stream Lead – Capital Expenditure

Gerard Reilly
General Manager Communications

Purpose of this session

- Discuss Powerlink's Preliminary Positions and Forecasts Paper (PPFP) for its 2023-27 Revenue Proposal.
- Gather input on Powerlink's July 2020 (Cut 3) forecasts and proposed engagement activities.
- Input will inform our Draft Revenue Proposal, which we are aiming to release for consultation by end September 2020.
- **This is a shorter presentation to guide discussion within the hour session. It should be considered in conjunction with the full presentation sent out as pre-reading.**

All figures are preliminary and indicative only. They do not represent Powerlink's final Revenue Proposal position.

Material changes since our April 2020 forecast

Topic	Key changes
Capex	• Forecast capex is $263m and 20% lower than our April 2020 forecast. • This is due to the ongoing conditioning and calibration of the Repex Model and review of unit rates. This forecast integrates a mix of ‘top down’ forecasts based on the Repex Model and ‘bottom up’ forecasts from individual project estimates.
Opex	• Forecast opex is $7.1m and 0.6% lower than our April 2020 forecast. • We are intending to use 2018/19 as our base year. • We have reduced our potential step changes from the April 2020 forecast from ~ $26.1m to $11.8m. • We have adjusted our rate of change (trend) parameter for the Wage Price Index. This has increased the rate of change from 0.92% to 1.06%.
RAB/RoR/MAR	• Inflation forecast is 2.25%, per the AER’s methodology and using trimmed mean inflation due to COVID-19 impact. • Cost of debt updated to reflect Powerlink’s most recent prevailing interest rate and assume this remains unchanged for the 2023-27 regulatory period, resulting in a RoR forecast of 4.49% to 4.02% over the 2023-27 regulatory period. • MAR is higher by $32.4m (1%) compared to the April 2020 forecast due mainly to the adoption of the year-by-year tracking approach for forecasting depreciation.
Incentive schemes	• Capital Expenditure Sharing Scheme (CESS) has been updated and results in a $4.9m increase in MAR for the 2023-27 regulatory period. • Efficiency Benefit Sharing Scheme (EBSS) has been re-calculated and will increase MAR by $6.1m for the 2023-27 regulatory period.

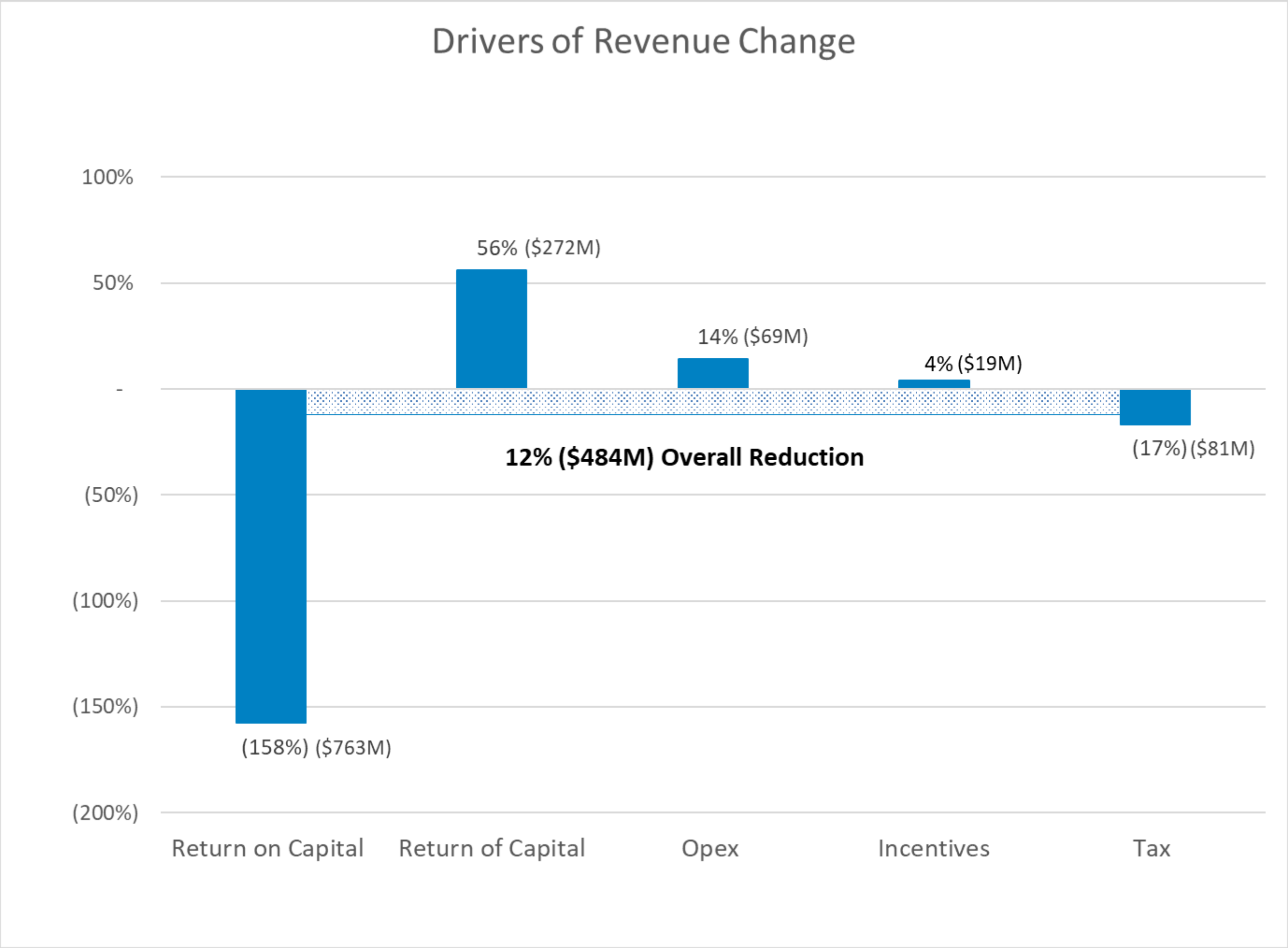
July 2020 forecast – high-level overview

