

Powerlink's Customer Panel Meeting

5 December 2019



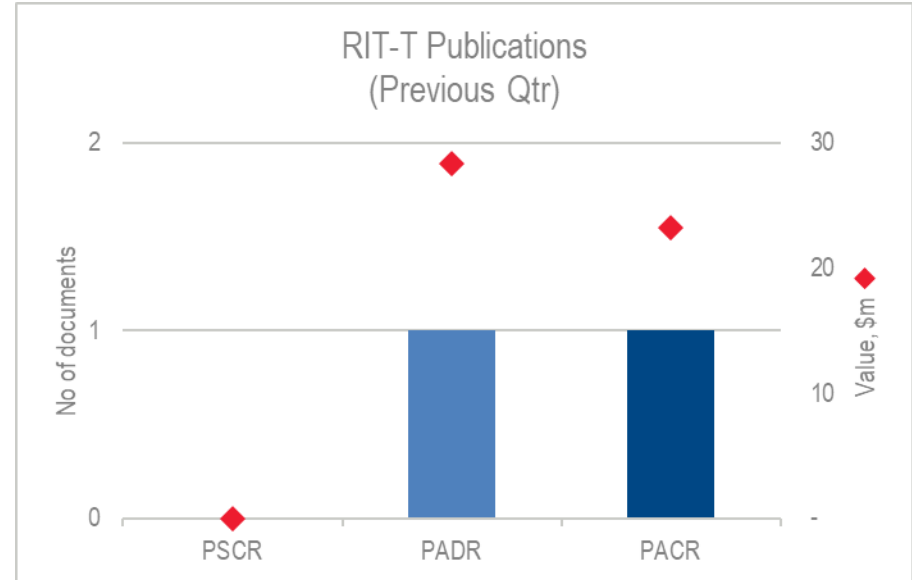
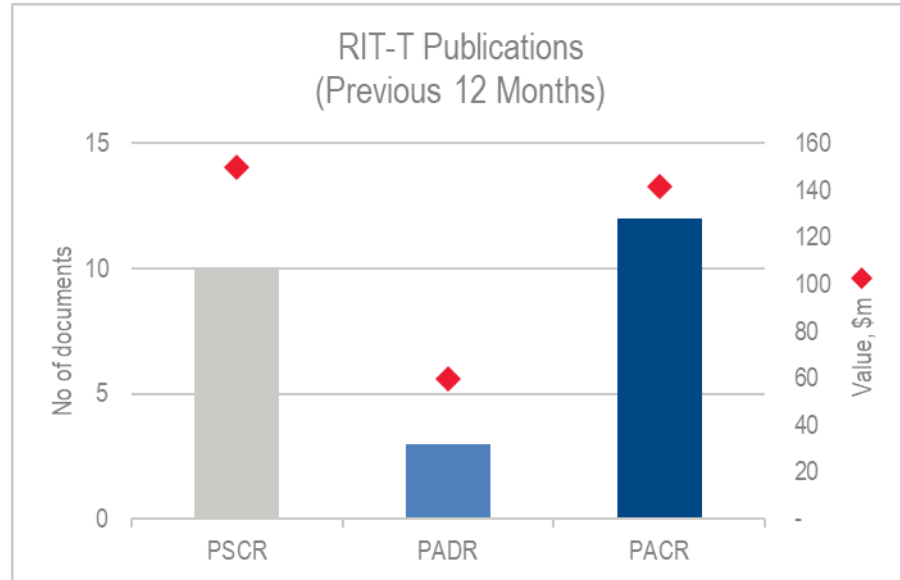
- Welcome and introductions
- Update on RIT-T for replacement projects
- Update on RIT-T process for expanding the NSW-QLD transmission transfer capacity
- Non-network IT expenditure
- *Afternoon tea break*
- Update from Revenue Proposal Reference Group
- Business narrative
- Initial high-level forecasts for Revenue Proposal – opex, capex and maximum allowed revenue
- Close and thanks

