

Revenue Proposal Reference Group Meeting No.2

Details of Meeting	
Date and time of meeting	09:00 – 12:00, Wednesday 19 March 2025
Location	Powerlink Offices, Virginia
Attendees	Organisation
RPRG members – customer representatives	
Alicia Kennedy	Queensland Farmers' Federation (QFF)
Chris Hazzard (online)	St Vincent de Paul Society
Katie-Ann Mulder	Queensland Renewable Energy Council (QREC)
Mark Grenning	Energy Users Association of Australia (EUAA)
Michael Bray	Aurizon
Robyn Robinson	Council on the Ageing (COTA)
RPRG members – Powerlink representatives	
Roger Smith (RPRG Chair)	Director Revenue Reset
Gerard Reilly	General Manager Communications, Customer and Engagement
Jenny Harris	General Manager Network Regulation
Guests and speakers	
Jacqui Bridge (partial attendance)	Executive General Manager Energy Futures
Darryl Rowell (partial attendance)	Chief Financial Officer
Dana Boxall	General Manager Community and Delivery Services
Aidan Lawlor	Capex Lead, Revenue Reset Team
Michelle Beavis	Opex Lead, Revenue Reset Team
Jessica Purdy	Customer Engagement Specialist, Revenue Reset Team
Eleonore Bridier (online)	Customer Engagement Specialist
Invited stakeholders	
Michael Brothers (online)	Australian Energy Regulator (AER)
Mike Swanston	AER Consumer Challenge Panel No.34
Apologies	
David Prins	AER Consumer Challenge Panel No.34

Meeting Agenda

Welcome and review of previous actions

1. Social performance
2. Capital expenditure forecasting methodology
3. Operating expenditure forecasting methodology
4. Nomination of an Independent Chair

Overview / Notes of Meeting

Roger Smith, Director Revenue Reset, opened the meeting with an Acknowledgement of Country and recap of the Business Narrative and drivers of change in the 2027-32 regulatory period. Review of previous actions resulted in four tasks closed out (1.1, 1.2, 1.4, 1.5), and two to carry over to the May RPRG meeting.

Note: Task 1.3 completed subsequent to RPRG meeting.

1. Social Performance

Dana Boxall, General Manager Community and Delivery Services, presented on social performance, highlighting the importance of adapting to changing social risks and community expectations, and early engagement to build trust and prevent project delays. Social performance is expected to have a minor impact on the prescribed transmission service (regulated) revenue forecast relative to other categories of expenditure, due to the focus of these activities being predominantly on non-regulated and transformation projects.

Discussion, questions and responses

The RPRG shared learnings from previous projects and agreed on “inform” as the appropriate IAP2 participation level for this topic, given the low expected impact on the Revenue Proposal. Powerlink will inform the RPRG of any material impact of social performance costs on the prescribed revenue forecast and reassess participation level if required.

1. What are the main lessons Powerlink has learned from the experiences of counterparts in other states?
 - a. We recognise the criticality of understanding individual communities, to ensure engagement occurs at the right time and asks effective questions to generate genuine engagement.
 - b. We are observing significant cost increases caused by delays resulting from community opposition in other states and have responded by increasing our investment in resourcing Community and Delivery Services, landholder payments, and community benefits.
 - c. We will apply the same social performance framework for all types of projects, as experience indicates investment is outweighed by benefits and reputational value of goodwill.

Other learnings shared by RPRG members highlighted the need for project information to be provided to communities before they turn to other sources of information which may be incomplete, inaccurate or invalid. The underground versus overground debate was discussed as an example where impacts are highly dependent on project specifications and land use.

2. Can Powerlink provide any indication on the need for compulsory acquisition or comment on the trade-off between increased cost of a longer route versus compulsory acquisition?
 - a. Our Transmission Easement Engagement Process considers multiple factors to balance social, environmental and cost impacts. Powerlink’s preference is to always have dialogue and negotiate outcomes with landholders.

