<table>
<tr><td>Date:
Thursday 27 February 2020</td><td>Start time:
10am</td><td>Finish time:
12pm</td><td>Venue:
Whittaker Room
Powerlink
33 Harold Street
Virginia QLD 4014</td><td>Meeting no:
4</td></tr>
<tr><td colspan="2">Chair: Matthew Myers (Powerlink)</td><td colspan="3">Minutes: Nicole Maguire and Kiara Bowles (Powerlink)</td></tr>
<tr><td><u>Attendees</u>
Customer Panel representatives (in person):
Kerry Connors, Energy Consumers Australia
Georgina Davis (Queensland Farmers' Federation)
Mark Grenning (Energy Users Association of Australia)
Ayden Rye (Shell)

Other stakeholder representatives (attendance in person):
<u>AER Consumer Challenge Panel</u>
Mark Henley

Other stakeholder representatives (attendance by telephone):
<u>AER Consumer Challenge Panel</u>
David Prins

<u>AER</u>
Toby Holder
Michael Wydeveld</td><td colspan="2">Apologies:
Henry Gorniak (CS Energy)
Bev Hughson (AER Consumer Challenge Panel)
Slavko Jovanoski (AER)</td><td colspan="2">Powerlink members:
Jenny Harris
Matthew Myers
Gerard Reilly

Powerlink presenters:
Matthew Myers
Dana Boxall
Andrew Bannister

Powerlink participants:
Gary Edwards
Greg Hesse

Powerlink observers:
Jacinta Grech-Holmes
Rachael Lim</td></tr>
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1. Welcome and introductions
- Matthew Myers, Manager Revenue Reset

Summary:

- Ayden Rye has resigned from Shell and as such will no longer be involved in the RPRG. Ayden was thanked for his time on the RPRG.
- Powerlink is continuing to work through previous meeting actions including the complexity and resource intensiveness of bottom-up assessments; the Board's risk appetite; and working with the AER to potentially estimate market impacts linked to network constraints.
- Powerlink provided information on cost estimates for contingent projects in TNSPs' revenue determinations, what was the application cost and the AER's project decision in adjusting the revenue allowance.
- Powerlink also updated the group on benchmarking in relation to the treatment of the 0MWh unserved energy result from 2019 and associated order of magnitude impacts on results. Powerlink is continuing to work with the AER to understand this impact.

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

C. I'm not sure if you're aware but Powerlink coordinated input and data from all the other TNSPs to support the Service Target Performance Incentive Scheme (STPIS) review. We've actually pulled that information together and lodged a letter of support under the Energy Networks Australia (ENA) banner from all these TNSPs. I'm happy to forward that onto you if you've not seen it already.

Q. All the big projects are still in the contingent project category though, such as EnergyConnect and the QNI minor upgrade – they're still yet to be decided?

R: Yes, they haven't actually formally triggered the contingent project assessment as yet.

Q. At some stage today, it'd be good to have a brief discussion on capex costs in contingent projects in the Integrated System Plan (ISP) – how robust the estimates are in the ISP of Powerlink-related projects.

R. We haven't done specific background work on that, but let's see how we go.

C. Our organisation has lodged a submission to the Australian Energy Market Operator (AEMO) on the Draft 2020 ISP. We've made a number of comments in our submission about the poor quality of the capital cost estimation process and the poor transparency around that in the ISP. We went through 42 megabytes of data and found a brief discussion on page 217. What we were particularly concerned about was that many other issues had considerable focus, such as the preparation of consultant studies and engagement with stakeholders. But capital had none of that and so we had a call yesterday with AEMO where they sought to give us some more information. A simple bit of information that was not in the ISP – apart from EnergyConnect, at $1.53 billion – every other project (including the QNI) had a range. We were asking what number they selected for their modelling. That was not anywhere in the 42 megabytes of data and they selected the midpoint, but they couldn't tell us why. AEMO has now said they asked TNSPs about capital costs a number of times but no one provided any information or made any submissions.

