



Revenue Proposal Reference Group Meeting Minutes

Date: Thursday 25 June 2020	Start time: 1pm	Finish time: 3pm	Venue: Webinar	Meeting no: 7			
Chair: Matthew Myers (Powerlink)			Minutes: Nicole Maguire and Kiara Bowles (Powerlink)				
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; vertical-align: top;"> <p><u>Attendees</u></p> <p>Customer Panel representatives: Georgina Davis (Queensland Farmers' Federation) Henry Gorniak (CS Energy) Mark Grenning (Energy Users Association of Australia) Jordan Hosie (Shell)</p> <p>Other stakeholder representatives:</p> <p><u>Customer Panel</u> Robyn Robinson (Council on the Ageing)</p> <p><u>Australian Energy Regulator (AER) Consumer Challenge Panel</u> Mark Henley Bev Hughson David Prins</p> <p><u>AER</u> Warwick Anderson Slavko Jovanoski James Brown Toby Holder David Monk Claire Preston John Thompson Michael Wydeveld Kenny Yap</p> </td> <td style="width: 33%; vertical-align: top;"> <p>Apologies: N/A</p> </td> <td style="width: 34%; vertical-align: top;"> <p>Powerlink members: Jenny Harris Matthew Myers Gerard Reilly</p> <p>Powerlink presenters: Darryl Rowell Matthew Myers Dana Boxall Greg Hesse Mark Pozdena</p> <p>Powerlink participants: Andrew Bannister Roger Smith Rachael Lim Jacinta Grech-Holmes</p> <p>Marsh (insurance advisors): John Donnelly Jane Smith Gerard O'Kelly</p> </td> </tr> </table>					<p><u>Attendees</u></p> <p>Customer Panel representatives: Georgina Davis (Queensland Farmers' Federation) Henry Gorniak (CS Energy) Mark Grenning (Energy Users Association of Australia) Jordan Hosie (Shell)</p> <p>Other stakeholder representatives:</p> <p><u>Customer Panel</u> Robyn Robinson (Council on the Ageing)</p> <p><u>Australian Energy Regulator (AER) Consumer Challenge Panel</u> Mark Henley Bev Hughson David Prins</p> <p><u>AER</u> Warwick Anderson Slavko Jovanoski James Brown Toby Holder David Monk Claire Preston John Thompson Michael Wydeveld Kenny Yap</p>	<p>Apologies: N/A</p>	<p>Powerlink members: Jenny Harris Matthew Myers Gerard Reilly</p> <p>Powerlink presenters: Darryl Rowell Matthew Myers Dana Boxall Greg Hesse Mark Pozdena</p> <p>Powerlink participants: Andrew Bannister Roger Smith Rachael Lim Jacinta Grech-Holmes</p> <p>Marsh (insurance advisors): John Donnelly Jane Smith Gerard O'Kelly</p>
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1. Actions from previous RPRG meetings, governance and progress update

- Matthew Myers, Manager Revenue Reset

Summary:

- Overview on outstanding key actions regarding QNI Medium and information from the AER on the application of final actionable Integrated System Plan (ISP) rules.
- Progress update on key developments in relation to opex, capex, inflation and the service target performance incentive scheme (STPIS).
- Energy Consumers Australia's Revenue Proposal Reference Group (RPRG) representative, Kerry Connors, has resigned from the RPRG due to competing work priorities. Powerlink is considering options to recruit a replacement member.

Comments (C), questions (Q) and Powerlink response (R)

Q. Can you elaborate on the detail behind the generator technical performance standards step changes?

R. This is related to the rule change that came in around 2017/18 in relation to generator technical performance standards. We provided a bit of an update on that at our last meeting. It should be in the descriptors of the last cut that we did. It's essentially an increase in workload for our planning team to be able to analyse aspects of the network in relation to asynchronous generation.

Q. With the STPIS, is there any correlation regarding the Coordination of Generation and Transmission Investment (COGATI) with the local marginal pricing and the congestion arising from that? Has any alignment occurred there or they're running as independent events or processes?

R. Initially it looked like there could be some consequential effects coming out of COGATI onto our STPIS scheme. At the moment that's been rewound a bit, i.e. taken away. This is really related to version five of the STPIS scheme that applies to us now. At this point in time we're not seeing clear COGATI impacts.

