



Revenue Proposal Reference Group Meeting Minutes

Date: Thursday 24 September 2020	Start time: 1pm	Finish time: 3:50pm	Venue: Webinar	Meeting no: 8
Chair: Matthew Myers (Powerlink)		Minutes: Rachael Maundrell (Powerlink)		
<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) Claire Hamilton (Shell)</p> <p>Other stakeholder representatives: <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 Claire Preston John Thompson David Monk</p>	<p>Apologies: N/A</p>	<p>Powerlink members: Jenny Harris Matthew Myers Gerard Reilly</p> <p>Powerlink presenters: Matthew Myers Dana Boxall Greg Hesse</p> <p>Powerlink participants: Rachael Lim Andrew Bannister</p>		



1. Actions from previous RPRG meetings, governance and progress update

- Matthew Myers, Manager Revenue Reset

Summary:

- Overview on draft Revenue Proposal, supporting documents including the feedback/submission template and models.
- Provided overview of material changes since July 2020 forecast.

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

Q: Confirming Powerlink will provide some prompting questions throughout the document to provide focus onto the critical areas?

R: Yes, that's right. The submission template will have questions in it. The questions will be in an editable PDF format to make it as easy as possible for people to fill out the template.

C: Powerlink developed the submission template based on your feedback at the end of the last Customer Panel meeting to provide guidance and questions to help shape the feedback.

Q: Does the draft Revenue Proposal go to public consultation when it's issued?

R: Yes, this will be published on our website. There is also the intention to have a webinar.

Q: Some of the questions or the narrative that we put in the submission may change as a result of those questions. Have you got an expectation from this group to make a submission to your Revenue Proposal?

R: We'll take all feedback you provide to us. What I would encourage is written feedback from members, whether that's as individuals or as a group. There was a very good suggestion at the last Customer Panel meeting, which we are going to help facilitate, is the full Customer Panel including all the members of the RPRG, to meet at some stage in October. We can set up the WebEx meeting to allow Customer Panel and RPRG members to come together to discuss the draft Revenue Proposal, and then it's up to the members of the Customer Panel if they would want to provide feedback as a collective or whether they want to do it as individual members.

C: Once Powerlink lodges the Revenue Proposal in January, it then becomes the Australian Energy Regulator's (AER) process. So any submissions you make will be to the AER. However, as we've also committed, if you have any subsequent questions and want to contact us, we're happy to respond to them and equally we'll be sharing information with the AER because we want this to be an efficient review process.

C: Thanks for the context. I would hope that we wouldn't be suddenly flagging a controversial issue when we have had plenty of opportunities to explore it with you prior to the publication of it.

Q: The areas at the bottom of slide 3 indicated not to be in substantive form in the draft, you mentioned Powerlink is still working on the details. Are there any events or decisions that you're waiting for to finalise those dot points?

R: With regard to the Demand Management Innovation Allowance Mechanism (DMIAM), I understand the Australian Energy Regulator's (AER) Draft Guideline is going to be coming out around January. To the extent that we will address that in our Revenue Proposal, we will try. Our revised Revenue Proposal may include more detail for that particular item. Regulatory Asset Base (RAB) inclusions/exclusions and shared assets are flagged, but that is more about working through things here at Powerlink. Before we publish the Revenue Proposal, we will let you know what the updates are, and of any critical matters to flag in those areas.

C: Regarding pricing methodology, submissions on our consultation paper close tomorrow, so we have written up as much as we could, but of course, our final positions will be based on the feedback we get tomorrow. We fully expect to be able to publish a marked up version of our current pricing methodology at the end of October so you can see where we're likely to land.

C: There'll be a number of breakout boxes that say "a note for the draft Revenue Proposal", so if there's a particular area where things are still being considered, we explain in that area, noting the information may change, and we're thinking about different aspects, depending on what the section is. We want to make that really clear as to where those changes might occur.

2. Draft Revenue Proposal forecasts overview

- Matthew Myers, Manager Revenue Reset

Summary:

- Forecast Capital Expenditure (capex) has continued to come down against previous forecasts. It is higher against our actuals and forecast expenditure for 2018-22, around 12%.
- Powerlink has set a target of no real growth in total opex over the regulatory period, and has proposed higher than industry average productivity.
- Rate of Return (RoR) updated to reflect Powerlink's most recent prevailing interest rate and assume this remains unchanged for the 2023-27 regulatory period.

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

C: With regard to potential easement costs related to QNI Medium, Powerlink has been contacted by Ash from the National Farmers' Federation (NFF) to ensure appropriate level of engagement is undertaken around the Integrated System Plan (ISP) projects and Renewable Energy Zone



(REZ) projects, with landholders and farmers. Powerlink is having a discussion next week with NFF and has already flagged that Queensland Farmers' Federation (QFF) is on our Customer Panel. This may form a new '*Better Together*' initiative under the Energy Charter because NFF has approached the Energy Charter. Powerlink, TransGrid and AusNet are looking at how we can get a consistent, best practice approach to engagement. This is something that cannot be rushed to ensure we achieve good outcomes with our landholders.