C. That's contrary to what we heard at our last meeting.

C. The response from AEMO was that they put the information out there and nobody told us otherwise. I said, well we couldn't find it out there. We didn't know what you'd done. So at yesterday's forecasting reference group meeting, we went through two significant submissions by consultants on Distributed Energy Resources (DER) and electric vehicle assumptions in the ISP. I thought that was fantastic. Why didn't you do that for capital costs? Silence. But now they're saying they have now realised through submissions on the draft plan that capital costs are an issue and they're now examining it. To which I said, well what does that mean? Are you going to produce a report? They said they just rely on what the networks provide us.

C. Isn't it a bit circular?

C. Yes it certainly is circular. I asked AEMO – what engagement are you going to do between now and the Final ISP on this? Their answer was that it varies. Initially they said they don't have time. So we have a situation where EnergyConnect could potentially be $2 billion, not $1.5 billion and that wipes out the remaining benefits in the RIT-T and whether or not they have to re-consult on that. So I'm assuming, on the basis of what AEMO told us yesterday, that you are going to stand front and centre behind the capital cost estimates that go into the ISP relating to QNI because they told us they got them from you.

R. We've definitely been involved in the process. My recollection of our last meeting is that our Powerlink representative who also attended the reference group meetings indicated the Draft ISP 2020 costs for QNI had actually come from AEMO. We have definitely advocated for TNSP costs to come from TNSPs. This is highlighted in our ENA submission, which I'm happy to forward to the group. I think there really were some timing constraints coming into play here. Certainly going forward, we will be strongly advocating for AEMO to use our costs because it reflects our operating environment, what we do, our network conditions. We want as much consistency as possible.

Q. Regarding the benchmarking order of magnitude, is this an issue just for TNSPs and not DNSPs?

R. I think it's due to the fact that you've got a single basket of inputs and outputs. This is probably theoretically the only one that can actually be zero because everything else is like energy supplied, megawatts max and demand, kilometres of circuits or capacity of transformers. So they're never going to be zero. This was energy unserved in the year and it's hard to be an outlier but it's happened. This is the first time it's happened.

C. Please don't take away from our last discussion that Powerlink has definitely moved to a particular position relative to the other TNSPs. We are still working through that.

Q. Did the Australian Energy Regulator (AER) have anything to add here? *[Question for AER]*

R. I'm not personally heavily involved in this body of work, but I do know the AER is definitely looking at it. *[AER response]*

Q: In relation to the STPIS review process, I'm wondering how as RPRG members we could support Powerlink in its efforts to influence this situation?

R: By all means, if any members would like to put in a submission, we would welcome your support.

C: To clarify, the AER did talk to us before the release of the preliminary Framework and Approach (F&A) and noted that it would be stating that version 5 of the STPIS would still apply but acknowledging they are still looking at the information both Powerlink and the ENA provided to see whether a review could be achieved or not. So I don't think they've made any final decision on that. Our view is still that it would be great to have that done and taken as a part of our revenue determination process for the next regulatory period, but we'll need to wait for the AER's response.

Q. So the ENA has done a submission not because the AER is conducting a review but just to highlight this as an issue?

R. We're all in the same boat and are asking the AER to review it.

C. I think it's important for the AER to consider the process we go through. I think the AER wants to get it clear in their mind whether a review can be part of the F&A process or not. Our understanding is that they can occur in parallel but it's not necessarily activated as part of the F&A process.

C. The other point to make there is that the F&A is not binding. So if there's a change that occurs, that can still be considered.

C. Another concern for us in relation to preparing our Revenue Proposal is timing. We don't want to be advised in October this year there will be a STPIS review, because it's going to take significantly longer than that to prepare the supporting information to actually progress that review and supporting information that is required for the Revenue Proposal.

Q. So when would you like the review conducted?

R. Yesterday.

C. It comes back to our overall goal, as we've always said, about having a Revenue Proposal that's capable of acceptance.

C: I think the other thing is, aside from the regulatory sandbox – are we still working through the Demand Management Innovation Allowance Mechanism (DMIAM) opportunity? It's a good opportunity to figure out if we could use it. What would it look like? Of course, once we know that, we will come back to the group as well.