C. I agree with that. It's too early to properly know.

C. We want to monitor the potential market impacts and we are still involved behind the scenes to make sure if something is being picked up by COGATI, it shouldn't be picked up again by STPIS and vice versa.

C. I totally agree.

2. Global insurance market update

- John Donnelly, Head of Global Placement for Asia and the Pacific, Marsh (insurance advisors)

Summary:

- Marsh provided an update on key global market factors and drivers that are influencing the insurance market. They noted current market conditions are the most difficult the industry has experienced since 2001. COVID-19 is generally regarded as the biggest loss ever in the global market, affecting almost every class of insurance across the world. It is expected these challenging conditions will continue until around 2022.
- Powerlink is exploring options to best manage insurance costs, while ensuring a prudent and efficient level of coverage is maintained. The current insurance market volatility will necessitate updates to the insurance forecast on a regular basis between now and the Revenue Proposal lodgement. Powerlink will engage further with the RPRG on insurance in coming months.

Comments (C), questions (Q) and Powerlink response (R)

Q. How do you manage the 'ebb and flow' through the insurance, self-insurance and pass-through options? Is it based on risk appetite or is it a fairly static and passive process?

R. I think it's going to be very dynamic because we've got to understand where prices might go and what mix might be best in each one. You're assuming that you fundamentally understand what the right level of coverage is. The Pacific region has been pretty lucky with low premiums for quite a while. We haven't had to look at the level of coverage for a while but one of the things we do need to look at is what is the right level of coverage for Powerlink to have. Then as you say, you need to consider the three prongs about how best to manage the cost of getting that cover, through self-insurance, pass-throughs and insurance policies.

Q. Are you saying we haven't really looked at that too much previously in actually adjusting our level of coverage? That's being driven by what's happening in the marketplace?

R. We do look at the level of coverage every couple of years but where that's a cheap price (we're paying seven million dollars a year), that's one thing. For the same cover you potentially might end up paying \$14 million. That means a different mix of options might be the better outcome.

Q. Is it a possibility that we might actually not be able to get cover for risks that we do want to cover from an insurance perspective?



R. There's always going to be some insurance available. It's a question of how much you're willing to pay, but I referenced the bushfire liability. We were buying up to \$1.5 billion and now - and it wasn't really Australian losses, although they contributed - it was mainly the other fires in California over the last three years that insurance companies had just lost so much money that they don't want to underwrite the risk anymore. So when their appetite reduces, the market shrinks and you can't buy as you once did.

But there will always be a market. After we get a couple of years of profitability, new capital will enter the insurance market. It always has following really difficult markets when new ventures start-up. Then competition gets reintroduced and we go back into the normal cycle. So insurance won't disappear. It may shrink to a point where you don't like how much coverage you can obtain, but it will come back.

Q. Are there any areas at the moment that Powerlink is starting to develop a sense of concern?

R. The increases in price have made us really look a lot harder at the level of cover we have and whether that's the right level for us - and what the best mix of those three things is going to be to provide that cover.

Q. What's in and out for pass-throughs?

R. Today's discussion was really about the broader market, and we'll certainly be looking closely at Powerlink's specific positions and forecasts. We'll have some future discussions with the RPRG on those specifically.

C. This is an evolving subject.

C. Yes and this is more an introductory conversation on insurance rather than us presenting a proposed position.

Q. Could you quantify what the current period spend on insurance is?

R. Our current period premiums are about \$42 million over the five years (in 21/22 dollars).

Q. Is that all in base opex?

R. Yes.



Q. What's Powerlink's current forecast for the next regulatory period?

R. The current forecast and data that we've received indicates that will go up to \$62 million in the next regulatory period. That's a 50-odd per cent increase, which is why this is an area of particular interest to us all.

Q. Does Powerlink's state government ownership influence insurance premiums versus a network that's privately owned?

R. It's more about risk quality and the normal risk factors, not ownership. I don't think there's any difference in price linked to the ownership status.

C. I'll have a lot more questions at the next stage, when we learn more about how you're considering to manoeuvre the various levers you can pull to influence insurance payments.

Q. How long do you think it might take for things to spring back and for new investment to come into the insurance market?

R. I think that investment could come sometime in the second half of next year, provided the profitability starts to return, but it's unlikely to have any impact on the market until 2022 at least.

C. Right, because I'm thinking we're looking at the moment at Powerlink as a five year regime. That timeframe goes well beyond 2022 of course, so it's about how we deal with the uncertainty of change during the whole regulatory period. Or how much in advance this insurance should be bought.