3. How does Powerlink intend to measure success of its social performance initiatives?
 - a. Metrics and indicators are in development under the framework and will aim to distinguish between project acceptance and improved understanding and acceptance of Powerlink's frameworks and engagement processes.
 - b. Powerlink to circulate Engagement Report from Bayview Heights to White Rock Underground Cable Project.
 - c. Feedback from local councils has indicated information provided by Powerlink is contributing to building community understanding, while acknowledging the need to balance early engagement with the risk of creating unnecessary disruption.

2. Capital Expenditure Forecasting Methodology

Aidan Lawlor, Capex Lead, explained Powerlink's proposed hybrid approach to forecast capital expenditure, which combines top-down and bottom-up forecasting techniques. This approach is generally consistent with Powerlink's previous Revenue Proposals but includes an improvement for the reinvestment category that will reduce resource intensity while delivering a reasonable outcome in the context of a rapidly changing operating environment.

Discussion, questions and responses

The Revenue Reset team plans to use a hybrid approach for reinvestment forecasting, with bottom-up estimates for projects over \$10 million and a top-down approach for smaller projects.

4. In relation to the split of prescribed capex allowance for the current 2022-27 period between load driven, non-load driven and non-network categories, how does this compare to actuals and future forecasts?
 - a. Powerlink will provide updated charts to illustrate the split of prescribed capex between load driven, non-load driven and non-network categories for actual/forecast capex within the current 2022-27 period and forecast for the 2027-32 regulatory control period.
5. How does the scale of non-regulated and transformation capital expenditure compare to prescribed capital expenditure?
 - a. Non-regulated capex has grown in recent years to reach a scale comparable with regulated capex.
 - b. Transformation investment in major projects such as Copperstring is of a much larger scale than either regulated or non-regulated capex.
 - c. Capital expenditure in the 2027-32 regulatory period will be greater than the previous period, as per early forecasts presented to the RPRG at its first meeting.
6. Can Powerlink clarify why it is intending not to use the Repex model or comment on the model's performance in the current regulatory period?
 - a. The AER stated in their Draft Decision for our 2022-27 revenue determination that they consider the Repex model is not suited to TNSP replacement capex forecasts.
 - b. While Powerlink considers the model remains appropriate for forecasting specific categories of repex, we are seeking to take a fit for purpose approach that allows us to balance the cost and resource requirements to develop our repex forecast with a reasonable outcome for customers.
7. What is the likelihood of the AER requiring the use of the Repex model in developing Powerlink's forecast of capex?
 - a. Nil. The Rules provide for a TNSP to propose the methodology it intends to use to forecast capex. Consistent with this, we are seeking to develop a reasonable and fit-for-purpose approach.

8. How does the proposed approach improve on the Repex model?
 - a. Our proposed approach identifies specific reinvestment needs based upon existing asset data and considers the deliverability of the works within the context of the whole project portfolio, hence costs will be more reflective of practical implementation.
 - b. This forecast will also be validated by a 'top-down' lens that considers deliverability and potential synergies.
9. What accuracy class will the estimates be using the proposed approach?
 - a. Regardless of forecasting approach, estimates are less accurate for projects occurring later in the regulatory period.
 - b. We will specifically address this issue at the additional RPRG meeting in April.
10. Does the forecasting and project approval process provide for 'stage gates' and refinement of estimates over time?
 - a. Yes – we will provide an overview of the approval process at the additional RPRG meeting in April.
 - b. We will also review cost inputs and update expenditure forecasts in our Revised Revenue Proposal in the event of any material changes.
11. Has Powerlink's Asset Reinvestment Review affected the capital expenditure forecasting methodology?
 - a. The outcome of the Asset Reinvestment Review predominantly informs our approach to bundling works versus targeted staging of works at the time of investment decision. We are investigating how we might reflect likely outcomes of this approach within our forecast for the Revenue Proposal.

3. Operating expenditure forecasting methodology

Michelle Beavis, Opex Lead, presented our proposed operating expenditure forecasting methodology, which follows the AER's base-trend-step approach. We have selected the 2026 financial year as the base year and identified five potential step changes (see presentation slides).