Update on RIT-T for replacement projects

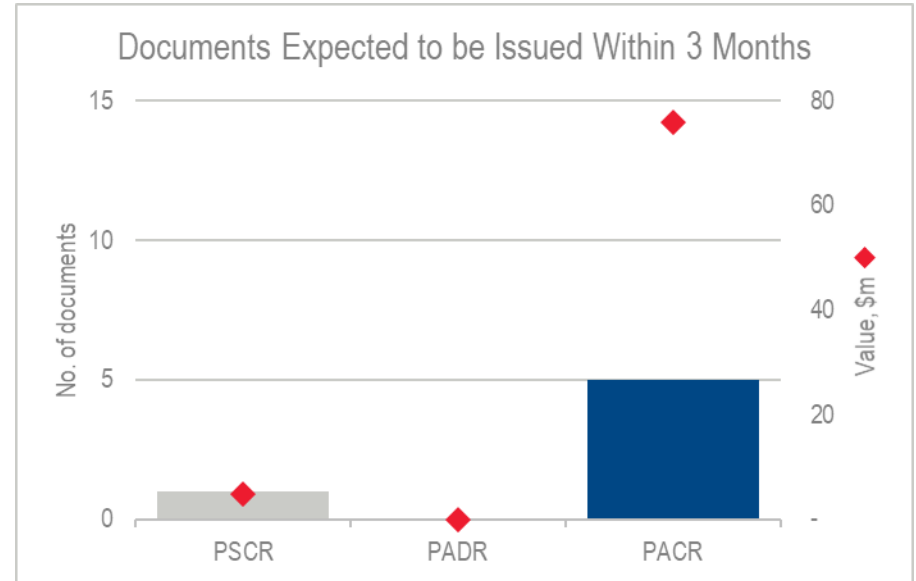
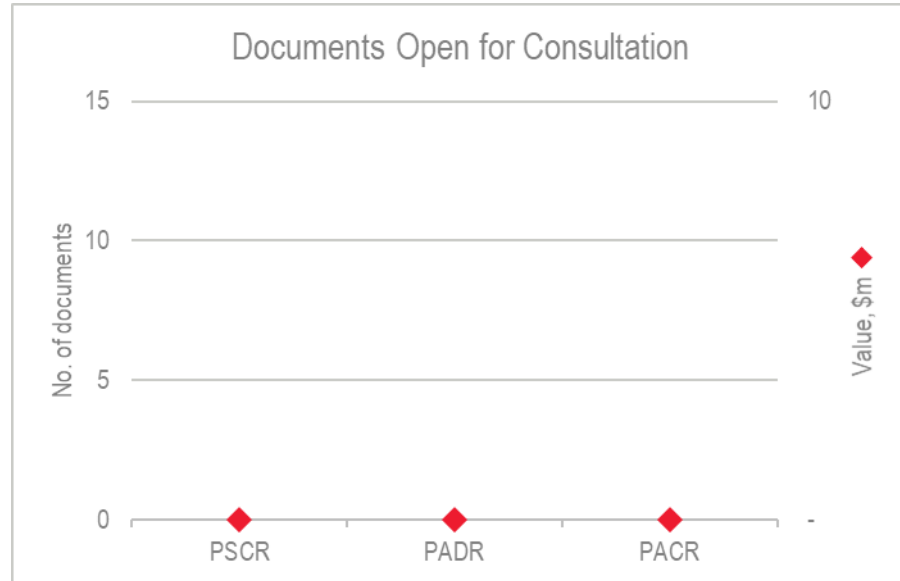
Roger Smith
Manager Network & Alternate Solutions



