

# Revenue Proposal Reference Group (RPRG)

Meeting overview – 25 June 2020



Full minutes of RPRG meetings can be accessed at [www.powerlink.com.au/2023-2027-regulatory-period](http://www.powerlink.com.au/2023-2027-regulatory-period)

Key topic	Key discussion highlights and actions
Global insurance market update	<ul style="list-style-type: none"><li>Powerlink's Insurance broker Marsh provided an update on key global market factors and drivers influencing the insurance market. They noted current market conditions are the most difficult experienced since 2001. COVID-19 is generally regarded as the biggest loss ever in the global market, affecting almost every class of insurance across the world. It is expected these challenging conditions will continue for some time.</li><li>Powerlink is exploring options to best manage insurance costs, while ensuring a prudent and efficient level of coverage is maintained. The current insurance market volatility will necessitate updates to the insurance forecast on a regular basis between now and the Revenue Proposal lodgement. Powerlink will continue to engage further with the RPRG on insurance matters in coming months.</li></ul>
Depreciation tracking	<ul style="list-style-type: none"><li>Powerlink currently uses a weighted average remaining life approach for depreciation forecasts in Revenue Determinations, but is looking to change to the year-by-year tracking method. Powerlink's position is that this will provide a more accurate measure of asset recovery and better reflect the underlying nature of those assets. It also aligns to a future requirement from the Australian Energy Regulator (AER) to implement year-by-year tracking for the Tax Asset Base for the 2028-32 regulatory period.</li><li>Initial analysis indicates adopting a year-by-year approach would increase Powerlink's revenue by ~\$20 million per annum (3%) over 2023-27, equivalent to a ~\$2 per annum increase for the average residential customer. Powerlink recognises the short-term impact of changing its approach and is keen for RPRG feedback on achieving the most appropriate balance with these factors, to help inform decision-making.</li><li>The RPRG was broadly supportive of Powerlink changing to year-by-year tracking, while acknowledging the associated small price increase. Members asked Powerlink to investigate further information on potential smoothing arrangements with the AER.</li></ul> <p><b>Key actions</b></p> <ul style="list-style-type: none"><li>Powerlink to investigate opportunities to smooth price impacts to customers as a result of implementing year-by-year depreciation tracking.</li><li>RPRG members to finalise and provide their feedback on whether they support Powerlink adopting a year-by-year depreciation tracking approach by Friday 3 July 2020.</li></ul>
Business IT	<ul style="list-style-type: none"><li>IT capex for 2023-27 is currently forecast to be similar to the current period allowance. Powerlink is not likely to pursue an opex step change for Business IT as part of its Revenue Proposal.</li><li>Powerlink's proposed IT expenditure is informed by its new IT Benefits Realisation Framework and IT Program Roadmap to guide investments, ensuring they are prudent and efficient.</li><li>The RPRG agreed Powerlink's proposed approach was reasonable, highlighting the importance of further detail to be outlined in the Revenue Proposal. Powerlink was encouraged to also focus on post-investment reviews. The group confirmed there is no requirement for further comprehensive engagement on this topic.</li></ul> <p><b>Key actions</b></p> <ul style="list-style-type: none"><li>Powerlink to consider appropriate preparation of post-implementation investment reports on IT capex in alignment with page 13 of the AER DNSP Guidance for Non-Network IT (published November 2019, section 2.5).</li><li>Powerlink to share a draft investment case for a proposed IT project to demonstrate the rigour applied to IT capex.</li><li>Powerlink to provide further details on cyber security.</li></ul>
Preliminary Positions and Forecasts Paper (PPFP)	<ul style="list-style-type: none"><li>Powerlink expects to publish a PPFP by late July 2020, to indicate where key forecasts and positions are heading, along with discussion on the key drivers and assumptions behind forecasts.</li><li>The RPRG encouraged Powerlink to produce an easy-to-understand document with relevant and comparable data across regulatory periods, as well as to engage more broadly with other customers and stakeholders. Powerlink will aim to provide a draft Revenue Proposal for external review by October/November 2020.</li></ul> <p><b>Key action</b></p> <ul style="list-style-type: none"><li>Powerlink to consider various presentation options for the PPFP and release of a draft Revenue Proposal.</li><li>Powerlink to update the Revenue Determination Engagement Plan with more details on planned engagement over coming months to support the PPFP's release.</li></ul>



More information

Telephone +61 7 3860 2111 or email [resetteam@powerlink.com.au](mailto:resetteam@powerlink.com.au)