Maximum Allowed Revenue	Rate of Return	Capital expenditure	Operating expenditure
2018-22 - $3964.7m	2018-22 - ~6%	2018-22 - $904.8m	2018-22 - $1056.5m
2023-27 - $3480.4m	2023-27 - ~4.49%	2023-27 - $1065.2m	2023-27 - $1125.0m
↓ $484m (12%)	↓ 1.5%	↑ $160m (18%)	↑ $68.5m (6%)

Notes:

- *All figures are in $m (2021/22 real) and are for the full five-year regulatory period.*
- *RoR / Weighted Average Cost of Capital (WACC) is nominal vanilla.*

Drivers of MAR change



2023-27 MAR is forecast to decrease by ~12% ($484m) compared to the current regulatory period. Key contributors are:

- Return on Capital - $763m lower due to lower Rate of Return (RoR)[1].
- Return of Capital - $272m higher due to the impact of a lower revaluation of the RAB and change to the year-by-year depreciation tracking approach.
- Opex - $69m higher, due to rate of change elements, higher insurance premiums, AEMC Levy[2] and proposed cyber security step change.
- Incentives - $19m higher, due to the introduction of CESS and a forecast revenue increment under both EBSS and CESS.
- Tax - $81m lower, primarily due to the change in estimating taxation as a result of the AER's 2018 Tax Review.

Comparison against current Rate of Return

- We recognise the RoR is largely driven by external financial markets.
- For comparison, if the current RoR (~6%) was applied to the July 2020 capital and operating expenditure forecasts, our MAR would be increasing in the 2023-27 regulatory period by ~$640m.

Notes:

[1] *Based on RoR scenario of 4.49% for Cut 3.*

[2] *We are still investigating alternative treatment.*

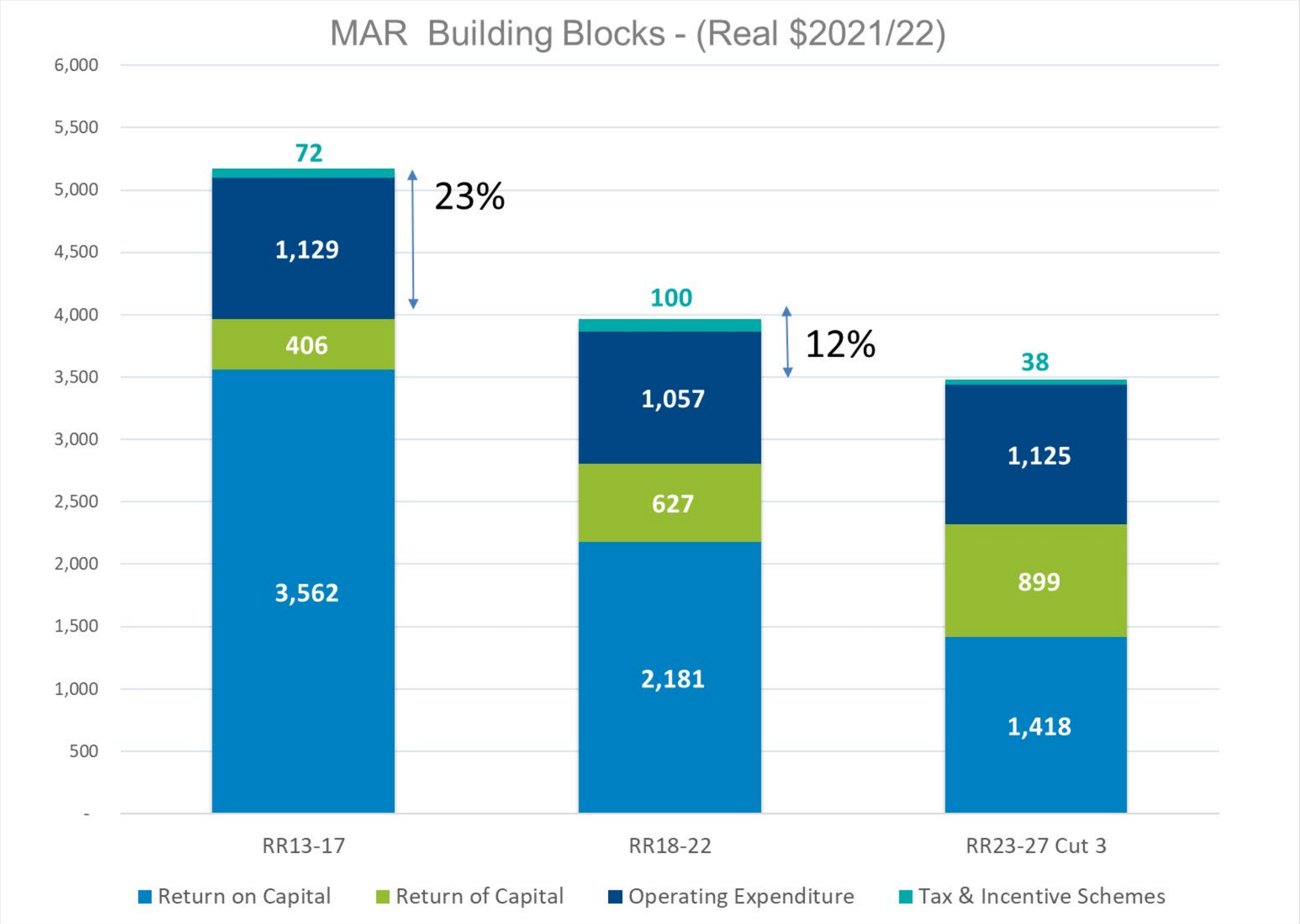
Cut 3 forecast - RoR

- The rate of return for the 2023-27 regulatory period is ~1.5% lower than the current regulatory period, primarily driven by the current historic low interest rate environment.

Parameter	Base	Assumptions
Risk Free Rate (Rf) *(Change from April 2020)*	0.93% *(0.07%)*	Rf based on recent 20 day averages
Market Risk Premium (MRP)	6.10%	As per the AER's 2018 binding Rate of Return Instrument
Equity Beta	0.6	As per the AER's 2018 binding Rate of Return Instrument
Return on Equity *(Change from April 2020 forecast)*	**4.59%** *(0.07%)*	
Return on Debt *(Change from April 2020 forecast)*	**4.42%** ---	Cost of debt assumes Powerlink's prevailing rate for 2020/21 remains unchanged for 2023-37 regulatory period
WACC *(Change from April 2020 forecast)*	**4.49%** *(0.02%)*	
Gamma	0.585	As per AER's 2018 binding Rate of Return Instrument

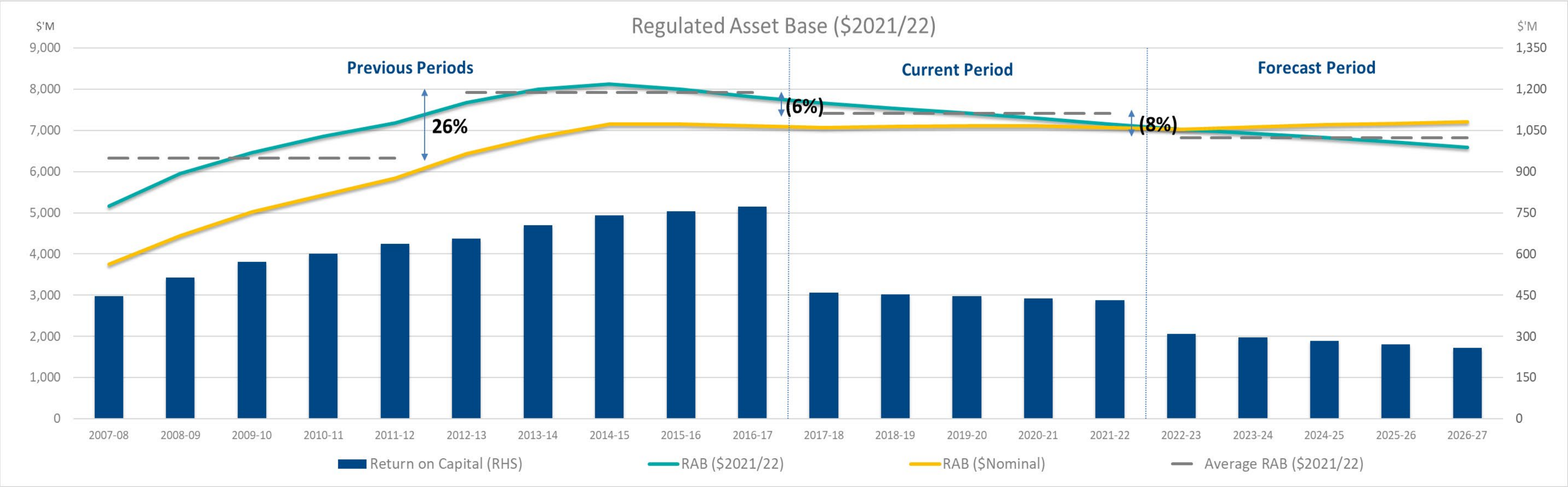
Cut 3 forecast – MAR building blocks

- The reduction in MAR is primarily related to a reduction in the return on capital building block (RAB*Rate of Return). This is forecast to be $763m or 35% lower than the current regulatory period.



Cut 3 forecast – RAB

- The RAB is forecast to continue to decline in real terms in the current regulatory period and through the 2023-27 regulatory period.