C. I was in a completely different process where the DMIAM came up in a different context but I'd be interested in how useful you're seeing this process? Because it seemed to be incentivising in unusual ways. I can't comment too much – I'm a bit constrained because I was part of a grant application that touched on this issue. I'd be interested in understanding what criteria is used as it looked like the DMIAM wasn't working awfully well.

C. Another thing for us to be mindful of too, is if we proceed with anything under that allowance, we will be trying to make sure there is no overlap with any other incentive scheme including for example, anything related to Network Capability Incentive Parameter Action Plan (NCIPAP) projects or the stuff we should be doing as part of normal 'business as usual' opex projects.

C. I guess I'll summarise this such that if we don't have things that we think are genuine items to include within the DMIAM, we're not going to be including them.

Actions:

- ***Powerlink to consider the process to recruit a replacement RPRG member.***
- ***Powerlink to circulate the ENA letter of support to the AER calling for the STPIS review.***
- ***RPRG members to consider lodging a submission to the AER requesting a STPIS review.***
- ***Powerlink to circulate a copy of the ENA submission on the Draft ISP.***

2. Interactive session – Long-term revenue modelling
- Dana Boxall, Stream Lead Finance and Modelling

Summary:

- Powerlink presented high-level modelling to demonstrate forecast impacts from potential revenue smoothing levers – depreciation and indexation of the Regulated Asset Base (RAB). Powerlink shared analysis on the barriers and benefits to implementing these levers.
- Powerlink indicated it did not intend to progress this work further as part of the Revenue Proposal process due to the Rule changes required, regulatory risks and minimal customer benefits.

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

C. This process has been about really understanding the magnitude of changes. The AER has made reference to similar concepts that have been explored in the past and noted that they had not been successful. There were references to the Tribunal's decisions. Is there anything the AER would like to add? *[Question for AER]*

R. The Tribunal was largely a decision on indexation of the RAB issue, although it did also cover what you referred to as the depreciation approach – the idea of an anti-cyclical approach. So I suppose in a way the Tribunal did cover both of those aspects. *[AER comment]*

Q. In the modelling you've presented, what's the associated percentage increase in Weighted Average Cost of Capital (WACC)?

R. We've made a broad assumption and used an increase of 1.5 per cent each regulatory period.

Q. Why did the price not change in the following regulatory period?

R. It was just a profiling exercise. I was looking at bringing some revenue forward and trying to smooth that a little bit.

Q. Did it make any difference to the outcome if you would have lowered the revenue for the 2028-32 period, rather than leaving it to the following period after that?

C. So you're suggesting leaving a decrease this term and moving it into the next regulatory term?

R. Yes, an increase this coming regulatory period and then giving it back to consumers in the next regulatory period, rather than the 2032-36?

R. That could be another option. I think what I'm trying to demonstrate here is the magnitude would still be similar, it would just be a timing issue of which regulatory period the decrease would be realised..

C. And it's ongoing – we've only modelled out a couple of periods.

Q. In this modelling, regarding the WACC change that you bring in – does that just occur in one year at the end of each period?

R. No, I've done that for the whole regulatory period and I've just used some average MARs and indicative prices over that time as well, to help illustrate that and keep the graphs a little more simple.

R. Okay, but you know the cost of debt does get adjusted annually so if the WACC does start to rise, it will start rising regardless of what depreciation approaches are chosen.

C. Yes, absolutely. I agree.

C. The key thing is not to get too specific on the dollars. We're not talking about hundreds of dollars, rather we're looking at orders of magnitude.

Q. Did the AER want to comment at all on any of the National Electricity Rules (NER) or regulatory risk components that we've got now on slide 12? *[Question for AER]*

R. We agree with the legal constraints and the implications from any changes with indexation. The AER is clearly in support of that to remain at the moment. You could end up with many different depreciation profiles and from an economic perspective we generally try to see depreciation as its own cost and therefore we generally try to produce a flat depreciation profile. Then other building blocks sit on top of that. If those building blocks get bigger, the costs go up, then that's a cost that customers should actually see. So the whole anti-cyclical approach is not one that we've accepted to date. So yes, there would need to be a significant level of debate that's needed to change that. *[AER response]*

Q. Was this something that your fellow networks have talked about, or is it just something that Powerlink's raised?

R. We've just done it from a Powerlink position at this point and looked over some of the research and what others have suggested over time, but we haven't engaged with any other networks.