Q. Do you differentiate between short-term factors and possibly longer term influences like climate change, and what impact these might have on insurance?

R. I think unquestionably climate change has had a big impact on insurance losses. The number and size of weather related events have unquestionably increased over the last 20 years. The two major global reinsurers, Munich Re and Swiss Re, have actually published some statistics that to support that. So that is a contributing factor to the ratios you saw earlier in the presentation. I'm not sure the market has worked out how they can price for that. It's proven really challenging and unquestionably had an impact.

Q. When we talk about things picking up in around 2022, you might still have to make some allowance for your expectations about the impact of climate change and whether that will be more significant over time or remain about the same. Is that the equation you might use?



R. Definitely. When the market does return to profitability and some new capital comes in and some competition returns, prices will begin to reduce - but they'll reduce gradually. What we see with hedge funds and pension funds who've invested in insurance and reinsurance over the last four or five years, which has put a lot of capital into the market, it's only stayed there because of a lack of other investment opportunities. If the broader global economy has a recovery, there'll be a more diverse opportunity for them to invest and maybe not invest in our business. What we see is that capital now is more reactive to losses on a short-term basis as opposed to taking a longer term view. Once it gets to the profitable level, things might bubble along up and down slightly based on losses, as opposed to high peaks and high troughs.

Q. When you examine the cost to a particular business, are you looking at it very specifically for that business, or are looking at it more as an industry-wide set of risks? Would you look at Powerlink by itself or would you look at transmission businesses in general? Or more broadly, even network businesses? What level do you really calculate your premiums on?

R. There are overarching risks infused with every industry, which goes into what insurance companies call technical ratings. Our job as the broker is to look at the client and their individual risks - and be able to sell the positive factors about that risk to get as low down on the pricing scale as we possibly can. Because of the size of our organisation, we use our leverage with those major global insurers to try and ensure that our clients get better results from the market.

C. We've really highlighted today the key point regarding the tightening insurance market. I guess in terms of Powerlink's future Revenue Proposal timing around that November 2021 period, hopefully by that stage the world economy is on the mend and we'll see an improvement in the market around that time. It's a wait and see until then.

3. Depreciation tracking

- Dana Boxall, Stream Lead Finance and Modelling

Summary:

- Powerlink currently uses a weighted average remaining life approach for our depreciation forecasts in Revenue Determinations, but is looking to change to the year-by-year tracking method. Powerlink believes this will provide a more accurate measure of asset recovery and better reflect the underlying nature of those assets. It also aligns to a future requirement from the AER to implement year-by-year tracking for the Tax Asset Base (TAB) for the 2028-32 regulatory period.
- Initial analysis indicates adopting a year-by-year approach would increase Powerlink's revenue by ~\$20 million per annum (3%) over 2023-27. This is equivalent to a ~\$2 per annum increase for the average residential customer.



- We recognise there will be short-term customer impacts if we implement the year-by-year tracking approach and are seeking RPRG feedback on this proposed change to help inform our decision-making.

Comments (C), questions (Q) and Powerlink response (R)

Q. We would like the RPRG's feedback on whether you consider the potential change to year-by-year depreciation tracking is a reasonable approach, and if you would support Powerlink adopting this in our Revenue Proposal?

R. I think it would be preferable to have a more accurate approach to tracking depreciation. The average approach may have been a better option to take when we didn't really have the capability of tracking assets year-by-year. The year-by-year approach is more accurate and for me that just feels better. There is a downside. I looked at those numbers and they said the next regulatory cycle will add \$100 million. Was that right?

R. Yes, that's right.

C. Although this equates to \$2 per residential customer per year, it's still an impost.

R. Yes, absolutely.

C. Hopefully we'll be recovering from COVID-19 impacts then, but maybe not by 2022. So people may still be struggling at that point, particularly in the residential consumer space. I'm just wondering if there's an opportunity to smooth the introduction of year-by-year tracking? Rather than doing it all in the first regulatory cycle, is there an opportunity to bring it in and transition over a number of regulatory cycles?

