

Revenue Proposal Reference Group (RPRG)

Meeting overview – 24 September 2020



Full minutes of RPRG meetings can be accessed at www.powerlink.com.au/2023-2027-regulatory-period

Key topic	Key discussion highlights and actions
Draft Revenue Proposal	<ul style="list-style-type: none">• Powerlink provided an overview of the contents of its Draft Revenue Proposal, highlighting areas anticipated to change between the draft and the Revenue Proposal, advice on feedback / submission template and closing date for submissions 30 October 2020.• Powerlink highlighted the material changes since its July 2020 forecast including a 7.2% reduction in capex forecast, target to pursue no real growth in opex in the 2023-27 regulatory period, and intent to pursue a higher than industry trend productivity target of 0.79%.
Rate of Return (RoR), Maximum Allowed Revenue (MAR), Inflation and Regulated Asset Base (RAB)	<ul style="list-style-type: none">• RoR for the 2023-27 regulatory period is ~1.5% lower than the current regulatory period, primarily driven by the current historic low interest rate environment.• MAR is forecast to be about \$568 million or 14% lower for the next regulatory period compared with Powerlink's current period allowance. The most significant cause of this reduction is a lower WACC or RoR. The lower WACC is contributing about \$650 million of the reduction in the return on capital building block. The remaining build block, the reduction of \$126 million is due to our lower RAB.• RAB is forecast to continue to decline in real terms in the current regulatory period and through the 2023-27 regulatory period.• Indicative impact on the transmission component of electricity prices would be a real reduction of about \$16 for residential and \$21 for business in the first year, and nominal changes in the first year would see, \$14 nominal reduction for residential and a \$24 nominal reduction for business.
Operating Expenditure (opex)	<ul style="list-style-type: none">• Powerlink has set a target of no real growth in total opex in the 2023-27 regulatory period. This target was developed based on Customer Panel and Revenue Proposal Reference Group (RPRG) feedback on productivity, affordability, the current economic climate and COVID-19 impacts.• Powerlink is proposing a productivity factor of 0.79% - this is above the AER's benchmark industry average.• Powerlink's insurance renewal is due in November 2020. If costs increase significantly and impact our ability to meet a no real growth target, Powerlink may need to revise its target in the Revenue Proposal. <p>Key actions</p> <ul style="list-style-type: none">• Powerlink to provide overview of process for transmission line route selection.• Powerlink to provide response on capex/opex interaction and how IT impacts opex.
Capital Expenditure (capex)	<ul style="list-style-type: none">• AEMO 2020 Integrated System Plan (ISP) identified the QNI Medium upgrade as likely to be required by 2032-33 under most scenarios. Given the magnitude of the QNI Medium development – new 500kV transmission lines and 500kV substations – construction may need to commence by the late 2020's. We have included \$18.3m in the capex forecast to undertake this work.• Repex Model component – increase in the mean replacement life of transmission line towers by between 1.5 and 4 years, depending on the corrosion zone. This reflects recent changes to our asset management and transmission line life extension practices. This change has reduced the capex forecast by ~\$45m. <p>Key action</p> <ul style="list-style-type: none">• Powerlink to provide an explanation on difference in ESOO and 2019 TAPR demand forecast.• Powerlink to provide indication of what the dollar impact on bills would be for consumers should contingent projects go ahead.
Customer Engagement	<ul style="list-style-type: none">• Powerlink discussed the criteria to help assess its concept of 'capable of acceptance'. The criteria was based on suggestions from members of the CCP24 as part of the Australian Gas Networks (AGN) Access Arrangement• Conscience of expanding our engagement to include regional stakeholders and encourage RPRG and Customer Panel to share information with their contacts. <p>Key actions:</p> <ul style="list-style-type: none">• RPRG to send Powerlink any specific questions or papers to consider for the upcoming insurance deep dive.• Powerlink to consider putting further detail around the four potential areas to drive productivity• Powerlink to advise the impact of the AER's Inflation Review on draft Revenue Proposal figures• RPRG to organise a separate meeting to discuss draft Revenue Proposal with the full Customer Panel, without Powerlink present.



More information

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