C. It's worth noting that Evoenergy went through a similar exercise in developing their regulatory proposal about three years ago and reached the same conclusion.

C. I can also mention that we're having a decision that's coming out soon on Jemena Gas Networks (JGN) that will also talk a bit about accelerated depreciation for their proposal. That's obviously in the context of gas but people might be interested in that in a month's time as well because we'll elaborate a bit more on our thinking there. *[AER comment]*

Interactive discussion

- **Do you have any feedback on the outcome of the analysis or conclusions that Powerlink has drawn?**
- **Do you agree/disagree with Powerlink's position?**

C. I think it's great this work has been done and it's a good example of work not always perhaps leading to the outcome you might want. It looks like the conclusion is the right one, too. So good work, even though you might feel a bit frustrated about pursuing this in the first place. But it means there's no more spinning tyres.

C. It's about getting the balance right between investigating new ways of doing things but also knowing when to draw a line in the sand and step back.

C. Thank you for taking us on this journey with you and sharing your thinking. I'm happy with where you've landed. That definitely seems reasonable.

C. I agree.

3. Interactive session – Operating expenditure
- Andrew Bannister, Stream Lead Operating Expenditure

Summary:

- Powerlink presented high-level indicative information on six potential opex increases – *Nature Conservation Act* fees, Transmission Ring Fencing, National Transmission Planning fee, cyber security, Generator Technical Performance Standards, and IT licences movement to cloud-based storage.
- The current estimate of potential increases is around $10 to $14 million (2019/20 real) per annum for the next regulatory period – equivalent to an approximate 5% to 6.5% increase against the current period opex allowance.

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

Q. Did you identify any adjustments or step-changes downwards?

R. Through this process, we identified one potential step-change down. That was identified by our legal team. They scanned and identified changes to legislation so they put that forward. However, after further investigation on that particular legislative change, we found that we weren't actually impacted by that.

C. It's important to highlight that we haven't closed things off yet in this space. There's still more work to do.

C. I have a special award that is yet to be handed out – an award for the first network that has a step-change down in their Revenue Proposal.

C. I think though, from a regulatory and a broader industry perspective with the dramatic changes that we've seen in the last few years, I can't say that anything has dropped off. If anything, we look at the way we're all doing business with more grey hairs than ever before, because there's more things coming in. We've been trying our best to deal with these things. So as much and as hard as we try and push back on having more obligations, they keep coming our way. I honestly can't see that changing.

Q. The *Nature Conservation Act* fees – is this something that they haven't charged you in the past but they could have?

R. No, they haven't charged us in the past. This is a new thing.

Q. So basically electricity consumers have to pay more money because the Queensland Government fails to fund Queensland Parks and Wildlife Service (QPWS) efficiently?

C. It does seem like an inefficient tax being applied, doesn't it?

R. Powerlink continues to engage with QPWS and certainly we're aware of the impact that a fee like this would have on our customers. We are trying to influence as best we can to drive those costs down but our estimate here is based on the oil and gas industry experience. We're not exactly sure what our outcome will be.

C. It's interesting if you take whole of government view on this. If the government is really interested in lowering power prices, shifting QPWS costs onto electricity consumers is not going to achieve that. But anyway, I know you're a 'taker' of this, not the protagonist.

C. My understanding is, and correct me if I'm wrong, because of the nature of national parks, we can't take an easement there so there's no compensation paid for us being there in the first place, unlike other property owners.

Q. So the RAB doesn't include a value of easements in national parks?

R. Well there are no easements in national parks. I don't think you can have an easement in a national park. That's my understanding.

Q. But you have transmission lines that go through national parks?

R. Yes, 184 kilometres of them.

Q. Does your RAB value historically when you went into the AER brave new regulatory world and include an asset value of easements in national parks?

R. I don't know – we can follow that up.

C. In some instances, our infrastructure had actually been there before the national park had even been declared.

Q. Just a question in relation to transmission ring-fencing. How do you separate out your field staff between those doing regulated and unregulated activities?