Incentive schemes – EBSS, CESS

Efficiency Benefit Sharing Scheme (EBSS)

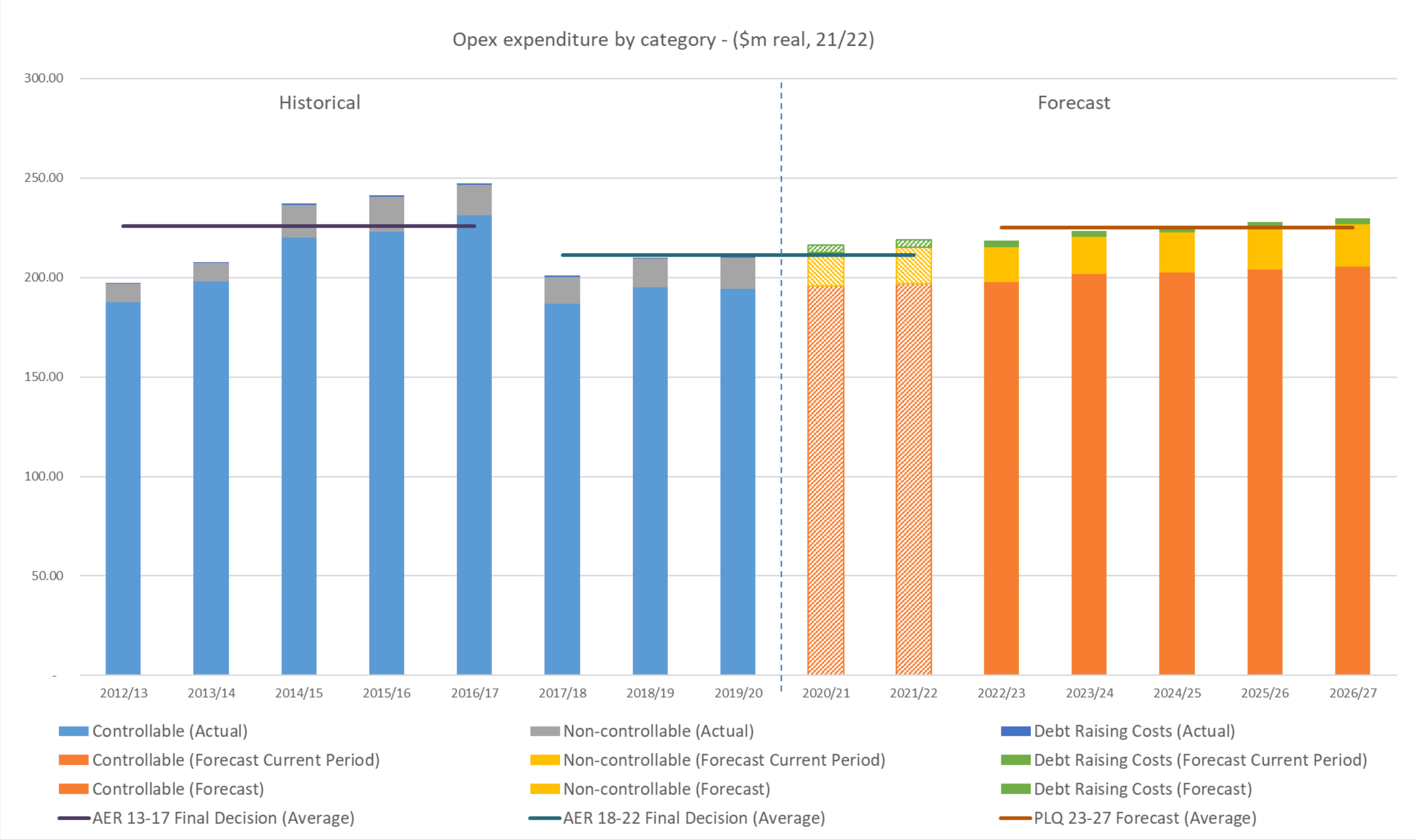
- We have calculated the estimated carryover amounts for the 2018-22 regulatory period as a revenue increment of $6.1m.
- Our April 2020 forecast included an EBSS revenue adjustment of -$23m.
- The change between April 2020 and now is primarily due to a non-recurrent efficiency adjustment for the 500kV write-off costs in 2014-15 that was removed from the 2014-15 base opex amount, as well as a change in the opex base year.
- We are engaging with the AER on the impact of inflation on the EBSS.

Capital Expenditure Sharing Scheme (CESS)