C: That's great, thank you.

Q: Are easements captured as an acquisition cost, and when the project gets up and running how do you reconcile them together? It would be seen as a component of the total cost, and yet we're probably going to cross over two periods on the basis of what you said. How is this normally handled in the regulatory process?

R: Spanning multiple regulatory periods for capital projects is not an issue, and easements are a capital asset in and of themselves, so it's not uncommon for us to hold easement assets in advance of building on them. Often that's been legacy-type things, but it wouldn't necessarily be unusual for us to acquire the easement assets in the first instance, or substation site assets in advance of the actual construction project where there's a high likelihood of it proceeding.

Q: What about a situation where at the time you make the acquisition and it is likely to proceed, but something unforeseen occurs and the project does not proceed, how is that dealt with?

R: The asset will be in our RAB at that point. These are effectively preparatory works which we are required to do under the ISP. Mostly planning improvements that relate to understanding likely routes to better inform cost estimates. It is work that has been flagged for us to do by June 2021.

C: We would have a degree of confidence the project will proceed. That was a more speculative question, but this one is more likely, and at times you wonder whether some of those are going to be brought forward, which is another challenge for Powerlink too.

Q: When Powerlink is undertaking easement works, does that occur once you've got a real sense of the optimal pathway, or is that fairly clear already?

R: For QNI, it's fairly clear where you have to get from and where you have to get to, and the easement acquisition process is about identifying the actual pathway from start to finish, in accordance with the relevant legislation, for us to acquire those easements. There is a balance of environmental, social, and economic factors that influence those considerations.



C: We also have an in-depth engagement process that we have set ourselves. This is not a process that has been put upon us, but one we developed after our experience in the Surat Basin. We recognised the need to improve our approach and engagement activities with landholders. Our focus is on early engagement and also looking at potential route options. Often there are constraints around route options. It is important we have regard to those considerations and have the time to work through those aspects with landholders. This drives a lot of the reason why we start these works fairly early, to limit acquiring an easement in a hurry.

Q: I really appreciate that you do that both for the reasons you talked about but also because of the ISP framework. But before it gets rolled into the RAB, and I'm talking mainly about the easements, is there a cost benefit of different routes, or what is the transparency around the selection of a particular route from A to B?

R: Typically ministerial designation tends to be the process under which Powerlink acquires easements. There are requirements under that process which we must demonstrate to the Minister that the easements we are acquiring are efficient from a financial sense and also meet obligations similar to an Environmental Impact Statement (EIS) process. Cost is also an element to consider when investigating options.

C: I can't remember the precise details here, but I'm happy to follow up afterward. I believe the easement costs are also tested through the Regulatory Investment Transmission Test (RIT-T).

Q: Further explanation around this would be helpful so we understand where the transparency is. I can appreciate you have to liaise with the government, but in terms of consumers paying for their RAB, what transparency do they have on your selection process?

Q: I believe easements must be subjected to the RIT-T too. Is there anyone from the AER on the line who can confirm that? *[Question for AER]*

R: My assumption would be that easement costs would be included in the project costs that would be subject to the RIT-T. *[AER Response]*

Q: Do you only claim the RAB after the whole project is approved under a RIT-T, or can you do the easements prior to that and have them approved separately? If so, what's the approach around it?

R: With the new rules and new guidelines I think we need a whole other two hours to go through that.

C: I agree, we can leave it there.

3. Rate of Return (RoR), Maximum Allowed Revenue (MAR), Inflation and Regulated Asset Base (RAB)

- Dana Boxall, Stream Lead Finance and Modelling

Summary:

- RoR 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.
- MAR is forecast to be about \$568 million or 14% lower for the next regulatory period compared with our current period allowance. The most significant cause of this reduction is a lower WACC or RoR. The lower WACC is contributing about \$650 million of the reduction in the return on capital building block. The remaining build block, the reduction of \$126 million is due to our lower RAB.
- Powerlink is also seeing a reduction in tax allowance, mainly driven from the AER's 2018 Tax Review.
- RAB is forecast to continue to decline in real terms in the current regulatory period and through the 2023-27 regulatory period.
- Indicative impact on the transmission component of electricity prices would be a real reduction of about \$16 for residential and \$21 for business in the first year, and nominal changes in the first year would see, \$14 nominal reduction for residential and a \$24 nominal reduction for business. Future years are forecast to remain in line with consumer price index (CPI), which Powerlink has assumed 2.25% for the forecast regulatory period.

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

Q: Mark Greening has had particular comments in relation to what our forecast would look like if our rate of return for our current period was applied to our draft Revenue Proposal forecast. Is this a better representation from your perspective, Mark?