R. We need to work through that too - whether they need to wear a different shirt, badge, drive different cars, that sort of thing. Because in the extreme, that's one of the additional complications you could have from a functional separation perspective.

Q. You've obviously had staff working on the Kidston project. How do you assign their hours and overheads, to regulated versus non-regulated work costs?

R. We use timesheets to capture relevant cost allocations.

Q. What's the trend? I assume Powerlink is working on more and more non-regulated facilities?

R. Yes, but that doesn't change how we allocate our costs and we are also looking to see whether it is reasonable to allocate more costs in the non-regulated side of the business.

Q. In relation to the National Transmission Planning fee, is the AER going to do some assessment of whether it's an efficient and prudent level of costs that AEMO are putting on the TNSP fees as a pass through? *[Question for AER]*

R. Are we assessing whether AEMO's costs are efficient? That's not something we have done in the past for these types of fees so I don't know that it's within our remit to say whether or not those fees are based on the inefficient costs themselves. There are a few different questions to answer here.

As to the suggestion that this fee is subject to an annual true-up, I think it's probably fair to say that we've had a number of distributors, for example, that have factored this into their form of control. Our general movement in that space of recent times has been to move away from that. We are not necessarily convinced that should be passed through directly. The argument for doing so is that the networks have no control over these fees and we accept that they don't have a significant amount of control but neither do customers. If anything, they have less control. So we're not entirely sure why the risk of those changes should be borne entirely by customers.

Given they have typically been relatively modest as part of the total opex bucket, we've generally been of the view that it should just be part of the opex bucket rather than having some kind of annual true-up for - in some cases - a relatively trivial amount. Although at $5 million here, it's a bit more than what we've seen for some distributors. *[AER response]*

Q. That's $5 million just for one network.

R. Per annum.

C. I would say that's significant from an investor point of view.

C. Yes, that's huge.

C. I think from the AEMO budget for the 2019-20 allocation for national planning activities, they'd mentioned it was in the order of $5.5 million for the NEM and then there was an escalation to 30 per cent per annum in their four year outlook. So I think our share would have been $1.5 million growing to the $5 million by about 2023-24.

C. If the AER thinks it's part of opex, especially now including the AEMC levy that we're currently subjected to, we will definitely be asking AEMO to come up with their best estimate so that we can submit that estimate to the AER. Our primary concern is that whatever number we put in the allowance, it often turns out to be significantly higher than what we had forecast. With the National Transmission Planning fee and this one, we're also worried about how much actual costs might vary in this regard as well.

C. There's potentially a distinction between a fee that is in place for some period of time and the instruction of a new one. So maybe there is a distinction there. So bear that in mind and therefore the uncertainty about the amount that will be incurred. We're happy to think about this one more. Absolutely. I was just highlighting that these types of fees, we haven't always accepted these as a true-up in your formal control. *[AER response]*

Q. How will AEMO calculate this every 12 months?

R. We don't really know.

C. If we used the AEMC levy an example – within this current period, what was the increase from the initial data that we saw?

R. About $1.5 million per year.

Q. About $1.5 million a year. About 25 per cent or 30 per cent increase.

C. The AEMC levy is also something that's out of our control as a TNSP and is still subject to the Efficiency Benefit Sharing Scheme (EBSS) as well, which is something that we're very conscious of. We essentially have costs included within the EBSS that are totally out of our control.

C. The question there is – what's the counterfactual? If you don't have these costs subject to the EBSS, then the share that's borne by the network will depend based on when the cost increase or decrease occurs. The share is incurred by the network will change depending on the timing of it, as in which year it occurs. So that's the counterfactual, as in if you don't subject these costs to the EBSS. So the question that strikes me is, why should it be shared differently just because it happened in a different year? That doesn't seem particularly logical to me and why should the customer bear a higher share when they have absolutely no control over this. So I think they're the questions that need to be thought about. *[AER response]*

C. I'm not sure this is an issue about incurring in a different year. We certainly incur it every year. Every year, we're seeing the fee increase happening.