RIT-T consultations in progress and upcoming



RIT-T consultations in progress and upcoming



RIT-T consultations in progress and upcoming



Engagement level	Project characteristics	RIT-T consultations	Proposed engagement activities
Minor (PADR Exempt)	<ul style="list-style-type: none"> • Non-network options unlikely • No material market benefits identified • Preferred option <\$41 million 	<ul style="list-style-type: none"> • Mt England Secondary Systems 	<ul style="list-style-type: none"> • Notification to Powerlink Non-Network Engagement Stakeholder Register • AEMO Notice and summary • Publication of RIT-T project details on Powerlink website • Dedicated email contact to Customer Panel members • Alerts through Powerlink's Twitter and LinkedIn accounts
Normal	<ul style="list-style-type: none"> • Minor network reconfiguration/material impact on network users • Possibility of non-network options • Material market benefits identified 		<p>In addition to engagement activities at minor level:</p> <ul style="list-style-type: none"> • Webinars • Stakeholder briefings • Discussion at Powerlink's Customer Panel
Complex	<ul style="list-style-type: none"> • Network reconfiguration/material impact on multiple network users • Likelihood of non-network options • Significant market benefits identified 	<ul style="list-style-type: none"> • Clare South – Townsville South • QNI 	<p>In addition to engagement activities at normal level:</p> <ul style="list-style-type: none"> • Stakeholder engagement plan • Phone calls to key stakeholders • Emails to all identified stakeholders • Dedicated engagement forum to seek feedback on options

Topic	AER statement	Powerlink response
Treatment of the base case	Frame the base case as ‘business as usual’ activities rather than as a credible option. We acknowledge that Powerlink has demonstrated this in its two most recent RIT-T assessments.	We have developed our methodology such that all RIT-Ts now compare credible options against a counterfactual base case, which allows the true economic benefits of the credible options to be determined against a ‘do nothing’ scenario.
Quantification of material market benefits	Clearly explain why any class of market benefit is immaterial, as the AER would expect at least one class of market benefit to be material in any RIT-T assessments. We acknowledge that Powerlink has found at least one market benefit class to be material in its two most recent RIT-T assessments and have started to demonstrate that the preferred option has a positive net economic benefit.	<p>We seek to balance assessment undertaken against the value of the investment – some categories of market benefit modelling can be expensive, requiring external expertise to model, and therefore only necessary when the value of the project is significant or where the impacts of the market benefit may be sufficient to effect a change in determining which options satisfies the RIT-T.</p> <p>We have developed our methodology such that all RIT-Ts now include “changes in involuntary load shedding” as a market benefit in the economic assessment through the calculation of load at risk under the base case, which is seen as a reduction of risk for each credible option. Powerlink will also assess any potential changes in network losses between base case and credible options, and quantify these where they are considered material.</p>
Formulation of the identified need	Adhere to the RIT-T, and to the RIT-T Guidelines when characterising the identified need as a clear objective and in consumer-centric terms.	We have progressively worked on our statements of identified need, such that we define the problem that we are seeking to address in terms of both the Rules requirements and potential impact upon customers. A number of our RIT-Ts have included a table to link the technical driver to the potential impacts upon our customers, where this is considered helpful.

Topic	AER statement	Powerlink response
Characterisation of the identified need as for 'reliability corrective action'	Where the project is characterised as being for reliability corrective action, support this characterisation by demonstrating how a specific applicable service standard drives the identified need.	We have progressively worked on our statements of identified need, such that we define the problem that we are seeking to address in terms of both the Rules requirements and potential impact upon customers, attempting to clarify the linkage to specific standards that identify the investment as reliability corrective action.
Incomplete options assessment	Include and consider a reasonable set of credible options. This may include options that involve different solutions, different scopes of work, different stages or timing, and reasonable consideration of non-network solutions. Combinations of options such as network and non-network options should be considered to reduce or manage service risks and to reduce customers' costs relative to the counterfactual.	<p>Powerlink considers that differences in timing and staging are important considerations in determining the preferred (most efficient) investment option and that it is often difficult to identify significantly different network options for smaller investments that are still feasible.</p> <p>We have incorporated service level outcomes through risk cost analysis. However, we note that a significant level of work is required to show different levels of risk associated with the various options, and we have adopted an approach that is commensurate with the size of the investment.</p> <p>We have requested full or partial non-network solutions for projects where it believed a partial solution was feasible, e.g. Lilyvale, Blackwater and Clare South – Townsville South. Powerlink will continue to reflect the partial solution option in future RIT-Ts. Powerlink has engaged extensively with non-network providers across a number of RIT-T consultations, and received very positive feedback in each case, resulting in a non-network solution being progressed to economic assessment for the Clare South – Townsville South PACR.</p>