C: Yes, I really appreciate Powerlink doing that. It gives a much clearer view of the nominal changes, because people are more interested in how much money they are going to pay and using real terms can be quite confusing. Hopefully this can help improve consumers' understanding.

Q: Confirming what the difference is between the dotted and solid lines?

R: The rate of return.

4. Operating Expenditure

- Matthew Myers, Manager Revenue Reset
- Dana Boxall, Stream Lead Finance and Modelling



Summary:

- Powerlink has set a target of no real growth in total opex in the 2023-27 regulatory period. This target is against our actuals/forecast for 2018-22 and is exclusive of debt raising. We have developed this target with particular regard to Customer Panel and Revenue Proposal Reference Group (RPRG) feedback on productivity, affordability, the current economic climate and COVID-19 impacts.
- Proposing a productivity factor of 0.79% - this is above the AER's benchmark industry average.
- A no real growth in total opex target will be a challenging target for Powerlink to meet. We will need to work hard to continue to drive innovative business practices, seek efficiencies and aim to live within our proposed total opex for 2023-27.
- If necessary and material opex increases arise within the 2023-27 regulatory period, we may need to access cost-pass through arrangements (if appropriate and thresholds are met) or, as a last resort, overspend our allowance.
- Our next insurance renewal is due in November 2020. If costs increase significantly and impact our ability to meet a no real growth target, we may need to revise our target in the Revenue Proposal in January 2021.

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

Q: Will the productivity factor 0.79% not change over time if you're targeting the same nominal amount less debt-raising charges?

R: It may change. One item we have noted is Powerlink has its insurance renewal in November. Quite a big caveat around some of this is if we receive an insurance renewal that's significantly higher than what our insurance premiums have been in the past, we will need to look at that overall no-real-growth target. A way we could adjust for this is to also look at our productivity factor in light of that increase.

Q: So Powerlink's target is not \$1.038.9 million, it's whatever the actual forecast ends up being in the current period, because factors such as insurance may increase that \$1.038.9 million number?

Q: Confirming your question is, would Powerlink say in the revised Revenue Proposal if we have year-to-date data for this year, would we adjust that target figure at that point in time?

R: Yes.

C: We have not envisaged that for the reason Powerlink is aiming for 'capable of acceptance' in the first instance for our actual Revenue Proposal.



Q: If Powerlink is aiming for 'capable of acceptance' for its proposal in January, what you're saying is, what Powerlink puts in in the revised proposal in October/November 2021, if your actuals and forecast for the current period would be \$50 million higher, you're still going to target \$1,038.9 million for the next period?

R: That was not the intent here. What we're really trying to do is say that we want to go for no real growth.

Q: You just said you're going for no real growth when I think what you mean to say is Powerlink is going for no nominal growth?

R: No.

Q: Because you're saying that the nominal amount you're forecasting for the current period will be the nominal amount you'll ask for, for the next period?

R: No. The \$1,038.9 million for the current period is in real 2021-22 terms. I understand where you might be coming from. I assure you our intention is to not push up that number so it is higher in the next regulatory period. If we think there is going to be material difference, this panel and the AER will be contacting you quick-smart to let you know what has changed, and why it's changed. I am sitting here today hand on heart telling you that is not what we're intending to do. We also spoke to our Board yesterday about this.

Q: What Powerlink is proposing is terrific, and I apologise for not highlighting that. I am trying to be clear on comparison. If the \$1,038.9 million is in 2021-22, what dollars is that for the current period? Your actuals and forecast for the current period of \$1,038.9 million is in 2021-22 dollars, and you're saying that in 2021-22 dollars it will be \$1,038.9 million for 2023-27?

R: It hasn't been an easy decision for the organisation. We accept this would be quite a challenging target for us to meet for a number of reasons. Included in those is some of the potential operating expenditure increases we may see in areas like cybersecurity, insurance, general network maintenance, complexity of dealing with the growth of inverter-based resources, and some of the other potential step changes that we've discussed that we would be seeking to absorb. Part of this is also Powerlink wanting to set a challenging target within the organisation to try to drive the organisation harder. That's been a message that's come from our Executive Team. Powerlink accepts if insurance significantly increases we may need to look at it. That is something we should be doing as a prudent operator as well. But very much our intent is to propose this target, and this figure within Revenue Proposal and aim for that in the next period and live within that allowance.

C: We have also reduced step changes from 27 to zero. We referred to two potential step changes in the Preliminary Positions and Forecasting Paper (PPFP) which were cybersecurity and transmission ring fencing. Regarding cybersecurity we will be doing things as a prudent and efficient



operator. To meet our cybersecurity maturity targets set internally, will be handled through our existing operating expenditure within the current period and within total opex within the next period. Anything which may occur as part of the new Federal Government legislation or obligations, we will review as required and seek to absorb it if we can. If it's material, we will look to access cost paths for arrangements if it meets those materiality thresholds and if it's appropriate and efficient to do so. We did not think it was reasonable to ask customers to essentially fund that level of uncertainty without knowing what the Federal Government's proposal is or what the legislative arrangements will be.

