

This template has been developed to assist customers and stakeholders to provide feedback on Powerlink's draft 2023-27 Revenue Proposal. Each section has a range of questions to help guide your feedback.

Please do not feel constrained by the template or the questions posed. We welcome input on any topic identified in our draft Revenue Proposal and in any form.

We will consider all feedback as part of the development of our Revenue Proposal, which will be lodged with the Australian Energy Regulator (AER) in January 2021. To enable sufficient time to consider feedback, submissions must be received by **30 October 2020**.

Note that all customers and stakeholders will have the opportunity to provide a submission to the AER on our Revenue Proposal after it is lodged in January 2021. We would also encourage customers and other stakeholders to provide their input and feedback to us directly.

Capable of acceptance goal

Our overarching engagement goal is to submit a Revenue Proposal that is capable of acceptance by our customers, the AER and Powerlink.

To assist our customers and stakeholders to whether capable of acceptance has been met, below are some suggested criteria we have developed based on customer input:

- demonstrated customer support;
- engagement was meaningful and the business was responsive to feedback;
- there is a clear business narrative;
- affordability is considered and addressed;
- the business assessed options available to it and sought to provide value to customers; and
- the Revenue Proposal is reasonable comparative to past performance and peers.

This is a guide only, and is intended to capture capable of acceptance elements relevant to customers, not items required to be assessed by the AER.

As an overall Revenue Proposal package, do you think our draft Revenue Proposal is capable of acceptance?

Note - the overall package could be assessed in terms of the total revenue and price impact to customers.

Shell convened a team to review the revenue proposal package and provide feedback to Powerlink. This feedback may be applied to adjust the draft prior to submission.

As a general comment, Shell commends Powerlink on its high level of industry engagement throughout this process. That being said, we are somewhat uncomfortable with being asked to provide a level of acceptance regarding the draft proposal. In most cases, industry does not have the resourcing required to comment definitively on detailed and complex economic regulatory matters. We see the Australian Energy Regulator (AER) plays a critical role in providing assurance to the market around these proposals and it is important that the AER undertakes its own independent consultation and review.

What elements of the draft Revenue Proposal are capable of acceptance? What elements are not?

Feedback on key draft Revenue Proposal elements

Customer Engagement – Chapter 3

Question guide:

- *Do you support Powerlink's engagement approach to date?*
- *Have we demonstrated how engagement has influenced the draft Revenue Proposal?*
- *What areas do you believe require further engagement in the lead up to the submission of our Revenue Proposal? (Note – for practical reasons we are unlikely to be able to undertake any formal engagement beyond mid-December 2020).*

Shell strongly supports Powerlink's engagement approach to date and highly values both its relationship with Powerlink and the opportunity to participate in the Customer Panel as well as the Revenue Proposal Reference Group.

It is clear that this engagement approach has influenced the draft revenue proposal. Shell would suggest further engagement is required for the following areas:

- Range of possible outcomes
- Scenario analysis to assess the possible impact of regulatory reforms presently under consideration

Forecast capital expenditure – Chapter 5

Is the capital expenditure forecast capable of acceptance?

Yes ☐ No ☐

Do you support our proposal for contingent reinvestment projects?

Yes ☐ No ☐

Question guide:

- *Is our capital expenditure forecasting approach (Hybrid+) reasonable?*
- *Have we explained the key drivers for our capital expenditure forecast?*
- *Do you have any material concerns with our proposed increase in capex to manage our ageing fleet of transmission lines?*
- *Do you support our proposal for contingent reinvestments as an appropriate means to minimise cost impacts on customers up-front?*

- Minimal data is provided regarding the performance of the forecast generated by Hybrid+ vs actual spend in the current regulatory period. This would aid in assessing whether the Hybrid+ approach is reasonable.
- CapEx key drivers are clear in the draft proposal however the drivers of increased spend in each category compared to the current regulatory period are not clear.
- We understand that contingent reinvestments are not included in the revenue proposal due to the accompanying uncertainty however, if these projects proceed they will have a major cost impact therefore the current revenue proposal is subject to significant change. We would expect to see a range of possible revenue recovery outcomes based on the number of projects that may proceed.