Update on RIT-T process for expanding NSW-QLD transmission transfer capacity

Stewart Bell
Executive General Manager Strategy and Business Development



On track to publish a Project Assessment Conclusions Report (PACR) in mid-December 2019 – consistent with the Australian Energy Regulator's RIT-T guidance note.

Key points:

- We have received a number of submissions on the QNI Project Assessment Draft Report
- TransGrid and Powerlink are currently working through these submissions
- The RIT-T process requires us to consider each submission in detail to inform our final analysis as part of the PACR
- At this stage, we remain on target to complete this work by mid-December.

Non-network IT expenditure – Benefits realisation and management framework assessment criteria

Mark Pozdena
General Manager Business IT

Brian Atkin
Manager IT Planning, Investment and Value



Historical

IT investment has been predominantly composed of **on-premise or in-house developed** IT systems and applications including on-premise infrastructure assets and standard end-user-device fleet of desktop computers.

Software and licensing secured as part of these applications have been capital **software assets** due to the nature of the environment and vendor licensing models of the time.

Current

IT investment in the last 12 months has been in **foundational infrastructure** and a refreshed core environment to enable mobility, collaboration and other end-user capabilities as well as future **hybrid hosting** opportunities as more systems and services transition to Software-As-A-Service or Platform-As-A-Service.

The end-user-device fleet has transitioned to a **mobile centric fleet** of laptop and tablet devices as mobility capabilities have been enhanced and the need for flexible access has increased.

Software and licensing has commenced a transition to **subscription services** as vendors have begun to abandon traditional licensing and service models.

This has led to a shift from capital to operational expenditure as Powerlink can no longer 'own' a software asset under these new licensing models.

Future

IT Investment starting next FY and carrying on into the new Revenue Reset period focuses on system and **application rationalisation and integration** with a focus on **data management and analytics**.

Core benefits Powerlink will seek to achieve include an increase in data enabled capabilities and **data driven decision** making as well as **cost optimisation of IT** products and services.

Why?

Powerlink wants a new Benefits Realisation and Management Framework for:

- an end-to-end (idea > planning > delivery > operation) framework
- improved investment decision making when choosing the right projects
- with constrained resources and organisational capacity for change, ensuring we select a portfolio with most value
- knowing when to cease projects (e.g. rather than decreasing delivery value)
- structured review of project benefits after they have been delivered to validate investment.

What?

This is a structured approach to communicating the need for investment, identifying benefits and organisation responsibilities.

How?

We will use our benefits framework at all stages of our investment planning and project delivery lifecycle to regularly test planned and in-progress initiatives for benefits.

Input question – Assessment criteria

In a new IT Benefits Realisation Framework, what would be **mandatory assessment criteria** and **associated metrics** to support decision making throughout the portfolio and project lifecycle?