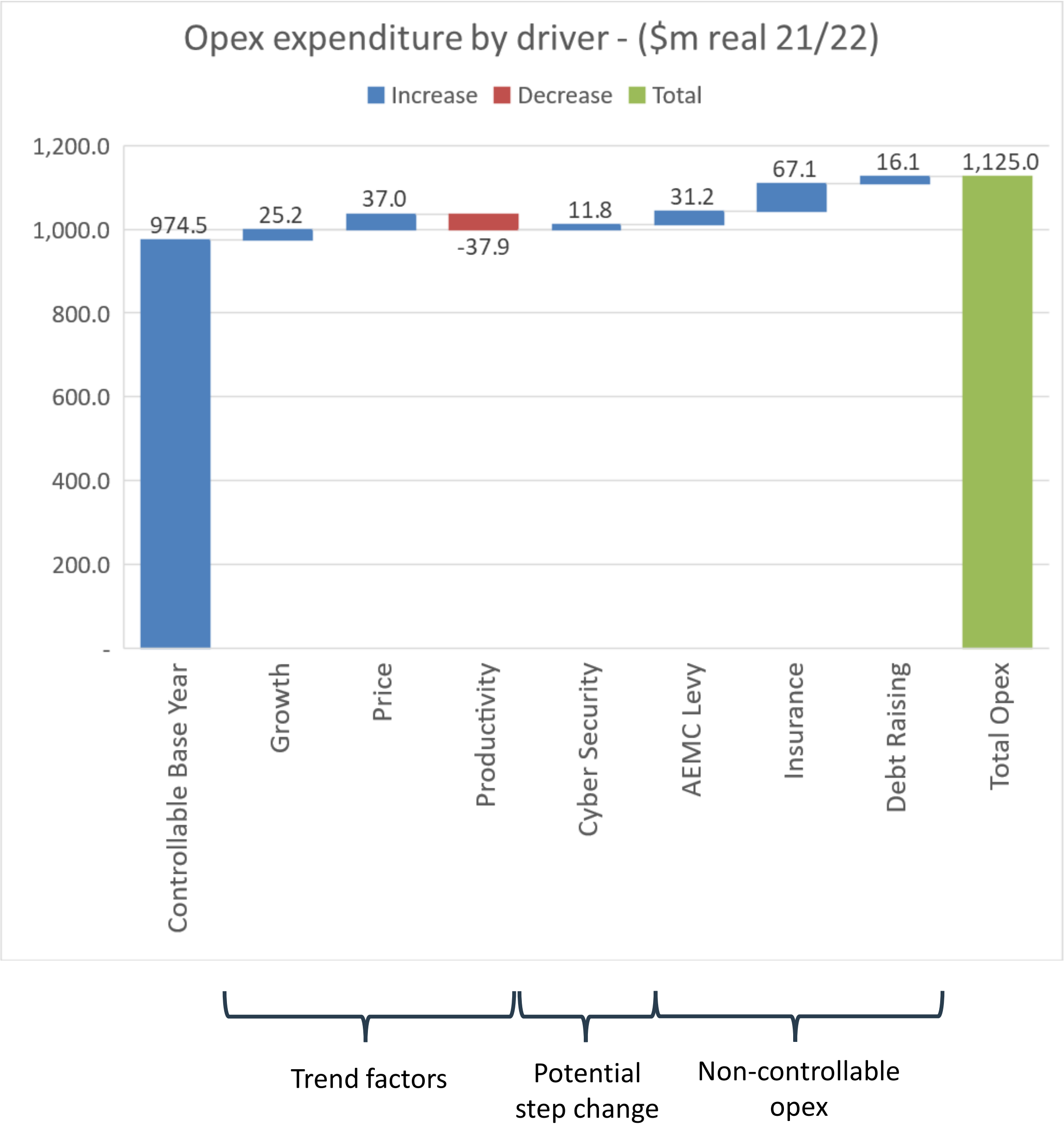
- We have calculated the estimated carryover amounts for the 2018-22 regulatory period as a revenue adjustment of $4.9m.
- Our April 2020 forecast included a CESS revenue adjustment of -$2m.
- The change between April 2020 and now is due to an anticipated lower capex forecast for the current regulatory period.

Total opex

- Total opex within the 2018-22 regulatory period is expected to be in line with the AER allowance.
- The forecast opex increase in 2023-27 is due to step change and rate of change impacts for controllable expenditure and increases in insurance and the AEMC Levy costs for non-controllable expenditure.