C: Terrific news regarding no step changes.

Q: I am assuming the item I discussed the other day [with Powerlink] around National Transmission Planner (NTP) costs would be an additional pass-through even though it's not a step change?

R: It's a bit different and we have put something in our draft proposal to clarify that. For those of you who may not have seen AEMO's rule change that is coming through, the NTP fees are being addressed outside the Revenue Proposal, so none of the costs that we are proposing capture the NTP fees. Effectively, the NTP fees will be treated in a similar way to interregional Transmission Use of System (TUoS) where we allocate our revenue each year in accordance with our pricing methodology. AEMO tells us what the fee is going to be by mid-February each year, and we add that fee on top of our MAR for regulatory purposes associated with prescribed services. That is how it's proposed to operate.

Q: We have a question from Aurizon. What information will Powerlink also provide to support an assumption that an increase in the November insurance premium due to tightness of the market would be sustained over the regulatory period?

R: We have been looking at the veracity of forecasts regarding our insurance. To the extent that this would be an actual increase, we would need to see how much of a difference that is between what we've previously paid for insurance premiums and what we would be paying in this year. We are giving significant consideration to insurance, and we would still like to have a deep dive on this with customers to understand what the levers are to manage our overall insurance.

C: I would like to acknowledge the ambition in the productivity factor of 0.79% and the no step changes. That is a really important step that Powerlink has made and a hard one by the sounds of things. Thank you for the effort that has gone into that – it is good news for customers.

C: Thank you for the acknowledgment. I would also like to make it really clear that a lot of the conversation we had when making this decision was passing on feedback we received from the RPRG and Customer Panel. This was a really key factor taken into consideration by our Executive Team, and something we talked about quite a lot. We briefed our Board yesterday on this. That constructive discomfort referred to earlier, the



Board asked the question, is this good? Is this the right thing to do? Where they landed was that, yes, in the current economic climate with affordability concerns and the issues which have been raised by our customers, it is the right thing for Powerlink to do.

Q: When is Powerlink's next Enterprise Bargaining Agreement (EBA) negotiations?

R: We have just gone out with a ballot on that. I believe it is with the Fair Work Commission for formal sign off. We think it will go ahead, and would come into effect in March 2021. That would be a 3% wage increase for the people on agreement, which is the majority of staff. Within our wage price index I know there was some consideration of the EBA in our Revenue Proposal last time around. We haven't put that forward this time. We would manage this within the business in terms of that cost.

C: I know you have cost pressures in your EBA arrangements. That's why I think it's impressive what you and management are proposing here on opex, because that can be a really tight cost issue given the EBA and the work conditions Powerlink has.

Q: Any further questions at this time?

R: No, you have certainly provided quite a bit of context around the figures and I am comfortable at the moment.

C: A comment has come through which says, "27 potential step changes to zero is impressive", so thank you for that.

Q: Are we able to get a line of sight, if you like, between the quite considerable replacement or non-load capex you've had over the last X number of years since 2012/13, the IT projects you've been undertaking and the impact on your opex forecasts? Has, for example, all the replacement activity reduced the need for maintenance? This is so we can see the links between the requirements for maintenance and the replacement capex that has been quite extensive over the last three regulatory periods.

R: We can take that away to have a think about that one.

C: Similarly with IT, it's one of the things we think is really important where in one regulatory period there are claims that IT will deliver X, Y, Z, and just how that is picked up in the total opex if at all. They may be completely separate, but just to get some clarity around that.

C: I would suggest that it would be helpful if Powerlink put some level of magnitude around the four categories [productivity initiatives] to provide an understanding of where your particular focus areas might be. I understand there are lots of little - save your pennies and the pounds quickly add up - sort of story. This was the case when I undertook the PwC review a couple of years ago. There was a proposal for a significant improvement in



productivity, but consumer advocates were not really convinced because it was such a step change in past behaviour, that it was achievable. They had to get some confidence from PwC that the improvement was actually achievable remembering that consumers will take 30% of your failure to achieve it if you go over your allowance.

C: We can take that on board. We need some more time to work through some of the specifics of the productivity initiatives before we would be able to provide a range. I'm not anticipating that we'd be able to do that as part of the draft Revenue Proposal, but it's something we can take on board as part of the January proposal.

C: That is fine.

C: Important to note, Powerlink had set this as a top-down target, so it will not be a full bottom up build as to where all the hundred different improvements can be made. At the moment, we're thinking these are those areas that are right for us to push further than what we're currently doing.