Criteria example and description



Criteria example	Explanation
Genuine demonstrable business need must be clear with a thorough justification as to why the investment (of time, resources and funding) <u>must</u> occur.	Is there a defensible justification for the defined business need? e.g. non-compliance with legislation, security risk.
Benefits realisation must be articulated with defined tangible benefits and how measurement of benefits realisation will occur.	What do we get for the investment and is it worth it? e.g. efficiencies must equal genuine savings that are given back or show a defined and tangible improvement in something AND is the investment worth the expected outcomes and benefits?
Counter-factual arguments must be clearly documented and included in all decision making documentation such as Business Cases.	What happens if we do not do this? e.g. increased (defined) ongoing costs. Example of a poor counter-factual: "...not being supported by a vendor".
Capability to deliver <u>and</u> maintain <u>and</u> operate exists for a successful delivery of project(s) and the ability/capacity to support and use any deliverables/changes.	Can an initiative/project be delivered and supported? e.g. does Powerlink have the ability to deliver and the correct support/resources in place once a project is completed?
Financial prudence ensures all financials including the cost to operate and use of IT systems (in IT and business groups) must be understood, documented and agreed in order for informed decisions around investment.	What is the true "Total Cost of Ownership"? e.g. project investment + ongoing costs (human resources, maintenance)

Criteria example and measure example



Criteria example	Measure/Metric example
Genuine demonstrable business need must be clear with a thorough justification as to why the investment (of time, resources and funding) <u>must</u> occur.	<ul style="list-style-type: none">• Meets standard benefits classifications• Supports organisational objectives and KPIs<ul style="list-style-type: none">• Investment logic mapping• How large and important the beneficiary group is
Benefits realisation must be articulated with defined tangible benefits and how measurement of benefits realisation will occur.	<ul style="list-style-type: none">• Selecting most positive net profit value projects<ul style="list-style-type: none">• Cost-benefit analysis• Time to realise benefits• Contribution to strategic objectives
Counter-factual arguments must be clearly documented and included in all decision making documentation such as Business Cases.	<ul style="list-style-type: none">• Explain the organisational impacts of doing nothing e.g. increased (defined) ongoing costs.
Capability to deliver <u>and</u> maintain <u>and</u> operate exists for a successful delivery of project(s) and the ability/capacity to support and use any deliverables/changes.	<ul style="list-style-type: none">• Business tolerance for change• Resources to support change<ul style="list-style-type: none">• Subject matter expertise• Delivery and support capability analysis
Financial prudence ensures all financials including the cost to operate and use IT systems (in IT and business groups) must be understood, documented and agreed in order for informed decisions around investment.	<ul style="list-style-type: none">• Cost-benefits analysis and ROI• Define TCO standards and measures• Uncertainty and tolerance mechanisms

Afternoon tea break





Revenue Proposal Reference Group (RPRG) – Initial Meeting Summary

Ayden Rye, RPRG and Customer Panel member
Commercial Operations Advisor – Shell Energy Australia



Revenue Proposal Reference Group – Overview

- Advisory body established to ensure Powerlink's Revenue Proposal is aligned with customer and stakeholder expectations.
- Major objectives of this body centre around sufficient engagement around and understanding of the Revenue Proposal, ensuring that stakeholder preferences and perspectives are accurately identified and responded to.
- The body is made up of a broad cross section of stakeholders that have the sufficient knowledge of the relevant issues.



Revenue Proposal Reference Group – Initial Meeting

22nd October 2019

- Powerlink overview and customer engagement to date
- Revenue Determination Process and the Proposal Approach to be taken by Powerlink
- Capital expenditure (CAPEX) forecasting methodology
- Business narrative
- Framework and Approach (F&A) initiation letter



Revenue Proposal Reference Group – Second Meeting

5 December 2019

- Benchmarking
- Long-term price impacts

Questions and Answers

Q&A



Business narrative and Energy Charter update

Gerard Reilly
General Manager Communications



Purpose

- Understanding the broader, long-term view about our operations, challenges and opportunities and how we plan to deliver better value.

Key drivers

- Customer
- Business
- Network
- Regulatory and policy
- Financial and economic
- Technology.

**Finalising draft –
will be distributed to
Customer Panel
for your input**

- Disclosure Statements published 4th October
- Meeting with Accountability Panel on 11th October
- Accountability Panel released report 4th December
- 32 recommendations across six key themes
- Powerlink is reviewing report to improve 2019/20 Disclosure Statement.



The Energy Charter

Close and thanks

