



Revenue Proposal Reference Group Meeting Minutes

Date: Thursday 22 October 2019	Start time: 1pm	Finish time: 4.15pm	Venue: Whittaker Room Powerlink 33 Harold Street Virginia QLD 4014	Meeting no: 1
Chair: Matthew Myers (Powerlink)			Minutes: Nicole Maguire and Kiara Bowles (Powerlink)	
Attendees Customer Panel representatives: Kerry Connors (Energy Consumers Australia) Georgina Davis (Queensland Farmers' Federation) Mark Grenning (Energy Users Association of Australia) Ayden Rye (Shell) Other stakeholder representatives: Slavko Jovanoski (Australian Energy Regulator - AER) Mark Henley (AER Consumer Challenge Panel - <i>part attendance by telephone</i>) David Monk (AER – <i>part attendance by telephone</i>) Powerlink members: Jenny Harris Matthew Myers Gerard Reilly	Apologies: Henry Gorniak (CS Energy) Bev Hughson (AER Consumer Challenge Panel) David Prins (AER Consumer Challenge Panel)	Powerlink presenters: Kevin Kehl Stewart Bell Jenny Harris Matthew Myers Greg Hesse Gerard Reilly		
Attachments will include all documents provided to panel members at the meeting including: PowerPoint presentation and pre-reading documents				



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Item	Discussion	Action	Due date	Who
1	<p>Welcome, introductions (including an introduction of all Reset Stream Leads to the RPRG) and overview of agenda</p> <p>– Gerard Reilly, General Manager Communications</p>			
2	<p>RPRG governance</p> <p>– Matthew Myers, Manager Revenue Reset</p> <p>Summary:</p> <ul style="list-style-type: none"> • Discussion on housekeeping e.g. sitting fees, financial and non-financial support, travel costs as per the Terms of Reference • AER and CCP23 are committed to participating in the engagement process • RPRG to provide more detailed engagement on Revenue Proposal, which will feed into broader Customer Panel positions. <p>Comments (C), questions (Q) and Powerlink response (R)</p> <p>Q: Would the RPRG have any concerns if meetings were recorded to assist with compiling minutes in an efficient way?</p> <p>R: No, audio recordings are fine. (Agreement from the group.)</p> <p>C: You'll commit to destroying the audio file once the minutes are finalised?</p> <p>R: Yes, we will ensure that happens.</p> <p>C: The AER will attend these meetings in the spirit of helping to run this process smoothly, along with the Consumer Challenge Panel (CCP).</p> <p>Q: I've not seen a CCP in action. Are there any insights you can offer on the constraints on them making comments or asking questions?</p>	<p>RPRG members to advise Matthew Myers if they require sitting fees.</p> <p>RPRG members to book flights via Powerlink for future meetings if required.</p>	<p>15 November 2019</p> <p>Ongoing</p>	<p>RPRG members</p> <p>Interstate RPRG members</p>

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	<p>R: The CCP advises the AER on a business's consumer engagement approach. Where there are examples of other key observations or considerations, or that a network has done something good, we think that would be worth sharing. We are happy to work together to ensure a streamlined approach.</p> <p>C: Previously, one frustration network businesses have experienced is having to wait for the AER CCP to release their final report on a Revenue Determination process to know how they are tracking. If we'd known their position earlier, we would have been better placed to change things.</p> <p>C: Keeping in mind we can't pre-empt any final decisions from the AER, we understand these considerations and hope to work with Powerlink during this process.</p> <p>C: In my experience, CCPs generally adopt a 'no surprises' approach. You really don't want to wait for the AER CCP submission to reveal major issues. There should be discussions happening along the way.</p> <p>Q: Is the RPRG the forum to provide that kind of feedback to Powerlink?</p> <p>R: Powerlink and the AER will meet monthly to regularly share insights with each other. That's one avenue.</p>			
3	<p>Introduction from Interim Chief Executive – Kevin Kehl, Interim CE</p> <p>Summary:</p> <ul style="list-style-type: none"> • Powerlink greatly appreciates members' time and commitment to this important group. • We are dedicated to preparing a Revenue Proposal that is capable of acceptance by customers, the AER and Powerlink. • Our Board is very supportive of this engagement process. 	Circulate audio file of Kevin Kehl's interview with the Energy Charter Independent	31 October 2019	Kiara Bowles



