

2023-27 Revenue Proposal

Revenue Proposal Reference Group

4 March 2021



Purpose of this session



- Brief progress update, key milestones and engagement next steps.
- Provide an update on the Service Target Performance Incentive Scheme (STPIS).
- Initial feedback from the RPRG on our Revenue Proposal.

A large, light gray circular graphic containing a map of Queensland. Overlaid on the map is a network of white lines and circles representing the power grid. The text "Progress update" is centered over this graphic.

Progress update

Revenue Proposal forecasts at a glance



Maximum Allowed Revenue

2018-22 \$3,921.3m
2023-27 \$3,333.9m

↓ \$587.4m (15%)



Rate of Return

2018-22 ~6%
2023-27 ~4.44%

↓ ~1.5%



Capital Expenditure

2018-22 \$891.3m
2023-27 \$863.9m

↓ \$27.4m (3%)



Operating Expenditure

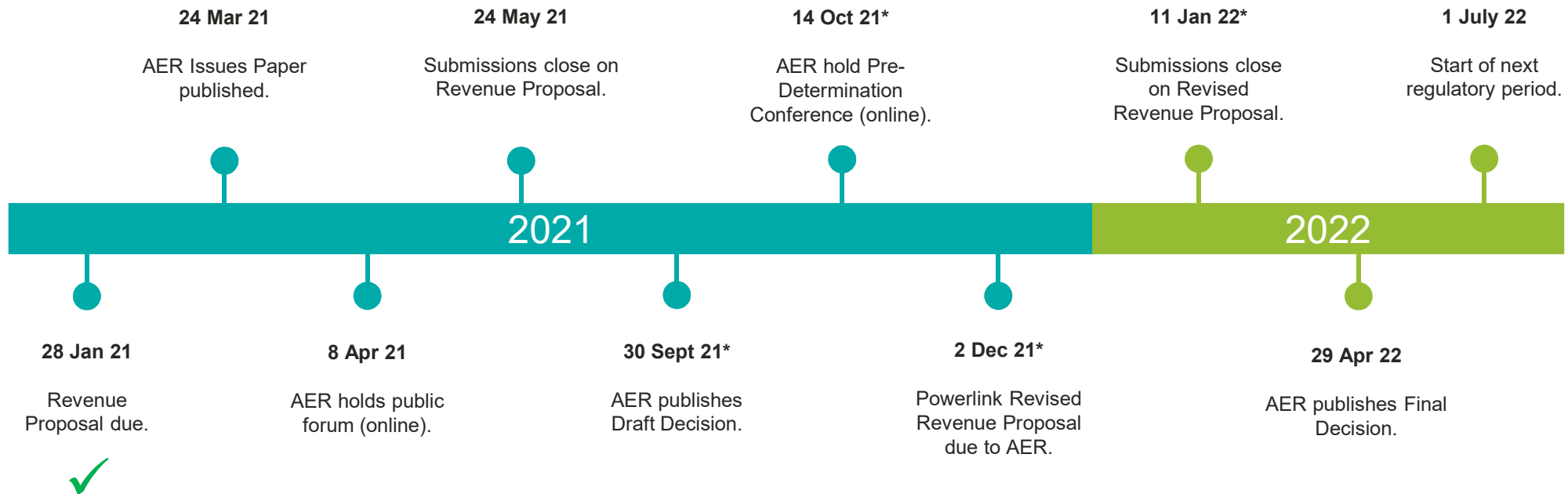
2018-22 \$1,029.4m
2023-27 \$1,029.4m

\$0 difference
(no real growth)

Notes:

- All figures are in \$m real, 2021/22 and are for the full five-year regulatory period.
- MAR is compared to the AER allowance for the 2018-22 regulatory period.
- Rate of return is nominal vanilla.
- Capital and operating expenditure are compared to the actuals/forecast for the 2018-22 regulatory period.
- Capital expenditure figures are net of disposals.
- Operating expenditure figures reflect underlying operating expenditure, which excludes movements in provisions, Network Capability Incentive Parameter Action Plan (NCIPAP) project costs, debt raising and network support costs.

Upcoming regulatory milestones



* dates indicative.

Upcoming key milestones and proposed engagement



| Date | Milestone |
|-------------------------|---|
| 4 Mar 21 | RPRG meeting |
| 18 Mar 21 | Customer Panel meeting |
| 24 Mar 21 | AER Issues Paper published. |
| 8 Apr 21 | AER holds Public Forum (online). |
| Mid May 21 (TBA) | RPRG meeting – opportunity for discussion prior to submissions closing on our Revenue Proposal |
| 24 May 21 | Submissions close on AER Issues Paper/Powerlink Revenue Proposal. |
| 17 Jun 21 | Customer Panel meeting |
| 30 Sep 21 | AER Draft Decision published. |
| 14 Oct 21 (TBA) | RPRG meeting – discuss Draft Determination |
| 14 Oct 21 (placeholder) | AER hold Pre-Determination Conference (online). |
| 18 Nov 21 | Customer Panel meeting – discuss Revised Revenue Proposal |
| 2 Dec 21 | Powerlink Revised Revenue Proposal due to AER. |
| 11 Jan 22 | Submissions close on AER Draft Decision/PQ Revised Revenue Proposal. |
| 29 Apr 22 | AER Final Decision published. |
| Mid May 22 (TBA) | RPRG meeting – final meeting, evaluation and key learnings (two-way) and discussion on Final Decision |


Note: Proposed Customer Panel/RPRG engagement activities are shown in blue. Other activities are regulatory milestones.