C. I'd be interested in putting that to the AER in terms of whether that is an option. *[Question for the AER]*

R. As others have noted, we're going to year-by-year tracking for tax. It would make sense to just apply a year-by-year tracking approach to the Regulated Asset Base (RAB) then as well, if you're going to do it. Other businesses have tried halfway houses, like period-by-period tracking, which would achieve a revenue impact somewhere between the two. Even businesses who have done that in the past (for example Ergon) have moved subsequently to year-by-year tracking. There is an option there. *[AER response]*

Q. Are you going to put forward a preference for the AER? I'm mindful where the AER has come from. I'm just trying to shorten the process. Is your preference to move toward year-by-year tracking? *[Question for AER]*



R. Officially our preference is still to use the weighted average life approach for its simplicity, but as noted, we've now developed separate tracking models and because of the change to the tax approach, that simplicity factor is obviously getting smaller. We also agree that the weighted average life does smooth out the impact, particularly with these assets that are like the opening RAB amount. You see the cashflow impact of a changing approach. For example, if there's an asset class that had a 70 year remaining life, it's going to have a mix of assets, some with a two year life and some with a 15 year life.

You are obviously accelerating some and in other ways not - recognising that those ones with the two year life should be ending quicker rather than getting spread even further forward. So yes, there is some sort of cashflow impact when the opening RAB is finally depreciated as well, which I think your graphs were trying to show - although I can't see the detailed numbers behind it. You can see there are some drop-offs here and there. Obviously it also depends on the timing of replacement. It will either happen before or maybe even a number of years later. You could get ups and downs from the change of approach. If you could start from scratch, check tracking is more accurate in terms of matching the asset life but we still think the weighted average remaining life approach is reasonable. Officially it's still our preference, although the reasons for it are getting less and less. *[AER response]*

C. It looks like you'll be required to implement the year-by-year tracking for the following regulatory period regardless, correct?

R. For the Tax Asset Base, we will, under the changes to the diminishing value.

C. I should say too, Powerlink hasn't made a final decision on this and we've actually come to you because we want to be able to represent your views to senior management before we make that decision. We will also be talking with our shareholders and getting their views as well.

C. It is talking about generational equity sometimes when it comes to depreciation, but I wasn't actually thinking about the short-term COVID-19 impacts. Because who knows what the world will look like in 2023 and beyond? That's just another thing to put into the mix. It's a good point.

C. I think the previous comments put forward echo my own sentiments in terms of the balance between accuracy and the calculation methodology balanced against customer impacts. In that respect, I don't have a firm position on it, it really is a case of what is on balance overall the best way to approach it.

C. What I'm hearing is that it sounds reasonable, but in terms of supporting the approach you would need to think about it a bit more?

C. Yes, that's a good summary. I think the approach put forward is a reasonable one. It's just trying to achieve the balancing act with cost implications and what that looks like. That's the bigger challenge.

C. I'm broadly supportive of year-by-year depreciation. I would need more information though on the methodology. Is it going to increase the amount of resources required to keep the asset register and frequency of inspections and those sorts of things? Just noting that there would be an additional cost associated with that sort of approach.

R. If you look at some of the history when other network service providers (NSPs) have developed their own models, they were quite complex. After using the AER standard model, it was quite straightforward. Given we also have to use it for our TAB, it's not a big imposition to then use it for the RAB on top of that. I don't think it's an overly administrative imposition on a business to maintain that.

C. We're not predicting any associated increase in costs or opex as a result of implementing a different approach.

C. On the basis of discussion so far, I can understand some of the previous considerations raised. I can also understand the benefits of transition. These are always tricky things but given the AER has accepted it for other networks and the changing tax arrangements, and also factoring in your point about having an upcoming faster depreciation rate, doing this in a low Weighted Average Cost of Capital (WACC) period has its advantages. I'm happy to support what you're proposing.

C. I've listened to everything that everyone has said and I'm trying to assemble my position. When would you like a response to these questions because I would like to take some time to think a little further. There's been some great commentary. It's a bit complex.

R. If you can get back to us next week, that would be great.

C. You've outlined both the pluses and minuses well. One thing I'd like to see examined further relates to contingent projects, the QNI and so on, which are going to be rather big lumpy investments in the next regulatory period. Does that have an effect? Have you brought that into account when you're doing those figures, the possibility of having some very substantial investments, which will probably mean the year-by-year tracking will impact that and make depreciation costs a lot higher than they would be if you weren't having those big lumpy investments?