C: In terms of cybersecurity and step changes - I know this was a question raised and we wanted to give a bit of an indication of what our expected spend is here. As previously said, we're not intending to pursue the step change any further. We have done a high level estimate of what we expect our operating expenditure to be to meet our current targets of cybersecurity capability, which we think are prudent and efficient. That sits around \$1.5 million to \$2.4 million per annum. We're still working through exactly how much it would be in real terms. That's just for what Powerlink would do, that's not what would be required if the Federal Government mandated a higher level of maturity for us to reach.

We've also highlighted that we do have some capex within the Revenue Proposal in relation to cybersecurity. That sits around the \$5.8 million mark at the moment. A lot of it is cyclical renewal. Again, if the Federal Government came in and required it at a higher level of maturity, we might need to spend more in that space.

Q: Is Powerlink likely to know that before the reset process is finished, or is it potentially a pass-through during the next period?

R: It may be known. 2021-22 is the indicative timing from the Federal Government on this legislation. With the release of the 2020 Cybersecurity Strategy they do seem to be moving a bit faster. This may include broader security requirements as well, which could include physical security elements. As I understand it, that is a new development. We don't believe there will be any certainty before our January proposal.

C: In relation to insurance, we wanted to use the Marsh scenario to demonstrate that there's a significant risk if those premiums did eventuate. We may be in a situation to try to absorb those costs within the allowance, and recognise that we would make some decisions ourselves in terms of the coverage. I know there was some commentary about that particular topic in some of the CCP's feedback, so I will throw to a member for comment.

Q: One of the comments was my recollection of Marsh's discussion that the market would find an equilibrium and this may be indicative of the difficulty in pricing and the number of companies who are willing to enter the market and those sitting on the sidelines. They did say that they would come down in the future. That was my recollection of that conversation. The second comment related to AER's Guidance Paper on how it would look at insurance costs and wondering if that was of any value to Powerlink? I think it was focused on distribution, but wondering whether there was anything useful to assist us in our thinking in that paper?

Q: Was this in the cost pass-through related ones, so insurance coverage?

R: We'll make sure we have regard to that to inform that October session.

C: It would be helpful to hear how the AER would verbalise quite a tricky topic.

C: Can I also suggest to help us prepare for the insurance deep dive in October, in the next week or two, to send us specific information or questions you want us to answer. We want to make sure when preparing the deep dive, everyone gets what they need out of it. If there are any insights, thoughts, other papers you're aware of that you think we need to review in advance, please send those through as well.

Q: I was going to ask the same question regarding the AER's consultation paper. It seemed to just refer to Distribution Network Service Providers (DNSPs) and not Transmission Network Service Providers (TNSPs). It would be good to understand what the particular rules are around pass-through of these events for TNSPs and whether they're any different from DNSPs. Perhaps a question to anyone from the AER on the call, is this consultation paper meant to cover TNSPs as well as DNSPs? *[Question for AER]*

R: The intention of that consultation paper on insurance coverage paid was to apply to more than just the DNSPs. The intention was to apply to TNSPs and also across gas where relevant. *[AER Response]*

Q: I see the insurance renewal is due in November. Is that important to the workshop?

R: The insurance renewal will probably come in at the end of November. We are conscious as to how much time we have left if we were to have this deep dive post that coming in. The focus will be on trying to understand the risk appetite and balances from our customers to help with

decision-making, not necessarily things that are directly in the Revenue Proposal. I'm not saying no to that, but we are mindful of how much time we might have left if that workshop were to be in December.

C: If we have the result of that renewal in time, there is a Customer Panel meeting on 26 November, and we could dovetail in terms of having the deep dive on insurance, which will broadly speak about that specific decision or event. Then if we have that insurance renewal in time, we can then talk to that. If not, we can set up a separate session.

C: That sounds good.

Q: The November insurance renewal, is that for everything or is it just one element of the business? I assume there are going to be insurance renewals throughout the next 12 months?

R: It's our annual renewal across everything. I'm not an insurance expert, but I know we have had some long-term agreements put in place for some parts of our coverage. There are probably things that aren't as impacted in that renewal, but I understand some of those are falling away as the market is getting tighter and some of the insurers aren't wanting to renew those long-term agreements. That's part of the challenge for us as well.

C: Thank you. That is also what we've seen with the dams and also now with CSG.

Q: Do Shell or CS Energy have any comments on opex in general or insurance, self-insurance before we move through to capex?

R: What we're seeing here is reflective of the insurance session held previously. I reaffirm the comments made on the opex and productivity. It's very transparent and that's another positive path that I see. Your responses to the questions are very good too.