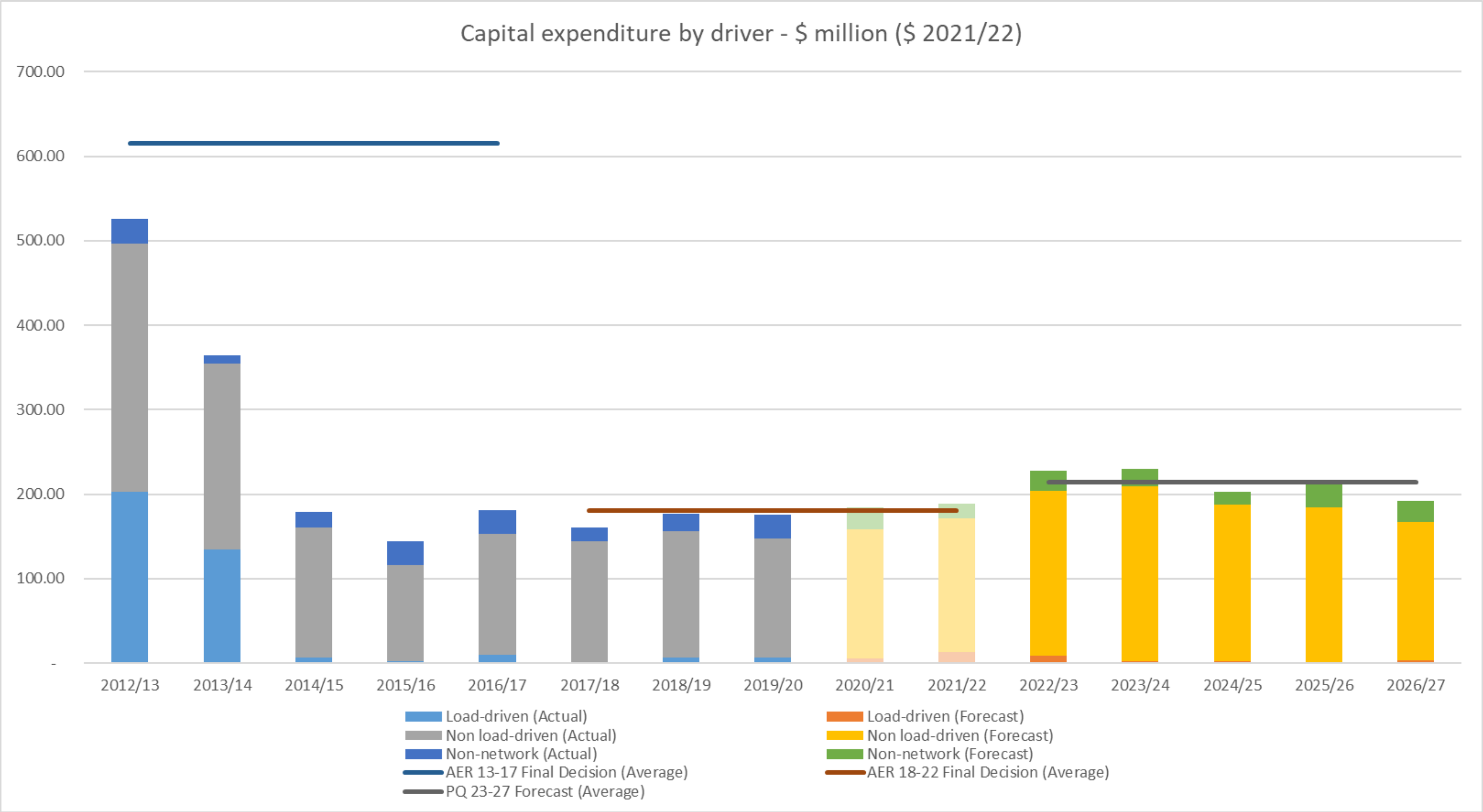
Opex – waterfall graph



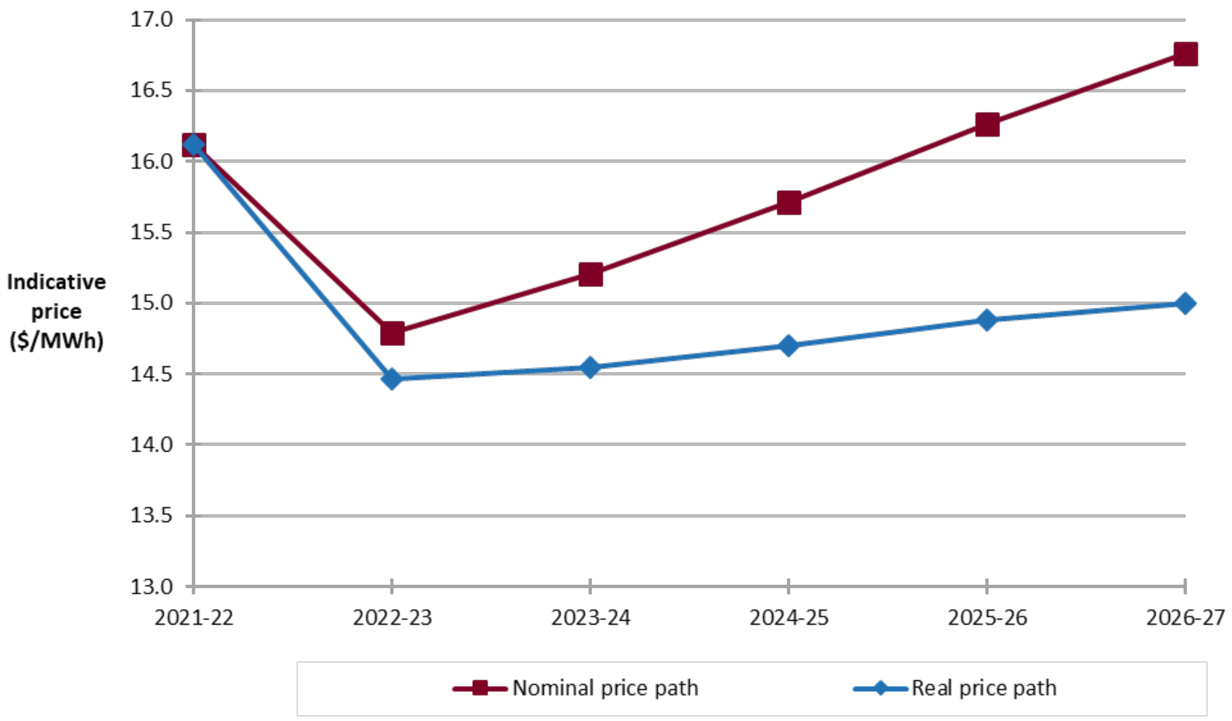
- **Controllable base year** – reflects controllable opex for the 2018/19 year.
- **Trend** – 1.06% rate of change reflecting output, price (labour and materials) and productivity growth. Contributes ~$4.86m p.a. increase.
- **Cyber security step changes** – increase in opex not captured in base opex or the rate of change. Currently contributes ~$2.4m p.a. increase.
- **Non-controllable opex** – items not included by Powerlink in the controllable base year. We have taken a zero-based approach to forecasting these items and they are added to the base-step-trend. Significant increase in insurance (~48%) compared to the current period.

Total capex

- Prior to 2014/15 some significant reinvestments were made that also provided capacity to meet the then forecast increases in demand. Since 2014/15 this reinvestment has moderated to reflect the changed nature of reinvestment solutions in a low/no load growth environment, including retiring assets without any replacement.