R. We haven't taken the contingent projects into account in doing this analysis.

C. My understanding with this is that we've taken a similar approach to analysis that the AER has taken for demonstration purposes. For any new expenditure that comes into this, the different approaches will give different values of the depreciation in each regulatory period. However, in some regulatory periods, the swing will be upward. In some regulatory periods, the swing will be downward according to the different types of assets that are actually installed during those periods, including contingent projects. However, over the life of which the asset depreciation is recovered, it is still a zero sum game in terms of how much depreciation we recover.

Q. I understand that it's an NPV equals zero proposition either way. It's really about timing. I'm just reflecting on the earlier comments and whether that's relevant. Without some sort of scenario testing that might include these big lumpy expenditures, it's hard to actually get a sense of whether that's a significant factor or not. Is it possible to do some scenario testing?

R. Yes, it is possible. I'll have a think about that because I've got some initial thoughts that I'd probably like just to test, to see if I've got that right. I will get back to you.

Q. One other consideration, in terms of contingent projects, you would also need to look at the capitalisation timing of that project as well. What's the current view on whether the QNI project would actually be capitalised in the next period? My understanding is it wouldn't.

R. In the central scenario for the Draft ISP, I think it had a 2028 timing for QNI. With that sort of commissioning, it wouldn't capitalise until the next regulatory period after the one we're talking about here.

Q. My understanding is you wouldn't be changing your approach from period to period?

C. Once we've changed, you don't change back.

Q. I wouldn't mind if you could look at something like that, just as a matter of principle, on how the impacts flow through. Is that reasonable?

R. Yes, that's fine. No problems.

C. Another thing that I'm very mindful of is that three of the other Transmission Network Service Providers (TNSPs) have already moved. I haven't thought through the impacts on benchmarking or anything like that, but I'm just aware once a few move for comparative purposes, it might be timely for the rest to move too.

C. Certainly that's one of the factors to take into account. I wouldn't dispute that at all.

C. To close the loop on previous discussion, I've had a think about the earlier question we had around the impact of contingent projects, regarding the change in the depreciation approach. Regardless of the change of depreciation approach, any new capex that will occur next regulatory period will be depreciated using their standard lives for 2023-27, in accordance with the PTRM calculations. It wouldn't be until the following regulatory period, when under the weighted average remaining life approach, you would re-calculate or reset the remaining life, and then you would group contingent projects in there. Essentially my answer is there's no impact on 2023/27 for the difference in the depreciation approach for the contingent projects.

Actions

- ***Powerlink to investigate opportunities to smooth price impacts to customers as a result of implementing year-by-year depreciation tracking.***
- ***RPRG members to finalise and provide their feedback on whether they support Powerlink adopting a year-by-year depreciation tracking approach by Friday 3 July 2020.***

4. Business IT

- Greg Hesse, Stream Lead Capital Expenditure + Mark Pozdena, General Manager IT

Summary:

- IT capex for 2023-27 is currently forecast to be similar to the current period allowance. Powerlink is not likely to pursue an opex step change for Business IT as part of the Revenue Proposal.
- Powerlink's proposed IT expenditure is informed by its new IT Benefits Realisation Framework and IT Program Roadmap to guide investments, ensuring they are prudent and efficient.

Comments (C), questions (Q) and Powerlink response (R)

Q. I had some involvement last year with my Consumer Challenge Panel hat on regarding the development of the Distribution Network Service Provider (DNSP) assessment framework. You're saying that Powerlink is following that, is that a fair assumption?

R. Yes, the DNSP assessment framework was very useful for us to understand what's important. We absolutely used that, and a lot of the feedback from our last couple of sessions, to put this approach together.

R. Providing feedback here on whether this forecast is capable of acceptance is like some of the other topics we've been asked this same question on. It's very difficult for me to say it's capable of acceptance because I'm presented with a number of figures, which seem reasonable on a benchmarking or a trend basis but I don't have the AER's expertise when they assess project by project, or as they assess the non-recurrent factors on whether or not maintaining existing capability or pursuing a new capability is efficiently done. It's very difficult. It seems reasonable, but I don't think I have the knowledge to be able to say whether it's capable of acceptance. All I can say is, yes, I think it's a reasonable proposal to put forward, for the AER to then apply its eagle eye to it.

C. We know that that 'capable of acceptance' is really a tripartite factor of ourselves, the AER and our customers. It's more offering your perspective in terms of how reasonable this seems. There's obviously more information that will be published as part of our Revenue Proposal and the associated methodology.

