

Co-Design Workshop

24 May 2019



Welcome

Powerlink Chief Executive, Merryn York

To co-design with our customers and stakeholders Powerlink's engagement approach to its 2023-27 Revenue Determination process

2023-27 Revenue Determination Process Milestones



Milestone	Approximate timing for 2023-27 Revenue Determination process
AER publish Preliminary Framework & Approach paper	March 2020
Powerlink lodge Expenditure Forecasting Methodology	June 2020
AER publish Final Framework & Approach paper published	July 2020
Powerlink lodge Revenue Proposal	January 2021
AER publish Issues Paper and holds Public Forum	March/April 2021
AER Draft Decision published	September 2021
Powerlink lodge Revised Revenue Proposal	December 2021
AER publish Final Decision and Determination	April 2022

2023-27 Revenue Determination Engagement Goal

To undertake engagement to deliver a Revenue Proposal that is capable of acceptance by our customers, the AER and Powerlink.

1. Engagement approach
 - a) Insights into engagement approaches – Louise Benjamin
 - b) Powerlink Customer Panel – Mark Grenning
 - c) Interactive discussion

2. Engagement scope
 - a) Key aspects of a Revenue Proposal for a transmission business
 - b) Identify aspects that have greatest opportunity for influence and impact on Maximum Allowed Revenue (MAR)

3. Engagement techniques
 - a) Insights into engagement techniques – Robyn Robinson, Mark Grenning
 - b) Interactive discussion

4. Engagement communication & evaluation
 - a) Interactive discussion

- Powerlink will draft an Engagement Plan based on input received at this workshop
- Circulate for comment before finalising



Insights into engagement approaches

Louise Benjamin

Powerlink Customer Panel

Mark Grenning

How can we best use existing engagement activities?

- Formal and informal
- Customer Panel
- Transmission Network Forum
- Stakeholder briefings
- Stakeholder perception research
- Webinars

Is there a role for a negotiation panel?

- Composition
- Skills needed
- Fit with existing Customer Panel

How can we best involve the AER prior to the submission of our Revenue Proposal?

- Early guidance
- Formal arrangement

How do we provide the best opportunity for our customer representatives to be involved?

- Accessibility
- Educate before input
- Dedicated budget – how much, what for

How do we demonstrate we are meeting customer and AER engagement expectations?

- Formal and informal reporting

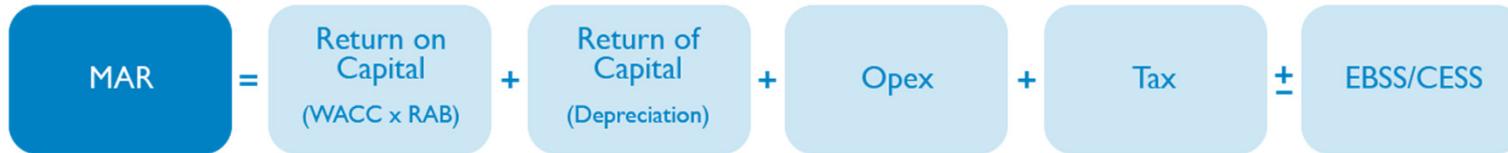
Morning Tea

Engagement Scope

Purpose

- To flag key elements and other elements of a Revenue Proposal
- Not intended to be a detailed discussion on the technical composition of each

Revenue Proposal – revenue building blocks



Return on Capital = a measure of return on investments (capex)

Return of Capital = annual regulatory depreciation allowance

Opex = annual operating and maintenance cost allowance

Tax = calculated effective company tax payable

EBSS = carryover amounts for the Efficiency Benefit Sharing Scheme from the previous regulatory period

CESS = carryover amounts for the Capital Expenditure Sharing Scheme from the previous regulatory period

$$\text{Return on Capital} = \text{WACC} \times \text{RAB}$$

WACC - Powerlink must apply the AER's new Rate of Return Guidelines

RAB - adjusts each year for new assets (capex), disposals and depreciation

Capex Forecasting Methodology

Could be:

- Full bottom-up
- Top-down
- Hybrid

Contingent Projects

- Trigger-based



Key inputs and assumptions

Categories

- **Load-Driven**
 - Augex
 - Connections
 - Easements
- **Non-Load Driven**
 - Reinvestments (Repex)
 - Security/Compliance
- **Non-Network**
 - Business IT
 - Support the Business
- **Contingent Projects**
 - eg. QNI upgrade



Different
assets have
different lives

Alternative
approaches?

OPEX FORECASTING METHODOLOGY

BASE

Determine an efficient base year (benchmarking)

STEP

Step changes, e.g. new obligations

TREND

Rate of change in output, real price (labour and materials) and productivity growth