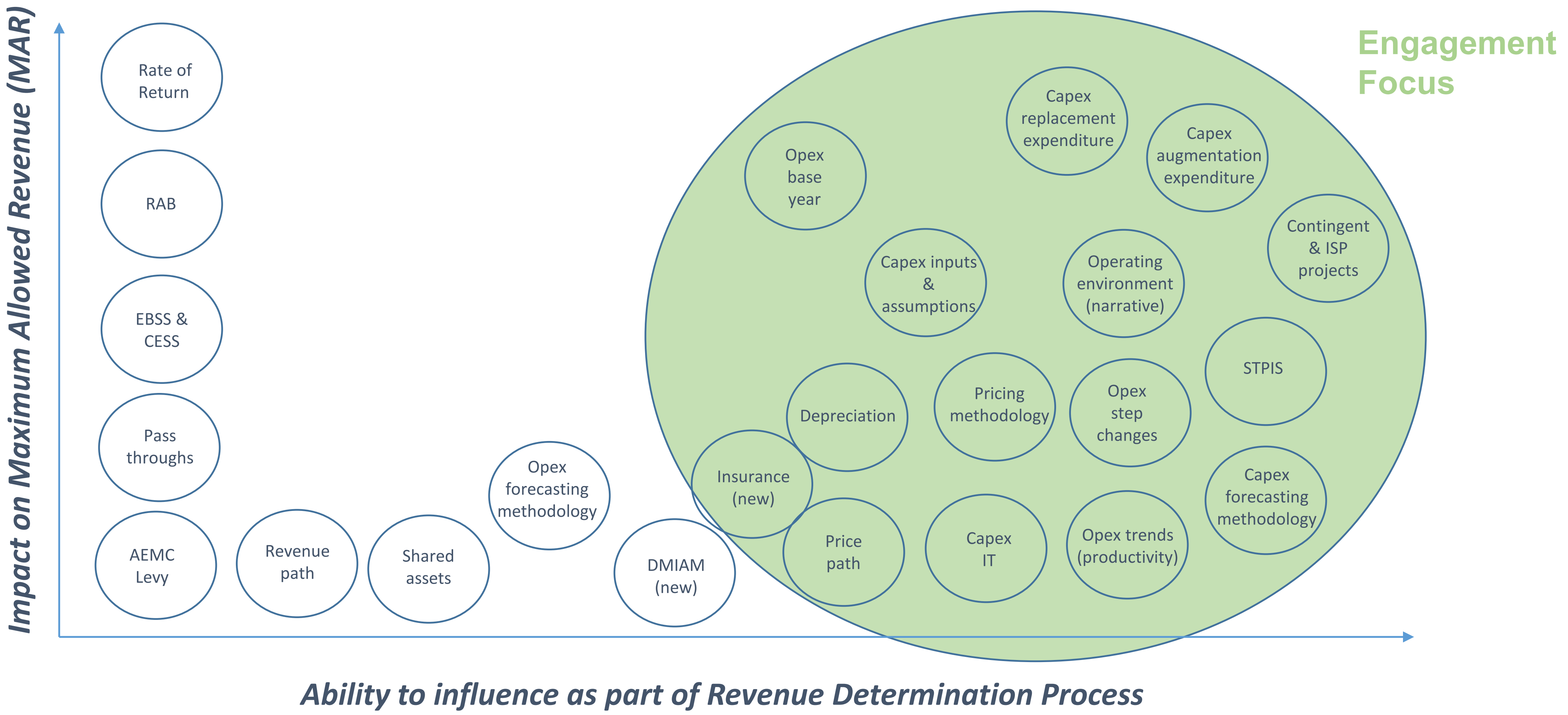
Forecast impact on prices



- Powerlink's contribution to the average electricity bill is ~9% for households and small businesses[1].
- This equates to ~$113 per annum for households[2] and ~$192 for small businesses[3].
- Based on July 2020 forecast MAR ranges, the indicative impact to electricity prices in the first year of the next regulatory period (2022/23) would be:
  - Residential – reduction of ~$12 (11%).
  - Business – reduction of ~$21 (11%).
- On average, price increases for average residential households and small businesses will remain within CPI (assumed forecast of 2.25%) for the remainder of the regulatory period.

[1] *based on the 2019 Australian Energy Market Commission (AEMC) Electricity Price Trends Report, published December each year.*
[2] *based on the Queensland Competition Authority's (QCA) annual Tariff 11 (residential) median energy usage of 4,061kWh p.a.*
[3] *based on the QCA's annual Tariff 20 (small business) median energy usage of 6,831kWh p.a.*

Refresher – engagement scope



Draft engagement activities July-December

Proposed timing	Activity	Techniques used / description
31 July	Release Preliminary Positions and Forecasts Paper (PPFP)	• Distribute via our stakeholder database (~150+ customers/stakeholders). • Raise awareness through social media channels and CP member networks. • Offer one-on-one briefings. • Focus of the July CP meeting.
End Aug	RPRG meeting	• RPRG meeting – topics TBC. Meeting date is not yet set.
4 Sept	Transmission Network Forum	• Virtual forum - invitations will be sent to our stakeholder database. • Will include a dedicated breakout session on the Revenue Proposal. • Focus of discussion will be on how our network operating environment is driving elements of our capex and opex forecasts.
11 Sept	Deep Dive Workshop – proposed topic = cyber security	• 2 hour customer and stakeholder workshop focused on cyber security. • We will invite customers and stakeholders from our stakeholder database to participate.
24 Sept	RPRG meeting	• 3 hour RPRG meeting – focus will be on the Draft Revenue Proposal forecasts.
30 Sept – 30 Oct	Feedback period on Draft Revenue Proposal	• Distribute via our stakeholder database and invite feedback by 30 October. • Raise awareness through social media channels and Customer Panel member networks. • Offer one-on-one briefings. • Host at least 1 webinar for interested stakeholders (more if there is significant interest). • Encourage regional stakeholder involvement and feedback.
Mid Oct	Deep Dive Workshop – proposed topic = insurance	• 2 hour customer and stakeholder workshop focused on insurance. • We will invite customers and stakeholders from our stakeholder database to participate.
30 Oct	RPRG meeting	• RPRG meeting – topics TBC. Meeting date not yet set.
26 Nov	Customer Panel meeting	• Final CP meeting before Revenue Proposal lodgement. We will provide an overview of feedback received on the Draft Revenue Proposal and our response to the feedback.
10 Dec	RPRG meeting	• 2 hour RPRG meeting – final discussion on any material changes prior to Revenue Proposal lodgement.