Actions:

- **Powerlink to provide overview of process for transmission line route selection.**
- **Powerlink to provide response on whether levels of replacement capex reduce the need for opex and how IT impacts opex.**

5. Capital Expenditure

- Greg Hesse, Stream Lead Capital Expenditure

Summary:

- AEMO 2020 Integrated System Plan (ISP) published on 30 July, identified the QNI Medium upgrade as likely to be required by 2032-33 under most scenarios.
- Given the magnitude of the QNI Medium development – new 500kV transmission lines and 500kV substations – construction may need to commence by the late 2020's. This will require new transmission line easements and substation sites to be acquired during the 2023-27 regulatory period. We have included \$18.3m in the capex forecast to undertake this work.
- Repex Model component – increase in the mean replacement life of transmission line towers by between 1.5 and 4 years, depending on the corrosion zone. This reflects recent changes to our asset management and transmission line life extension practices. This change has reduced the capex forecast by ~\$45m.
- Updated the timing of a number of individual projects to reflect the anticipated timings in our 2020 Transmission Annual Planning Report (TAPR), to be published by 31 October 2020. This has reduced the capex forecast by ~\$62m.

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

Q: To clarify, you're saying Powerlink is using the red line rather than the purple line for demand forecasting?

R: The purple line is the AEMO Electricity Statement of Opportunities (ESOO).

Q: Will Powerlink's proposal will be based on the purple line?

R: Yes.

Q: Is that the ES00 which has just been published? Is it transmission delivered projection?

R: Yes. Our planners have worked jointly with AEMO through this. AEMO is specified on a slightly different basis, they input it as generated set out, or what they call their operational demand. Our planners have converted that in conjunction with AEMO to arrive at what would be delivered or taken out of the transmission network, so it's a slightly lower number.



Q: The TAPR looks at how some of the renewables are going directly into the distribution system. So that's quite a different scenario of growth, isn't it?

Q: That's a good point. What is the reason for the growing divergence between the TAPR and the ESOO?

R: That was the 2019 TAPR forecast.

Q: Why is there a difference between the two, because if you extrapolate those two lines out, it comes to a very different end point in another 10 years?

R: There's a lot of different assumptions from year to year in particular about uptake of battery storage and so on, and different times, electric vehicles, energy efficiency measures, those sorts of things. So I'd need to take that question on notice.

C: I don't know how much detail is in the draft proposal, but in the final plan it would be good to have more detail around the why the ESOO forecast is so different from the TAPR. Not just that one is one last year and the other is this year. It's just that the ESOO one is post-COVID-19 and there seems to be while there's a reduction initially, there's a much stronger growth. It'd be good to understand the detail behind that.

C: Of course that assumes a main industrial load doesn't close in 2029.

C: Yes, I think it's at the step-change scenario where an unnamed industrial load in Queensland shuts down.

Q: When is the 2020 TAPR available?

R: End of October.

Q: Can you provide an indication of how that compares to the purple line?

R: As I understand it, there will not be a separate paralleling demand forecast. We have adopted the AEMO forecast.

Q: Can you briefly explain the two weather corrected years? 2017/18 and 2018/19, why they're so different from the actuals when weather adjusted and actuals are pretty close for the rest of the graph.

R: The actual is what was actually recorded on the day of maximum demand in the year. Queensland being a very large state, the weather correction has to occur across a number of load centres across the state. So what drives a really high demand across Queensland is when it is 38 degrees in Brisbane, 43 degrees at Rockhampton, and 39 degrees in Cairns and Townsville. If it's only 38 degrees in Brisbane and 33 degrees in Townsville it won't drive the same high level of demand. So the 2017/18 and 2018/19 years were the actual recorded figures. Then when the weather correction, which takes it back to the equivalent of a 50 per cent probability of exceedance or an average weather year across the whole state, that brought those two years down quite considerably. The 2019/20 year there were certainly on the day of maximum demand it was particularly hot in some parts of the state, but more broadly across the whole state it appeared like an average year.

C: I want to be very clear that that, while CopperString itself isn't forming part of our Revenue Proposal, the additional demand that could come with that could contribute to a contingent project trigger.

Q: Does that mean consumers would generally be subject to the cost of shallow augmentation driven by CopperString connecting to the existing common service network?

R: No, this is common service network upgrades.

Q: To handle the CopperString demand?

R: At least in part. I'm not sure whether CopperString in itself is enough to trigger that, but it could be a contributor to additional demand.

C: I know it's the way the rules work, but that's a big issue for the Energy Users Association of Australia (EUAA) is that you have consumers generally through the power structure paying for costs that other users in merchant lines impose on the system. That's an issue we're pursuing in other places.

C: We also need to be mindful that the connection of big players to the network also helps consumers. There are two sides to the coin too. But I know where you're coming from.

Q: A question regarding contingent projects. Is there any way you can just give us a back of the envelope indication of what the impact on consumer bills might be from each of these projects?

R: I think it would be possible, for instance, from our base MAR position to say, if there was an additional 100 or 200 - per 100 megawatts of additional capex what the impact on the bill might be.