C. I'm happy to say at my current level of knowledge and understanding, it seems to be a reasonable forecast, but it has the same qualifications you have around your Cut 1, Cut 2, Cut 3 forecasts i.e. it's still a draft, with more information to present. To answer your second question, under the DNSP requirements, networks are supposed to voluntarily provide post-implementation investment reports. I'm wondering what sort of response you're going to be able to give to the RPRG and AER regarding post-investment review reports on past expenditure?

R. We do have that as a stage in our IT Benefits Realisation Framework. It's whether or not our post-investment review meets your expectations.

C. Are you thinking of an annual document where you might take a look back and consider what we got done during the year - examining cost and outcomes, that sort of thing?

C. Yes, I suppose. I can give you a specific reference. It's page 13 of the AER DNSP Guidance for Non-Network IT, which was published in November 2019. Section 2.5 talks about post-implementation reports, saying they expect businesses would voluntarily provide these reports for recent Information Communication Technology (ICT) investments undertaken to increase the transparency of ICT expenditure and to improve our understanding of their organisation's forecast expenditure.

R. Okay, let us take that away.

C. A final point, it's not specifically asked there, but obviously we're going to be focusing on - and I think we've discussed it previously - is how this expenditure feeds into opex and capex productivity, and what improvements can be reflected in those two measures because of the IT expenditure that you're undertaking.

C. Nothing extra from me, but I do notice all the way through this discussion that cyber security hasn't come up and the costs associated with that. That was a big ticket item I certainly know at distribution level. I'm wondering how that's being factored in?

R. I think the important thing to note is that the figures in here relate to the IT capex cyber figure. We will talk at another time about cyber security from an opex point of view. Some of that expenditure that might be occurring on the OT side of things.

C. I agree, it looks reasonable and as you said, you will provide some more detail. With the provision of that extra detail, I don't think it would be hard to sign off. Based on my experience, having worked in a similar environment, they all make sense to me without that supporting information. I'll agree however that all organisations could do better - we tend to move onto the next project and don't actually publish that reflective learning or observation of how effective a project was and any lessons learned that are worth capturing. Regarding future engagement on this topic, for me the only reason for further engagement relates to the provision of extra information to help us understand where you're coming from. Not the philosophy of whether the approach is right or wrong. That is correct and just a little bit more insight would probably be the icing on the cake.

C. This was a great presentation. The roadmap slide in particular provides a really in-depth look. I agree with others in that I'm not an IT expert. I don't have a position in terms of whether or not specific elements of the project are what's needed. Broadly it looks to me to be reasonable. I know that certainly in our industry as a whole, prudent investment in IT to support efficient operations is a no brainer.

In that respect, I'm supportive overall of IT expenditure that has the lens that we've discussed here today - reasonable costs and not looking to gold plate anything, but rather having systems in place that allow for efficient operation. In terms of the second point regarding future engagement needs, I agree with previous comments. If more information becomes available as part of that transparency process, then that's fantastic.

Q. I thought the roadmap was a very clear diagram. It sets out clearly what you're trying to do. Also, it's what I call a good conservative view. You're not over-ambitious and not embedding risk in the program to the same degree as we've seen in some other instances, by trying to do too much, too quickly. I just wanted to check with you, you did mention that you will develop a business case for these projects?

R. An investment case, yes.



Q. Then we will start to see the customer benefits part of the equation, in the business case - is that correct?

R. Yes, that will happen as part of the way we go about our overarching project framework, which is now part of our 'business as usual' and our Benefits Realisation Framework. That all links through to customer outcomes.

C. That's great.

C. I just saw a comment on the chat screen that one of our CCP members has noted they think the IT Program Roadmap is very helpful, but they'll need some more time to think about it.

C. The key thing for us in terms of our second question regarding further engagement is that we really we need to start focusing on which areas we continue to engage deeply on. I'll be upfront - seeing what is coming out here in our discussion indicates this is probably not an area we think requires significant ongoing and deeper engagement moving forward for the Revenue Proposal. I think there are other things that we would look to engage more deeply on, which is why we wanted to ask that question.

C. I think that's a reasonable conclusion. From my perspective, it'd be great if you have a bit more information on post-investment reviews, so we can understand that historically you've chosen the right things and benefits as per your business case.

Q. It sounds like it's more about Powerlink supplying some additional information on this, rather than having more detailed engagement such as a deep dive?