C. Yes, that's my point. The timing of it changes the sharing of it. So when you're choosing between applying the EBSS to these and not, that is changing the sharing of these changes depending on the year in which it occurs. So that's the question that needs to be considered. *[AER comment]*

C. Our primary concern is that we get an efficient forecast in the first place and that whether we get pinged or customers get pinged, that neither of us get pinged twice but ideally not get pinged in the first place.

Q. I think a question for advocates is why are we paying such high fees to AEMO and the AEMC when there could just be one organisation that does that planning and engineering work. I didn't realise, actually that's come as a shock to me, that you're already paying the AEMC fees to that magnitude and now potentially the AEMO fee as well. Wow.

C. So we're being expected to pay effectively a cost pass-through for whatever AEMO wants to spend. With no checks and balances, and no representation on the Board.

Q. In relation to cyber security, I'm just wondering how the AER is assessing individual proposals and to what extent are you trying to get some broad industry approach? *[Question for AER]*

R. Unfortunately this is an area I haven't been directly involved with myself. I know obviously we've been looking at similar proposals from a number of distributors. For example, we're looking at the proposal from SA Power Networks (SAPN) at the moment. I believe that we did approve a cyber security step-change in our draft decision. There may have been some shifting on the quantum but I'm not across the specifics. But I am aware that we accepted some recently. *[AER response]*

Q. Would you be able to send us some information on what the AER's approach has been? Or what your current considerations might look like in the broader context?

R. Yes, I can get back to you about our approach to assessing these types of matters.

Q. Can TNSPs share cyber security costs? Because there's potentially some commonality across the industry for these types of threats?

R. I don't actually know the answer to that. I'd be very unsure whether that'd be possible given your data integrity needs to stay within your own domain.

C. I appreciate that you'd all have very particular needs, obviously, around the different security requirements.

C. It's probably worth noting from a comparative perspective that TransGrid for instance had a step-change in this area. Some other TNSPs and DNSPs have particular triggers. For instance with TransGrid, it is actually written into their licence that they must go to a certain level. With others, from a foreign ownership perspective, under security of critical infrastructure legislation, they have a particular legislative trigger that's obligated. Our understanding was that the Commonwealth Government, or AEMO, would probably move towards a position of having a mandated requirement to achieve a shared maturity level. That hasn't eventuated as yet, but I think it's relevant to understand those differences because it's not easy to compare apples and apples between TNSPs in this space.

Q. What about insurance in this space? Obviously not for the operational side of it but if you've had a notifiable data breach before, do you have to insure?

R. That's outside of my scope. We would have to come back to you on that.

C. A couple of us are associated with AusGrid's recent reset and they were caught in the middle of the new security of critical infrastructure legislation coming in. They had in place a system that I think was very effective but based outside Australia. Then the requirement was to bring it back into Australia. That was a step-change in their proposal.

C. I think there are some differences in the application of that legislation to different organisations. I don't think that we're captured by it in the same way that AusGrid might have been affected.

C. Say you do have a data breach, and AusGrid and TransGrid have particular preventative mechanisms in place but Powerlink didn't. You could be criticised that we should have learnt from other TNSPs – not just because you were mandated to, but more about what is best practice – or what's reasonably best practice. There is that tension.

Interactive discussion:

- **What are your initial thoughts on the opex increases proposed by Powerlink?**
- **Are there any that you are supportive or not supportive of at this point?**
- **What additional information would you consider is needed for our next discussions (as part of the updated forecasts in April 2020)?**

C. I think what you've provided is fantastic and we just look forward to more information to help us better understand. What you've said on particular issues, for example the *Nature Conservation Act* fees and the National Transmission Planning fee, is that we know you're going to push back on something that you don't think is appropriate in your context but we recognise that you are limited in your ability to change something that is a national approach. I think we've got to do that with all our advocacy around the networks to say "please justify these costs". Not just think that they're going to be passed through.

C. I think it's about focusing on controllable costs as opposed to costs where you don't have a choice.

Q. I wonder if advocates can play a role in influencing these decisions?

C. We always welcome support from advocates or even the ability for us to represent views that we have had in some of these discussions. It is important for us to be able to say we've talked to our customers about this too, they're on the same page as us and want to explore whether there other ways to treat these costs/fees. Is there something else we could do in this space?