C: Some of these I could see from a generator perspective we've got the generated retirement obligation etc. We are going to see I'm sure over the course of this decade just within Queensland movement away from that public information as it is now because most of that information reflects the technical life of the generators. But we're now overlaying that with economic considerations. The technical life of most coal thermal is around 40 years, and a nominal expectation that economically you could extend it by another 10 years. But equally as you can extend it you could also bring it forward. Now with the retirement of generators there's a number of areas here that I would suggest may require bringing forward some of these projects. It just really depends on the location of those generators.

Q: The funding of \$145 million for renewable energy zones recently announced by the Queensland Government, how does that work? I was thinking in principle if that funding is made available and utilised by Powerlink how would it reflect in this regulatory environment? Or is it too early to be able to comment?

R: It is very early to comment and we're still trying to digest that material, and gather more information. But as our Chief Executive said at the Transmission Network Forum, this is largely focused on non-regulated developments.

Q: Yes I agree. The REZ was sort of the big common bit there. If you have a look where at the type of trigger, there's a couple here talk about the REZs, and I was just trying to see if there's any connection?

R: In the longer-term, to the extent that we need to reinforce our prescribed network - yes, there could be some costs required to be invested for the prescribed network. At this point in time I don't have the details, I haven't seen the details associated with that to determine whether that would be the case. But at this point in time we haven't included anything here.

Q: How many of the potential contingent projects would be subject to RIT-T evaluations?

R: All of them.

Actions

- **Powerlink to provide an explanation on difference in ESOO and 2019 TAPR demand forecast.**
- **Powerlink to provide indication of what the dollar impact on bills would be for consumers should contingent projects go ahead.**

6. Customer engagement

- Gerard Reilly, Stream Lead Customer Engagement

Summary:

- Discussed a set of criteria to help assess Powerlink's concept of 'capable of acceptance' regarding the Revenue Proposal
- Criteria based on suggestions from members of the CCP24 as part of the Australian Gas Networks (AGN) Access Arrangement
- Conscience of expanding our engagement to include regional stakeholders and encourage RPRG and Customer Panel to share information with their contacts.

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

Q: Are there any comments about the 'capable of acceptance' criteria? Does it capture what the CCP24 has been trying to put out there in terms of the AGN access arrangement? Do we need to add to the criteria or do these look suitable to be applied to our capable acceptance as well?

R: I'll just note that the CCP24 comments about capable of acceptance, are at this stage our views only. So they haven't been the subject of any formal response by AGN or by AER. I will note that from the AGN perspective, our commentary about 'capable of acceptance' identified a couple of areas where there needed to be a little bit more work done. If we wanted to add draft criteria it would be, nothing outstanding, or nothing significant that's outstanding before the AER is able to make final decisions. So it's a 'no loose threads' criteria. In terms of the demonstrated customer support, with the AGN proposal we noted there was a reasonable depth, a reasonable breadth of consumer input and consumer support from regional forums and from small business, culturally linguistic diverse communities. Targeting a range of customer groups was an important part of the demonstrated consumer support.

The business responsiveness and clarity around this is also important. With AGN it was really clear that the CEO, the senior staff and the board were absolutely on board. While I think that's the case with Powerlink, I would certainly be highlighting the importance of that - the CE, board, and senior management are all integrally involved with the process.

Q: I'm curious to know, how do you assess a business like ours versus a business who may have been starting from a different point of engagement with their consumers as part of business as usual?

R: I've always been a bit concerned about having separate acceptance criteria other than the one that's in the NER, which is in the long-term interests of consumers. That boils down largely to the AERs assessment of the building blocks, which is the sort of latter set of these draft criteria. The former ones are the way in which the business got to the proposal. The CCP and the sub-panels have said all along, that it's a journey. You're right that different people have started in different places on the journey and different business have dealt with the journey in different ways.

Regarding questions about the process rather than just what's in the proposal, is an open question on the extent to which the AER should look differently at a business proposal that has gone through some very good consumer engagement vs. one that hasn't.

It will be interesting to note what the AER has to say in decisions for Victorian electricity distribution business, (to be released next week) where we've got quite a different approach with AusNet with the customer forum. There will probably be lessons for all of us here in what the AER has to say in those draft decisions on different models of customer engagement for example, the extent to which the AER may or may not look differently at a proposal based on how it arrived at its position, rather than only what's in the proposal in terms of forecast expenditures. [*AER Response*]

Q: Any comments from RPRG members?

R: Sharing comments and experience from different jurisdictions is invaluable. To look at the criteria, I am ticking all the boxes. Obviously the last criteria I can't do that on your behalf, but hopefully you're successful. I do have one query regarding "the revenue proposal is reasonably comparative to past performance of peers". In peers, do you mean fellow Network Service Providers (NSP)?

R: Transmission network service providers (TNSPs).

C: My only other comment would be whether it would be worth providing a comparison with peers once the determination is made.