C. I would suggest that maybe we get some of our earlier investment cases and share that with the RPRG.

Q. What about feedback from the AER? *[Question for the AER]*

R. I think a lot of the information is there for the AER to have a discussion with Powerlink. There'll be lots of discussion around some of the figures - that's undeniable. We're really keen to consider the benefits to IT investments for your customers in your proposal - teasing that out, being clear on what the benefits and efficiencies are, and weaving that into the overall business narrative to show these investments are well justified and there are benefits in going ahead. *[AER response]*

Actions

- *Powerlink to consider appropriate preparation of post-implementation investment reports on IT capex in alignment with page 13 of the AER DNSP Guidance for Non-Network IT (published November 2019, section 2.5).*
- *Powerlink to share draft investment case examples for proposed IT projects with the RPRG to demonstrate the rigour applied to IT capex.*
- *Powerlink to provide further details on cyber security.*

5. Preliminary Positions and Forecasts Paper (PPFP)

- Matthew Myers

Summary:

- Powerlink will issue the PPFP at the end of July 2020, providing an indication of where key forecasts and positions are heading, along with the key drivers and assumptions behind our forecasts. The PPFP will also identify topics for deeper engagement to occur between August and October 2020.
- The PPFP is intended to include information on setting the scene, and provide insights regarding Maximum Allowed Revenue, RAB, electricity pricing, opex, capex and incentive schemes.
- Powerlink sought RPRG feedback on whether the approach to the PPFP is reasonable and if there are any particular items that are critical for inclusion.

Comments (C), questions (Q) and Powerlink response (R)

C. What you've given us so far is a fantastic basis for the PPFP. I'll just make two very brief points on presentation and style. One is to be very clear what the dollar numbers are and preferably they're all the same in 20/21 dollars. Secondly, the more graphs and data to show trends the better. In particular, all graphs should show at least the current period forecast by year, allowance by year, and the forecast for the next period by year. Even better, the previous regulatory period. If you use numbers as well as graphs, please ensure we don't have to use a magnifying glass. The more numbers and data the better, but just in a consistent format.

C. Something I found particularly useful when we were examining Energy Queensland's Revenue Proposal is to have the period before plus the regulatory period we're talking about and future projections. It's really useful to put that into context. Other than that, it's really about having some transparency around what's in, what's out, what's movable and how much of the building block of the price can we actually influence? It's about having a clear context about what we're trying to achieve. What we've got so far here is a pretty good start and I do like the structure of how this is being broken up into these bite-sized chunks.

C. I agree with the value of that comparative presentation. It helps you to understand where that delta might be emerging and the rationale behind it.

C. Apart from saying I'm really looking forward to it, you've taken a really thorough approach. When you say you'll explain the key drivers and assumptions behind forecasts, is there any scope there for some of the key areas to include scenario representations as well because we have so much uncertainty about things? It's up to you, but I think it helps us to understand there's a central forecast and there's a high and a low on some of the key criteria. The other thing is that you provide this information to a broader range of customers and stakeholders, beyond the Customer Panel and RPRG. Will it be clear how you're going to do that? Will this be part of the document or will this be captured somewhere else?

C. It's a good point. We're very conscious of the fact that we've had some very good engagement, but with quite a small group. We've got the RPRG and our Customer Panel, and we absolutely value their input. For us as a transmission business, it's probably always going to be our primary avenue of getting feedback. We're also conscious that we've got to extend this engagement more widely. Our network goes across Queensland. We have to give the opportunity for people to provide their input across different parts of the state. We're actually currently working to update our stakeholder list. We'll be sending information directly to people via email, we will run a social media campaign through our platforms to encourage people to review the document and provide feedback as well. We're also going to have a formal public submission period.

C. To clarify, it's more a feedback period. We don't want to discourage people who want to just provide informal feedback. As soon as you say a 'formal period', it begins to look like you need to put something formal to us. We're happy to receive feedback in whatever form we get the feedback.

C. There will be a section on engagement and how to provide feedback in the PFP.

C. I know in the COVID-19 world it's difficult, but how are you going to get engagement outside of Brisbane?



R. We are deliberately gathering a database of key regional people from local government areas that we want to reach out to as part of the PFPF. This is a good document to do that. We're also looking at our normal Transmission Network Forum, which is usually held in-person during September. We're still considering going ahead with something like that this year, but obviously in an online capacity. We believe that might actually be a really good opportunity to open the event up to a much broader audience, so people other than those who generally attend this Brisbane-based event can be involved. We are going to look at running a specific session, for example in North Queensland, if we can. I actually think our biggest challenge will just be getting people interested in actually participating. That's just a constant challenge we have as a transmission business and particularly with everything else going on at the moment we are going to try our best. Probably our biggest risk is that people just won't have the bandwidth to participate, or they look at transmission and decide to channel their energy elsewhere.