C. I think even just to communicate to those decision makers that when you aggregate all of those fees together – what they think is a small cost to QPWS – once you look at all the other fees on the table, it can be quite significant. I'm not sure that's very well understood.

C. At times, there's probably not a lot of visibility about the decisions made across different government silos.

C. There's just no point in us hiding costs that we honestly think we are going to incur. That's not going to help us in meeting our regulatory obligations and ensuring our business is operating efficiently and effectively. It's not going to help us or customers if we suddenly surprise them by not telling them they're actually being billed because we have to do it now. I think it's also important to acknowledge the 22 other potential step changes we also identified. We have currently estimated that a lot of these obligations are small in $ terms. Collectively, they may not meet a materiality threshold for a cost pass-through but they're still incurred. You're trying to reduce your opex costs and still have sustainable returns and a sustainable business, it's really hard to work through.

C. Just to give you a flavour of some of the other things we're aware of, they include changes such as the *Modern Slavery Act*, changes to professional engineers' requirements, amendments to regulated waste transport. So there can be an assortment of smaller legislative changes that have an impact but it's often difficult to quantify exactly what that's going to be over a period of time. Where they are small, we do make decisions as to what we can and can't absorb as a business as well.

C. They're not really captured collectively though are they? Nobody is actually looking at those costs altogether?

R. We are. We are definitely trying to look at their impact on bills. There's an individual impact and a cumulative impact.

Q. Are you able to share some of the work you've done about impacts?

R. How about we take that on notice. I'd like to be able to share our thoughts but we need to do a bit more work on it.

Q. After the summer we've had, what kind of impact you might see that having? I'm thinking of things like vegetation management.

R. Vegetation management is one of our highest singular line items considered in our maintenance program and we're watching this with interest. So we've got an obligation to manage our easement clearances to a certain level to avoid becoming residual fire loads. We've had two years of bushfires so we need to be responsible. We've got a new vegetation strategy about to be implemented and our contracting regime is more onerous. We're now talking about what pre-requisites are needed to protect a substation. We've never had to consider that before. It is onerous and we are working through what this looks like from an operational and insurance perspective.

C. We did flag in our Business Narrative the complexities with insurance. There's a lot of work to be done on that before we talk in depth but there are certainly even global events that have an impact on our insurance.

C. You would have seen SAPN put in a step-change post their revised Revenue Proposal for bushfire insurance risk.

C. Bushfires can be used as a convenient way of getting money and so it's a case-by-case basis. I was on the Consumer Challenge Panel (CCP) for TasNetworks and their shareholder decided to spend more than allocated in the previous regulatory period, 2015-2020, because they could see the bushfire risk. That was fine, so they went above allowance and the shareholder can do that whether they're publicly or privately owned. The issue we had as a CCP with TasNetworks, was that they then saw the new increase as the 'new normal' in the 1920-25 regulatory period and we thought that required some greater scrutiny. And the AER gave it greater scrutiny too, didn't it? *[Question for AER]*

R. I'm struggling to recall the details of that particular step-change. *[AER response]*

C. Oh it wasn't a step-change, it's just that they stepped up their actual expenditure in 2015-20 and then saw that as the new base for the next five years and the way they sort of represented it was linked to rain and that things grew quicker after the millennium drought.

R. I think the issue is similar to questions that have been raised for example about marketing for gas businesses. If you start looking at the costs incurred for a particular activity in the base year because you might consider the level of costs may not be appropriate going forward, I guess you're potentially then suggesting there could have been an argument for a negative step-change? *[AER response]*

C. Yes.

C. I think the territory is getting a bit dangerous there. Once you start looking at one category that could go down, if you're not looking at every category then you're only doing a partial analysis and you're risking bias there. That then means you've really got to do an analysis of everything and then you're getting into a forecasting approach. You're moving away from a top-down incentive framework. So that's our concern when you start looking at those types of suggestions. *[AER comment]*

C. That ties into my award for first the negative step-change. You said you increased bias if you start looking at some things and not others but there may be an inherent bias in the first place because we have a proposed response. So which network business is going to majorly propose negative step-changes because that puts a lot of pressure on it? I'm not saying nobody would but in general, the focus of the analysis is going to be on work around cost increases where we need to go for positive step-changes. Not necessarily just because we want to make more money but because that's where the focus of the business is.