C: I took comparison with peers to effectively mean benchmarking. Yes, in the first instance it would be the electricity transmission businesses but, if appropriate other businesses as well. Perhaps benchmarking and looking at performance of non-regulated businesses as well as regulated businesses, and looking internationally. If internationally electricity transmission businesses are getting particular productivity gains, then that's an indicator that businesses here should be looking what they doing, and what's different.

C: A criteria would go to an earlier question on capex/opex trade-offs is to ensure that engagement included detail to consideration of alternative approaches and outcomes.

C: I found your business narrative really useful. A clear business narrative draws all the threads together and I think Powerlink's went a long way in doing that. But I think it's also useful to find the right words to emphasise how that business narrative is important in bringing all those different threads together into a holistic picture of what you're trying to achieve and how you're going to achieve it.



C: Building on the previous comment, it would be very helpful if you could flesh out a bit more of the next level down of what these criteria are because sometimes it's a bit difficult to say, this is an appropriate criteria without knowing detail behind it. Just because something is clear doesn't mean to say we agree with it.

C: I would like to put that back onto the RPRG and the Customer Panel to flesh that out, and provide feedback on what you think needs to be done to be capable of acceptance. We would prefer to have your input on this, rather than Powerlink devising and asking you to sign off on it. This could be part of the separate session, without Powerlink, for the Customer Panel to assess or have a discussion on the draft Revenue Proposal.

C: That would be a good discussion to have.

Q: When is Powerlink hoping that a process around capable acceptance criteria would be completed?

R: Ideally late-October/early-November to really help us fine-tune the Revenue Proposal document.

C: Could members of the RPRG and Customer Panel please come back to Powerlink with a date for the separate session and we can provide a platform for that to happen. The public submission period ends on 30 October for our draft revenue proposal and would appreciate if you would communicate with your members.

Q: Obviously one of the potential uncertainties with the proposal that you've presented, relative to the one that might ultimately be submitted, is the outcome from the inflation review. Given that the AER is looking to publish at least a draft report of that next week, could we get a recut of what those numbers would look like if that draft report includes an alternate approach such as a glide path?

R: In terms of the drafts, the draft revenue proposal numbers on the basis of what might come out of the draft inflation review?

R: I appreciate that the work has been done based on the current methodology and you'll release your draft revenue proposal on that. But I think in terms of this group, if it's possible to have some of those numbers recut to look at what an alternate inflation methodology would look like, because that will be relevant to our internal discussions and considerations on the changes to the depreciation and asset lives because of its impact on economic depreciation.

R: We will take that question on notice.

Q: Are there any other queries just on the upcoming engagement steps?



Q: Who will be the person organising the separate meeting invite from the RPRG and Customer Panel?

R: This should be driven by the RPRG and Customer Panel.

Q: When would we need to meet by when to provide meaning feedback?

R: 30 October is the closing date for submissions on the draft.

R: Somewhere between 20 October and 30 October. As you pointed out I think in the meeting invite, if you look at the schedule in your system, it should probably have everyone's contact details in there – it does.

Q: Is the only agenda item to flesh out more detail around what we think the 'capable of acceptance' criteria means?

R: It's also an opportunity for the Customer Panel to go through the draft Revenue Proposal in detail. To have a conversation, to challenge it, and consider making a submission as a Customer Panel. So there are two parts to the meeting 1. insights and feedback on the draft Revenue Proposal, and 2. other insights around the criteria for 'capable of acceptance' would be very beneficial as well.

C: Panel members, we've set this objective as 'capable of acceptance' by Powerlink, the AER and our customers. Powerlink would like a piece of paper that we can submit with our Revenue Proposal that gives your assessment on what we've been doing. In particular, which bits you think are capable of acceptance. That also goes to while you may not think this bit or that bit is entirely what you would like, as an overall package what's your assessment of capable of acceptance.

C: The webinar should be no later than 15 October given the submission period deadline.

C: We will be changing the webinar date due to date clashes with the Predetermination Conference for the Victorian distributors, and that AEMO may be hosting an event on this day. We are looking at 14, 16 or 17 October to provide you enough time to provide feedback. We also have another RPRG meeting on 29 October and I anticipate this would be an opportunity for you to report back to us rather than Powerlink presenting information to you.

Q: I want to clarify that the meeting of the Customer Panel in my view, and I think through the dates, doesn't have to prepare the document to be submitted with January's Revenue Proposal by 30 October?



R: No.

C: Confirming the AER has emailed all stakeholders and anybody who had registered that 15 October is going ahead for the Predetermination Conference. [*AER Comment*]

Actions

- **RPRG to send Powerlink any specific questions or papers to consider for the upcoming insurance deep dive.**
- **Powerlink to consider putting further detail around the four potential areas to drive productivity**
- **Powerlink to advise the impact of the AER's Inflation Review on draft Revenue Proposal figures**
- **RPRG to organise a separate meeting to discuss draft Revenue Proposal with the full Customer Panel, without Powerlink present**

6. Meeting closed 3.50pm