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	<ul style="list-style-type: none"> We encourage you to engage with us early, often and deeply, and value your honest and timely feedback during this process. 	Accountability Panel.		
4	<p><u>INDUCTION DISCUSSION</u></p> <p>Induction session: About Powerlink – Matthew Myers</p> <p>Summary:</p> <ul style="list-style-type: none"> Continuation of discussion around RPRG role and governance An overview of Powerlink’s operating and regulatory environment. <p>Q: We’d like to keep our Customer Panel across RPRG activities via reporting back to the wider group at Customer Panel meetings and suggest doing this on a rotating basis from RPRG members. Are you all ok with this approach?</p> <p>R: Yes. (Agreement from the group.)</p> <p>C: Regarding the proposed meeting calendar, Powerlink will endeavour to meet those milestones but we may need to be flexible. We’ve provided a calendar of potential meeting dates and topics for discussion so members have advance notice of when meetings are happening. We’ll also provide this info to the full Customer Panel and the CCP. We want to give as much advance notice of what’s happening as possible. <i>[Powerlink comment]</i></p> <p>C: It would be good to see the AER submission dates you’re working to.</p> <p>Q: Would you like the RPRG to be involved in regional engagement opportunities?</p> <p>R: Potentially, yes. We will keep talking with you about this as we learn more about what this looks like. We’re aware that we need to be efficient in this regard – we are open to</p>	<p>Add a regular update (15 minutes) for a RPRG member to provide an update on the RPRG at each Customer Panel meeting on a rotating basis.</p> <p>RPRG members to review proposed forward calendar of meeting dates, topics and timing allocation. Advise Powerlink of any concerns or feedback.</p>	<p>Ongoing</p> <p>15 November 2019</p>	<p>Kiara Bowles to amend Customer Panel agenda. RPRG members to rotate role.</p> <p>RPRG members</p>



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	<p>ideas of consolidating engagement opportunities as much as possible. It has to be an efficient process as well.</p> <p>C: You need to think about the issue of how you address indirect customers in your proposal. Energy Queensland did this a lot, so you need to also think to what extent you talk to your indirect customers, and consider if they want to be engaged.</p> <p>R: Yes, engagement will need to be targeted with those customers. Any feedback the group has on how best to do that would be appreciated.</p> <p>Induction session: BAU engagement between Powerlink and the Customer Panel – Mark Grenning, Director Policy and Regulation, EUAA</p> <p>Summary:</p> <ul style="list-style-type: none"> • Since the Customer Panel’s inception, we have developed a high level of trust with Powerlink. • We value Powerlink’s focus on genuinely listening to the Customer Panel on relevant and interesting topics, their diligence in preparing for meetings, continuity in engagement personnel and good information exchange on wider network issues. • This stands the RPRG in good stead for ‘hitting the ground running’. <p>C: We always appreciate the Customer Panel’s honesty and while we don’t always agree, our preference is that if you have something to say, please say it. Our intention is to work constructively with the group. <i>[Powerlink comment]</i></p> <p>C: I think that over time we’ve also seen much more interest and understanding from across the business about the Customer Panel’s importance. A number of teams within Powerlink are proactively approaching us and seeking to test ideas and thinking with the group. <i>[Powerlink comment]</i></p>			



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	<p>Induction session: Operating environment – Stewart Bell, Acting Executive General Manager Strategy and Business Development</p> <p>Summary:</p> <ul style="list-style-type: none"> • The energy system is transitioning – technology is evolving rapidly as we move to a smart, flexible system. • This is changing the shape of our demand and energy forecasts – demand is increasing by an average of 0.5% per annum over 10 years while energy is decreasing by an average of 0.7% per annum over 10 years. • Our Network Vision is providing a crucial 30 year outlook to assist with planning our role in the energy system of the future. <p>Q: How often in the last few years has demand exceeded the P10 forecast?</p> <p>R: My recollection is that last year wasn't quite as severe as P10, and state-wide didn't qualify as P10 conditions. The last five years have had hot dry conditions. It has been above P50 but not quite P10.</p> <p>Q: Why did AEMO call for RERT (Reliability and Energy Reserve Trader) in Queensland?</p> <p>R: That's a matter for AEMO to discuss. I can't speak on their behalf.</p> <p>Q: What's the difference between operational demand and delivered demand?</p> <p>R: Broadly speaking, operational demand includes auxiliary losses and loads.</p> <p>Q: When talking about shifting demand back into a different time of day, how much scope do you have working with Energy Queensland to shift load during the day and coordinate responses?</p>			