Forecast operating expenditure – Chapter 6

Is the operating expenditure forecast capable of acceptance?

Yes ☐ No ☐

Question guide:

- *Have we explained the key drivers for our operating expenditure forecast?*
- *Is our operating expenditure forecasting approach (base-step-trend) reasonable?*
- *Do you support our no real growth in total operating expenditure target?*
- *Do you support our proposal of no opex step changes?*
- *Have we explained the key drivers for our operating expenditure forecast?*
- *Is our productivity target appropriate?*
- *How should we manage the risk of significant increases in insurance costs?*

- We would like to support the no real growth target but without evidence of specific plans Powerlink intends to apply to achieve this, we are concerned this is not a SMART target. We are also concerned that the increased maintenance requirements of aging infrastructure will make this target difficult to achieve.

- The rationale for no step changes is clear however we would expect to see some scenario planning for possible regulatory changes or a change in government.

- Productivity in the current period is unclear therefore it is challenging to assess whether the productivity target is reasonable compared to previous performance. This target is well above industry standard and in the absence of specific plans to achieve this target we are concerned that this is not a SMART target.

Financials – Chapter 9, 10 and 11

Is the Maximum Allowed Revenue forecast capable of acceptance?

Yes ☐ No ☐

Question guide:

- *Do you support our change in depreciation tracking approach?*
- *Is our approach to forecasting inflation reasonable?*
- *Do you have any feedback on our indicative price path over the 2023-27 regulatory period?*

- Regarding the change in depreciation tracking approach, it is unclear whether the Queensland Audit Office has supported this approach. In addition, standard asset lives are at the longer end of the spectrum which might conflict with Powerlink's digitisation focus.

- WACC is clearly a key driver in the overall decrease in revenue from the previous period. It is unclear how this factor compares to other businesses. Further, if this factor is subject to change we would expect to see a corresponding sensitivity analysis so the possible impact to revenue can be understood.

Cost pass through events – Chapter 12

Question guide:

- *Are our proposed nominated cost pass through events appropriate?*

Incentive Schemes (EBSS & CESS) – Chapter 14

Question guide:

- *Do you support our approach to the EBSS and CESS?*

Service Target Performance Incentive Scheme (STPIS) – Chapter 15

Question guide:

- *Is our proposed alternative target of 1 (versus a target of 0) for the large loss of supply sub-parameter of the Service Component of STPIS reasonable?*
- *Do you agree with our proposal not to include NCIPAP projects at this time?*
- *Do you think it is important that the AER use the most recent data to set targets for us over the next regulatory period, especially for the Market Impact of Congestion component of the scheme?*

Demand Management Incentive Allowance Mechanism (DMIAM) – Chapter 17

Question guide:

- Do you have any suggestions Powerlink should consider as potential DMIAM projects?

Do you have any further comments on our draft Revenue Proposal?

- Given the level of possible reform contemplated, we find it surprising that Powerlink has not included a scenario incorporating at least the COGATI concept. We appreciate the difficulty in determining the probably and timing of such proposals, but for comparative purposes it is relevant to share with stakeholders the magnitude of the impacts for Powerlink's operating and investment plans. If introduced it is likely to impact decisions made during this revenue reset period.

- Generally, we would expect to see more sensitivity analysis and scenario planning so that customers can be aware of the range of possible outcomes if key assumptions or inputs change.

Do you want this feedback to be published on our website?

Yes ☐ No ☐

Name	Claire Hamilton
Position	Commercial Operations Advisor
Company	Shell Energy Australia
Contact details	claire.c.hamilton@shell.com

☐ I wish to remain anonymous

Submit Form

Please direct enquiries to:

Matthew Myers
Manager Revenue Reset
Powerlink Queensland
Telephone: (07) 3860 2111
Email: resetteam@powerlink.com.au