Concerns were shared by panel members regarding the suitability of standard practice and assumptions within the current business context. In respect to step changes, it was noted by a panel member that another TNSP had previously applied for a network complexity step change, but the AER had not allowed it in its determination.

Discussion, questions and responses

12. Can Powerlink clarify whether the categorisation and approach for insurance costs has changed from the last Revenue Proposal?
 - a. Categorisation of insurance as non-controllable has not changed. We will review the forecasting approach used in the prior regulatory period and report back to the RPRG.
 - b. Darryl Rowell, Chief Financial Officer confirmed Powerlink is considering a degree of self-insurance, given premiums have increased significantly relative to the value of assets covered.
13. Is there a risk that the base year realised costs will be materially different from the forecast?
 - a. Yes – we will update the base year with realised costs progressively throughout the proposal development process to ensure the draft figures are as representative of actual costs as possible.
 - b. We will engage with the RPRG on any material changes in base year costs in developing our Revenue Proposal.

14. How will Powerlink ensure base year efficiency, given productivity has been falling in recent years?
 - a. We will undertake an independent assessment of opex base year efficiency and consult with the RPRG when further information is available.
 - b. We will also continue to test and challenge within Powerlink to ensure our base year is reasonable, including with senior management.
15. Is the assumption of zero real non-labour price growth appropriate in the current operating environment?
 - a. We will review the reasonableness of this assumption and discuss further with the RPRG.
 - b. This assumption is consistent with the AER's Better Resets Handbook and we are not aware of any instances of an alternative being accepted.
16. Is there a materiality threshold for step changes?
 - a. We have applied an order of magnitude threshold of \$1 million per year for step changes.
17. What is included in the security step change and is Powerlink targeting a specific SP level?
 - a. The step change is related to physical security primarily and will have both capital and operating expenditure components.
 - b. Expenditure in the current regulatory period has focused on cyber security, which will be addressed at a subsequent RPRG meeting.
18. Is there a cost saving associated with cloud-based technology?
 - a. This will be addressed at a subsequent RPRG meeting.
19. How will Powerlink manage uncertainty in both operating and capital expenditure forecasts?
 - a. We will apply a reasonable approach to managing risk and uncertainty, within the context of the Rules.
 - b. We will communicate to the RPRG on how risk has been accounted for in the Revenue Proposal.
 - c. We will manage year to year variance within the overall allowance.

4. Nomination of an independent chair

RPRG independent members proposed nominating an independent chair to coordinate formal inputs to the Revenue Proposal. Following the conclusion of the RPRG meeting, the independent members nominated Mark Grenning, who accepted the role. Powerlink will publish updated RPRG Terms of Reference on its website.

Actions Arising

	Action	Responsible person	Due
1.6	Include the potential impacts on the maximum allowed revenue arising from large capital projects that are outside of the revenue determination process	Roger Smith	With Cut 2 forecasts
2.1	Circulate the Engagement Report from the Bayview Heights to White Rock Underground Cable Project	Jessica Purdy	01/04/25 Complete
2.2	Update Engagement Plan to reflect change of participation level for social performance from consult to inform	Jessica Purdy	30/06/25
2.3	Provide updated charts to illustrate the split of regulated capex between categories for actual/forecast capex within the current 2022-27 period	Aidan Lawlor	15/04/25
2.4	Provide updated charts to illustrate the split of regulated capex between categories for forecast for the 2027-32 regulatory control period	Aidan Lawlor	With Cut 2 forecasts
2.5	Request input from RPRG members on information to be covered at the additional meeting on capital expenditure forecasting methodology	Jessica Purdy	01/04/25 Complete
2.6	Review forecasting approach used for insurance costs in the prior regulatory period and report back to RPRG	Michelle Beavis	01/05/25
2.7	Publish updated RPRG Terms of Reference	Jessica Purdy	01/04/25 Complete