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	<p>R: We've been discussing network utilisation and demand management for quite some time with Energy Queensland. It's a difficult issue to work through with the industry. There's potential to coordinate a systematic education campaign but we are mindful there need to be messages for individual directly connected customers vs. the broader 'general public'.</p> <p>C: The Queensland Government is proactive about putting out whole-of-industry messages at relevant times.</p> <p>R: We will send you a copy of discussion and insights around network utilisation from our recent Transmission Network Forum.</p> <p>Q: What does the change of flows mean in tangible terms?</p> <p>R: It means our network has never worked harder, so how do you put a value on that?</p> <p>Q: CleanCo is talking about 1,000MW of clean energy coming online. Where does that go and what impact will that have?</p> <p>R: Five years ago we had more load than generation connected, now it's the opposite. But we are technology neutral, we connect what we're required to.</p> <p>Q: Given the State Government has decided to give up to \$130 million to the Kidston project, what does that pay for and does that mean you have to augment the network in that area?</p> <p>R: We have an issue in terms of getting the right amount of capacity to push generation down from there. At present, it can get to the CQ-SQ part of our network and get constrained there. In the last year, we had about 30 hours where we didn't have enough network capacity to get generation from the north to the south. There is potential for a</p>	<p>Send forum summary document to RPRG.</p>	<p>31 October 2019</p>	<p>Kiara Bowles</p>



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	<p>RIT-T process to look at that issue, but there has to be a market benefit to that. It is not about reliability.</p> <p>Q: Surely the expansion of renewables in the north puts more pressure on CQ-SQ?</p> <p>Q: If we leave CQ-SQ alone, what happens? Will marginal loss factors increase?</p> <p>R: It might impact on the delivery of energy against power purchase agreements and increase the requirement for capacity to be able to flow south during the day, but demand should remain unchanged at night.</p> <p>R: It's certainly the case that more and more generation coming online in the north puts pressure on existing generation because there is no demand increase. This can mean old generation has to exit the market, as we're seeing in other states. The intermittency on the network is challenging. Under the Rules, we need to be technology neutral and connect new generation regardless of type.</p> <p>Q: How do you see COGATI's implementation date in July 2022 as impacting on your reset proposal?</p> <p>R: We don't anticipate significant impacts on capex or opex at this stage, more so the impact will be in the pricing methodologies and STPIS. There are questions around whether we will all start implementing the changes at the same time. We will work through that with the AEMC and AER in terms of the transition coming out of COGATI reforms.</p> <p>Induction session – External regulatory environment & Revenue Determination process background – Jenny Harris, General Manager Network Regulation</p>			



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	<p>Summary:</p> <ul style="list-style-type: none"> We are currently experiencing the most significant reforms in a decade and need to remain focused on customer outcomes. Revenue Determination process is underpinned by a number of milestones. Overview of the revenue building-blocks and key elements of a Revenue Proposal. <p>Q: How are you going in actuals vs allowed for capex in your current period?</p> <p>R: We are under in the first year on capex, on allowance for the second year, and in the rest of the period should be within the allowance.</p> <p>Q: And for opex?</p> <p>R: I don't have exact numbers here, I will get those numbers to you.</p> <p>Q: In the case of Energy Queensland, over half of the reduction in revenue was WACC driven. That will be a real focus for me as that will continue to drive a lot of the reduction we'll see in this period. In 2023-27 period, what will you do when you don't have that sugar hit of the reduction in WACC? Then in 2027-32, when it comes back up again, what will you do?</p> <p>R: Just to clarify, our WACC of 8.61% in the previous regulatory period (2012-17) was less than what others got at the time.</p> <p>C: For Energy Queensland and SA Power Networks, the 1-2% reduction in WACC in the next year might even come down to 4.5%.</p> <p>Q: This begs the question whether the WACC Guideline is relevant, even now?</p> <p>R: Yes, it is. Customers want to see that reduction in real terms.</p>	<p>Provide overview of capex/opex actuals vs allowed for current regulatory period.</p>	<p>5 December 2019</p>	<p>Matthew Myers</p>