OPEX CATEGORIES

Controllable

Maintenance
Operational refurb maintenance
Support NW operations

Other Controllable

Asset management support
Corporate support

Non-Controllable

Insurances
Network support
AEMC levy
Debt raising



Operating environment

Economic outlook
Government policy
Regulation
Customer drivers



Pricing methodology

How MAR is allocated to
categories of prescribed services



Incentives

EBSS - opex
CESS - capex
STPIS – network performance



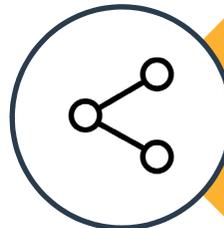
Nominated pass through events

e.g. insurance caps, terrorism, insurer
credit risk



Project estimates

Escalators, estimates



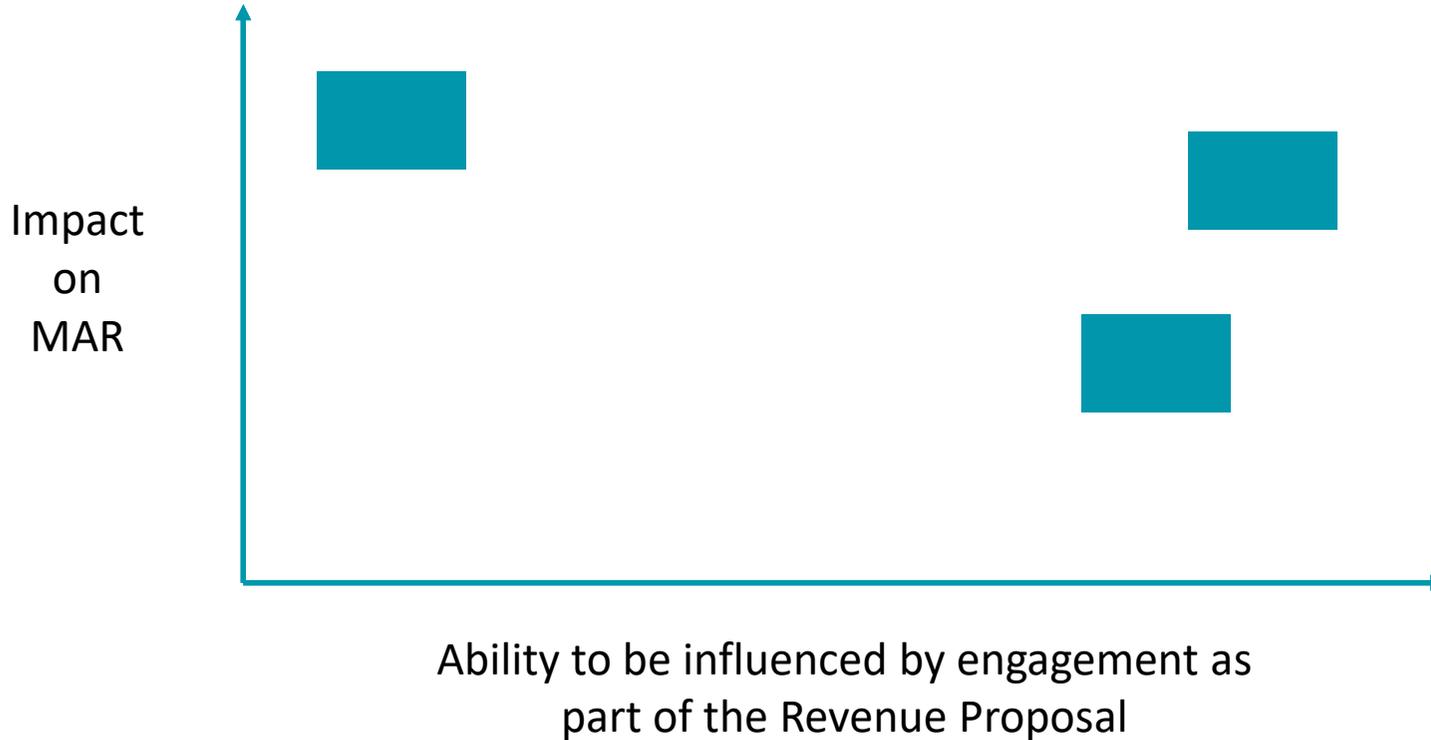
Shared assets

e.g. oil testing

1. Cards on table
2. Write any other ideas of key aspects on blank cards

*Capex Forecasting
Methodology*

Opportunity to influence v Impact on Maximum Allowed Revenue



Of the priority elements identified – is there a logical order we should discuss with customers and stakeholders?

Lunch

Insights into engagement techniques

Robyn Robinson & Mark Grenning

- Can't be too technique focused
- Is the technique's objective to:
 - Generate input and feedback
 - Deliberative
- Needs to align with:
 - Topic being discussed
 - Customer base
 - Budget
 - Schedule



1. What engagement techniques should Powerlink consider?
2. Are there certain techniques that strongly align to key aspects of the Revenue Proposal?

Technique	Areas of alignment
<i>Deep dive</i>	<i>ABCD</i>

Afternoon Tea

2023-27 Revenue Determination Engagement Goal

To undertake engagement to deliver a Revenue Proposal that is capable of acceptance by our customers, the AER and Powerlink.

Did engagement have the appropriate level of influence on decision-making?

- Formal and informal evaluation methods
- Evaluation at both overarching approach and technique levels
- Need to evaluate throughout, not just at the end

How should we evaluate the effectiveness of our engagement?

What aspects should we seek to measure?

How should we present information to allow for more meaningful engagement?

- Content
- Medium
- Simplicity
- Timeframes
- Other examples

How should we evaluate and measure the effectiveness of our engagement approach?

- Approach and technique level
- Key measures
- Closing the loop

Is there a role for a negotiation panel?

What else should Powerlink consider as part of its engagement approach?

- Powerlink will draft an Engagement Plan based on input received at this workshop
- Circulate for comment before finalising



Close & Thanks

Powerlink Chief Executive, Merryn York