The things that crept into an earlier period, which really have since become irrelevant, just doesn't really grab their attention because it's not a bottom-up approach. So in relation to the gas marketing referenced in the JGN submission, we thought there needed to be more of a focus on where there might be opportunity for a negative step-change because we've already got the network looking at the positives. So who is that going to be other than the AER? Look, it's not about every single dollar here or there, there's a materiality issue here as well, of course.

C. I'm glad you've raised the point of materiality. I take your point and my initial reaction is that I think this raises the question about what's the threshold for allowing a positive step-change rather than trying to look for negative ones. So to these questions about, for example, the forecast assessment guidelines which outline how we do our opex assessment. This clarifies that step-changes should only be provided for cost changes that have not been funded through other aspects of the forecasting approach, such as base opex and forecast price output or productivity guidance.

The question is, are these changes being accounted for elsewhere? We need to remember for transmission, and this is different to distribution, that the productivity growth forecast we use is based on what the industry has been able to achieve historically. In that historic period, the regulatory environment has been changing. So that is the productivity growth it was able to achieve after having to pay for all the cost increases to meet all those new regulatory obligations that were introduced in that time. My question is, through applying a productivity growth forecast derived on that basis, are we not already accounting for 'business as usual' regulatory matters, if you want to call it that? What's the threshold beyond which we need to provide a step-change? Because we would think that means that you shouldn't be applying a positive step-change for every single regulatory change. These are the questions we need to think about. *[AER comment]*

Q. If we return to the high-level questions, of the six potential opex increases that we've talked about, is there any specific additional information that we might be able to provide you for that April discussion?

R. I can give you a couple of specific examples. IT licences. There's a lot of stuff around what's the level of competition and are you presented with only one potential provider? That's a big issue for SAPN and other across networks. So it's an understanding of what your options are and what competitive attention there is out there.

In the case of insurance, I'm interested in information around your no claim bonus or whatever it's called for transmission networks. What level of self-insurance do you do and what change is that? For example, are you looking at increasing your level of self-insurance as one way of limiting the cost increase that comes from insurance premiums going up? And what other methods are you using? For example, if you clear 100 metres either side of a powerline rather than the standard 50 metres, you're spending a lot more in vegetation management. Presumably that would mean that you don't have to take out so much insurance. It's looking at what you're doing to more efficiently address a problem rather than simply taking out more insurance.

I think we've gone through the *Nature Conservation Act* about one department talking to another department?

In terms of the ISP, as you gathered from my earlier comments – if I'm a customer buying into the ISP, I'm going to go to the Australian Competition and Consumer Commission looking for misleading advertising. I think it's a matter of us in our respective organisations and advocacy groups, going back to the AEMO and understanding what is the level of cost and what influence consumers can have over the level of costs. Or has AEMO got an open cheque to do anything?

Q. And on cyber security?

R. In relation to cyber security, the basic information we want is whether there's any legislative or regulatory requirements.

C. And understanding how other TNSPs are addressing this to give some understanding on the order of magnitude or a fit for purpose approach. I know it's a very difficult area, it's so new and so uncertain.

R. In response to your earlier question on legislation, I can advise now that currently there's no regulatory obligation on us in particular regarding cyber security.

Q. And insurance?

R. I'm not sure about the insurance obligation on us. I'd guess it'd be significant.

C. It would also be useful to gain an insight as to what is in-house and what is sub-contracted for IT.

Actions

- ***Powerlink to clarify whether the RAB includes easements in National Parks.***
- ***Powerlink to share initial work regarding managing the cumulative impacts of legislative change on opex.***
- ***AER to provide more information on how they assess the prudency and efficiency of cyber security step-changes.***
- ***Powerlink to provide more information on insurance arrangements for cyber security.***

4. Meeting closed 12pm