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	<p>Induction session – 2023-27 Revenue Proposal approach – Matthew Myers</p> <p>Summary:</p> <ul style="list-style-type: none"> • We are focused on delivering a Revenue Proposal that is capable of acceptance by our customers, the AER and Powerlink. • A snapshot of our current areas of focus e.g. benchmarking, IT expenditure, STPIS scheme, capex and opex etc. • We are dedicated to a fit-for-purpose and transparent engagement approach. <p><i>Afternoon tea break</i></p>			
5	<p>Interactive session: Capital expenditure forecasting methodology – Greg Hesse, Stream Lead – Capital Expenditure</p> <p>Summary:</p> <ul style="list-style-type: none"> • Reinvestment capex is a continued focus – 20% of Powerlink’s towers were built between 1978 and 1981 and are nearing end of their technical service life. • Overview and interactive discussion on Powerlink’s proposed capital expenditure forecasting methodology. <p>Q: We’re still learning about transmission – does the AER’s repex model apply for transmission as it does for distribution?</p> <p>R: It’s the same model, but the AER hasn’t applied it in the transmission context before. Powerlink’s last Revenue Proposal was the first time a transmission business had applied it. It’s not generally something we see applied in the transmission context.</p> <p>Q: In the context of distribution, the repex “black box” churns out the major replacements. Is this the Powerlink repex model, but with other bits added in as top-down?</p>			



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	<p>R: It's not really a "black box" in that all of the inputs are clearly visible and the algorithms to arrive at a forecast are well documented. We plan to build on what we did last time, but we recognise the limitations of how we did it then and how the model was applied.</p> <p>Q: I'm used to seeing scoping by order of magnitude with the contingency dropping at each stage. How is that managed, and does it include projects not yet fully scoped or approved?</p> <p>R: It includes those at condition assessment stage right through to the day before Board approval stage.</p> <p>Q: So your standard Board approvals include some contingency?</p> <p>R: Yes, but it doesn't necessarily mean that budget is released.</p> <p>C: If there is anything we can do to bridge the gap in how it's applied, please let us know. <i>[Powerlink comment]</i></p> <p>R: There is benefit in explaining, particularly to consumer advocates, and giving greater clarity in regards to the inputs that go in. To consumer advocates, it's definitely a black box.</p> <p>C: We benchmark against the business' own understanding of service lives and other factors, so we start with the repex model then apply our own knowledge as well. <i>[AER comment]</i></p> <p>Q: So how does this proposal differ from what TransGrid did?</p> <p>R: TransGrid didn't apply the repex model.</p>			



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	<p>C: It's important to remember that it's one tool, but not the only tool. It's about how you land on a forecast of prudent and efficient costs, and apply good practices to get the outcome needed.</p> <p>C: Cyber-security has certainly been a big issue for DNSPs we deal with. There's critical infrastructure legislation at State and Federal levels to deal with, but it can be hard to get definitive advice on what networks should do.</p> <p>C: For some networks it's not so clear cut, for others it's written into their licensing.</p> <p>C: We've had experience with one DNSP where they can't now use offshore support, even though their current offshore provider has heaps of experience. On the other hand, I know of a DNSP that has no such requirement.</p> <p>Q: Where does the 60% threshold for bottom-up in the presentation come from?</p> <p>R: It's just a starting point for discussion. It's certainly not locked in.</p> <p>Q: What percentage did Powerlink use last time based on bottom-up analysis?</p> <p>R: I don't have that information at hand but we can send that through.</p> <p>C: The risk is if all projects are bottom-up, some won't be needed when you think they might be needed. This leads to a situation where if you have to do it again.</p> <p>R: We will definitely have situations where conditions change.</p> <p>C: There is potentially an argument for putting this in the contingent bucket.</p> <p>R: Contingent projects have a large \$ threshold, and will be projects that are inherently uncertain in terms of where they fit.</p>	<p>Provide information on the proportion of bottom-up analysis used in the last Revenue Proposal.</p>	<p>31 October 2019</p>	<p>Matthew Myers</p>