C. We'll also definitely be contacting our directly connected customers, similar to the arrangements we had in place for the last reset. We'll also look to reach out to your contacts as needed too, for example the EUAA, because you have members. Last time we came and spoke to your committee and their members to see whether they wanted to provide some input and feedback. We would typically reach out to Energy Queensland and ask whether they had large Commercial and Industrial customers who want to give us some input as well.

C. We really appreciate this group's support to spread the word. We will have our own database and contacts, but it will be really valuable for you to use the opportunity to take this information to your members too. Georgina mentioned the Queensland Farmers' Federation may be able to assist with those sessions in regional areas and getting people involved. Thank you for that Georgina.

Q. Are you going to have a formal engagement plan to document these activities?

R. We already have our Revenue Determination Engagement Plan. We can look to update that. We're waiting to see what's happening with the current COVID-19 situation. We are looking to get a bit more detail about that engagement period between the release of the PFPF and submitting the Revenue Proposal in January 2021.

C. I know that we published and sought engagement on our engagement plan a while back. It's now about updating that document with some more granularity of what we intend to complete over the next six months.

Q. Can I ask the RPRG another question on the best way to move forward with this? I want to ensure that we continue to take all of you on the journey. I'm also mindful of just how much work it actually takes for our team to pull this information together. I'm wondering whether it would be useful if we publish the PFPF as a slide pack to take on board what we've heard today? And whether we also publish a separate smaller document to hit the high points. I'm trying to work out what's the appropriate balance so that we're not spending all of our time, energy and effort trying to finesse the words to make it look like a Revenue Proposal.

R. I agree with that. That's what I was expecting. It's all about summarising your forecasts and key drivers, as well as key learnings and suggestions. It shows that Powerlink has been listening to what we've been saying. I heard you use the word challenge a lot which obviously is music to my ears as a member of the CCP, but Powerlink clearly invites and is open to challenge from all sides. That approach will produce a good proposal at the end of this process, having the possibility of being accepted. It's all part of that. It all sounded pretty good. The only thing I would add is that I like things that tell a story, show how things fit together as a whole, making sure there's consistency throughout.

C. I support the approach.

C. Yes, it sounds good.

Q. If we fast-forward to January 2021 and look back, the PFPF will be a really important document for you because you'll be able to use it as a way to demonstrate that you have engaged with your customers. It will show you've reflected or amended your views on issues in your proposal. So it's really important to be clear who you're engaging with and who your customers are. I'm not sure whether you're going to publish any submissions or a summary of feedback to demonstrate transparency and general openness. From what I understand, there is no draft plan following on from the PFPF, you're effectively going to your finalised revenue proposal? *[AER comment]*

C. We will do everything we possibly can to draft our Revenue Proposal and to try and release in draft form if we can around October or November 2020. Which is why I'm testing this point around what the PFPF looks like, so that we can devote our team's energy to actually get into providing a full draft of our Revenue Proposal, or pretty much have it 90 or 95 per cent of the way there, before the end of the year. That way you'll actually see the prose. That's what I am looking forward to devoting our effort into, which is why I'm trying to pare back the prose that might be required for the PFPF.

Q. Will you be consulting on that draft proposal you're building? *[AER question]*

R. We'll be doing what we're doing now at the very least.



Q. Will you be consulting more broadly outside the Customer Panel and the RPRG?

R. I expect that we'd be able to contact a broader group than just the Customer Panel, yes.

C. I think over the past few months there's been a bit of confusion as to the overall process because people get stuck in the distribution space and not the transmission space. They're used to having a more fulsome consultation on a draft proposal with stakeholders in the distribution context. That's why I just wanted to clarify the approach the Powerlink was considering. *[AER comment]*

Actions

- ***Powerlink to consider and finalise various presentation options for the PFPF, to ensure ease of review for customers and stakeholders.***
- ***Powerlink to update the Revenue Determination Engagement Plan with more details on planned engagement to support the PFPF's release over coming months.***

6. Meeting closed 3.30pm