Introduction and key focus areas

Paul Simshauser
Chief Executive

Energy Charter Disclosure Statement

Gerard Reilly
General Manager Communications

Energy Charter process for 2020

Disclosure Statements

Published by
30 September

1 hour Independent Accountability Panel (IAP) meetings with CEOs

During October

Stakeholder Forums

Held during October

Stakeholder submissions

End October/
early November

IAP Report

Mid December

The Energy Charter

2019/20 Energy Charter Disclosure Statements – Expectations

Key insights from IAP Report (December 2019):

- Better categorise customer segments
- Contextualise document's development and approval process
- Be clear on areas for improvement including acknowledging past poor performance
- Target shorter document length - 10 pages
- Avoid repetition of information across Energy Charter Principles
- Avoid reference to outcomes which are related to compliance with regulation or rules.

The Energy Charter

2019/20 Energy Charter Disclosure Statements – Expectations

Additional key insights from the End User Consultative Group (July 2020):

- Build on the baseline from last year's inaugural Disclosure Statements
- Less focus on "the what" and more on "the why"
- Demonstrate more intent and ambition
- Focus on transformative practices
- Indicate where we intend to get to and how we intend to make that progress.

Powerlink's Draft Energy Charter Disclosure Statement – Structure

1. Introduction from Chair, Chief Executive and Customer Panel
2. Our customers and our communities – customer segmentation information
3. Corporate Scorecard – metrics and measures
4. Case studies
5. Each Principle
   - current, short-term and long-term maturity levels
   - overview of key activities during 2019/20
   - focus for 2020/21 maturity uplift.

The Energy Charter

Energy Charter Disclosure Statement – Draft Customer Panel message

“As members of the Customer Panel, we are pleased to have continued working alongside Powerlink during the past 12 months.

In helping to shape Powerlink’s processes and guide decision making, we appreciate their open and accountable approach to engagement, and genuine efforts to better understand and meet customers’ needs and expectations.

Powerlink is taking us on their journey of positive change across different areas of their business. In particular, we were encouraged to witness the Energy Charter Principles come to life when Powerlink quickly manoeuvred during COVID-19 to play a proactive role in supporting customers during an extremely difficult time.

We endorse this Disclosure Statement as an accurate reflection of Powerlink’s current performance and future areas of focus. We value the rigour and accountability the Energy Charter provides to the energy industry and look forward to a future characterised by greater collaboration and trust.”

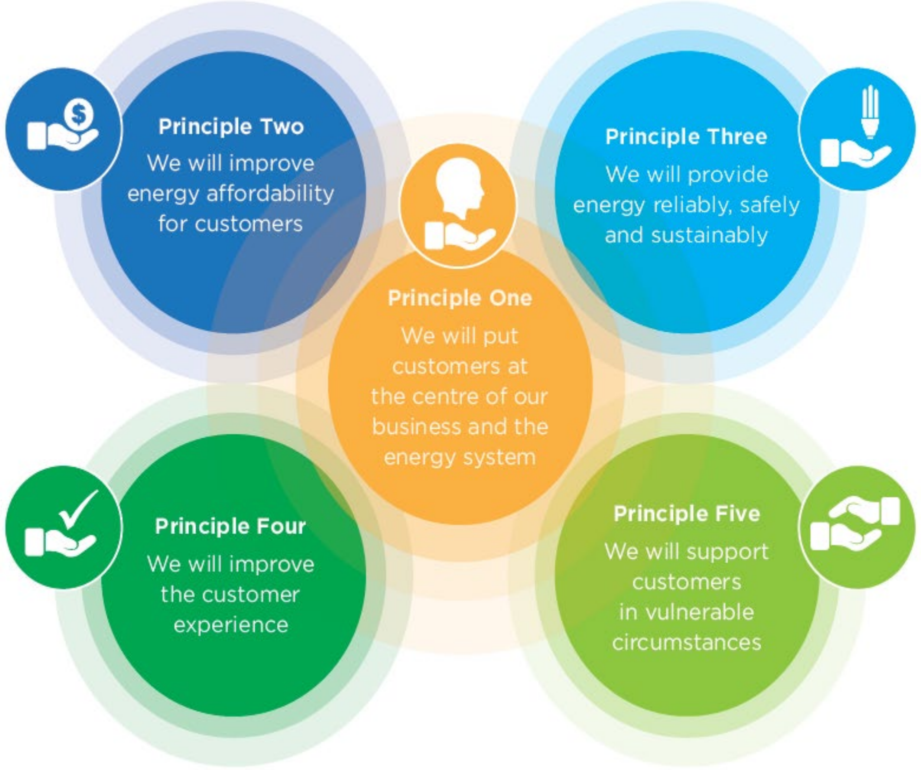
The Energy Charter

Energy Charter Disclosure Statement – We value your input

Q. What comments do you have on our draft Disclosure Statement?

Q. Do you support the proposed message from the Customer Panel?

→ **We are seeking your comments by COB Wednesday 29 July.**



The Energy Charter

Close and thanks