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	<p>C: I can advise that when we go back to the AER and make presentations to Energy Queensland and SA Power Networks we will be supporting lowering the threshold for contingent projects. The current approach was for a point in time when networks were doing a lot of augmentation. Now there's more uncertainty and work happening that's the smaller end of the scale. I support a move to contingent projects for replacements. <i>[Customer representative comment]</i></p> <p>C: That materiality threshold was set at a point when a business could cope with covering that itself in a revenue period. There needs to be consideration of the impact on customers on where you're setting that threshold. They would certainly like a lot more info. For example, if there are 100 projects under \$15 million, what is the total impact on what customers might be paying? It's certainly a question I'll keep asking.</p> <p>R: We certainly need to ensure we strike a reasonable balance.</p> <p>Q: Is there anything in the repex application note that provides guidance?</p> <p>R: No, not in the volume of what we're talking about now.</p> <p>Q: Do you have a ballpark of how many hours go into preparing this information?</p> <p>Q: So it would be right to say that the hours for a \$20 million project might not just be four times that of a \$5 million project?</p> <p>R: No, for example we have a potential project in north Queensland with 528 structures, some of them essentially through 'jungle'. Getting on-ground to look at individual towers is significantly different to taking someone down the road to look at secondary system equipment.</p>	<p>Demonstrate how different thresholds in the Hybrid+ model as discussed in the meeting will potentially impact on prices for customers.</p>	<p>15 November 2019</p>	<p>Matthew Myers</p>



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	<p>Q: To what extent is there technology available that might be able to help, such as drones, LIDAR, or satellite technology? Are there cost benefits there?</p> <p>R: Our lines are generally in 100km 'chunks', with three towers per kilometre. Even sampling those assets, across a reasonable spread, across different climatic conditions, placement etc. is a task that can't easily be done by drones or LIDAR.</p> <p>R: Having said that, we do use helicopters in some instances, and have LIDAR surveys and thermal cameras, so it's not that we don't use technology that's available, we just can't use it <i>instead</i> of our current practices.</p> <p>Q: We expect that the AER will want to look at our governance framework?</p> <p>R: We will look at the governance framework and how that has been applied in practice.</p>	<p>Prepare and circulate information to demonstrate the complexity and resource intensity of bottom-up assessments.</p>	<p>5 December 2019</p>	<p>Matthew Myers</p>
<p>6</p>	<p>Interactive session: Business narrative – Gerard Reilly</p> <p>Summary:</p> <ul style="list-style-type: none"> • The business narrative will allow elements of the Revenue Proposal to be considered against the context of our longer-term vision, challenges, opportunities and customer needs. • Overview and interactive discussion on potential elements of the business narrative. <p>Q: Who is the target audience here?</p> <p>R: It's both an internal and external audience we're aiming at. It will also help members of our Customer Panel to understand the business better when we're talking through</p>			



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	<p>different aspects of our proposal. We mainly want to give that story of where we're going as a business.</p> <p>Q: We are really interested in your thoughts on whether there are any other elements we should cover in that narrative.</p> <p>Q: What about your Shareholders i.e. the Queensland Government?</p> <p>R: Yes, that's definitely a consideration.</p> <p>Q: I refer to the Energy Charter you signed onto that has customers at the heart of it. You really need to get customers to tell you what they need. In terms of the trust problem the industry has, you need to highlight the charter as a big step forward. You should think of it in terms of a partnership – that language really helps.</p> <p>C: Getting that customer vision is really important.</p> <p>C: You need to talk about the 'known unknowns'. For example, we know there will be more storage but we don't know what that will look like. It's important to talk about the uncertainties and almost embrace them.</p> <p>Q: In terms of challenges and opportunities, are you finding it harder to buy insurance?</p> <p>R: We hear there are some insurers that aren't insuring, and also about some that are actually exiting the market. As a result premiums might be going up for less coverage overall.</p> <p>C: The narrative certainly covers a lot, but if it's a 'living' document, it could continue to be refined as we go through the process.</p> <p>Q: It would also be interesting to understand the risk appetite of your Board.</p>			

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	<p>C: We know of one network business that did their narrative and when you read it you could see that the business was backing itself.</p>	<p>Provide information on the Board's investment risk appetite.</p>	<p>TBC – Matthew Myers to discuss progress of this item with Revenue Reset Executive Committee</p>	<p>Matthew Myers</p>
7	<p>Framework and Approach (F&A) initiation letter – Matthew Myers</p> <p>Summary:</p> <ul style="list-style-type: none"> • The AER's F&A provides direction on how certain aspects of the Revenue Proposal should be framed. Stakeholder consultation on the F&A occurs throughout the process. • Discussion on the three proposed topics for the F&A initiation letter and an acknowledgement that consultation will continue. <p>C: In terms of developing the F&A, a key aspect is around STPIS and whether it is appropriate as it's currently applied and we will expand on that in our letter, plus engage further with the RPRG as we continue to develop our approach.</p>			
8	<p>Meeting closed 4.15pm</p>			