Customer overview documents



- 8 customer overview documents have been published on our [website](#) so far. These cover:
 - Revenue Proposal – chapter highlights
 - Revenue determination process
 - Capex forecasting methodology
 - Opex forecasting methodology
 - Rate of Return
 - Repex modelling
 - Incentive schemes
 - Transmission pricing.

Service Target Performance Incentive Scheme (STPIS) Update

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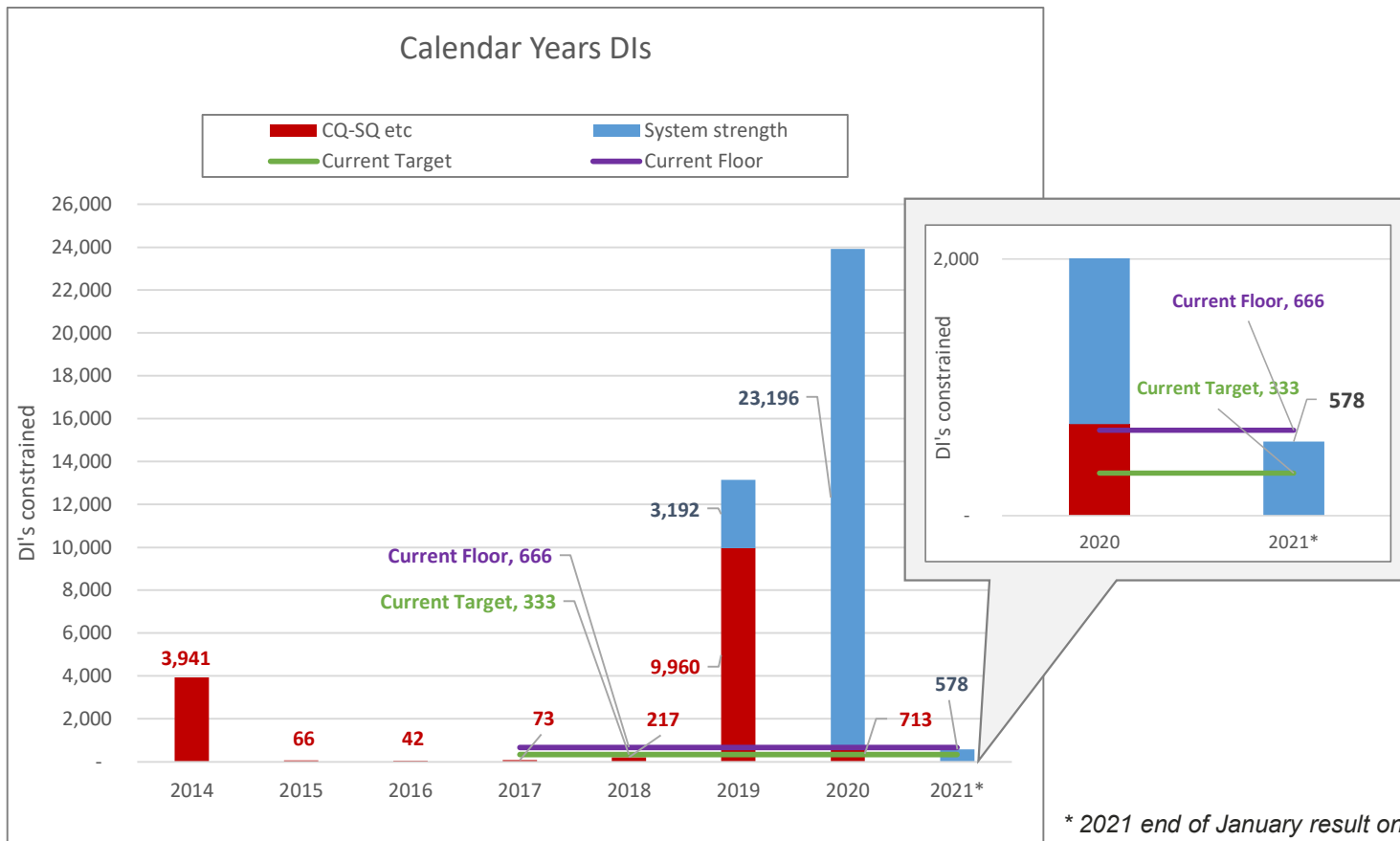
- We committed to provide an update to the RPRG on STPIS at our December 2020 meeting. This update will cover:
 - Market Impact Component (MIC) - changes in power flows and the emergence of system strength constraints have impacted and continue to impact our MIC performance.
 - Service Component (SC) - we proposed an alternative target of one in lieu of zero for the large loss of supply event sub-parameter in our Revenue Proposal.
 - Network Capability Component (NCC) - we did not propose any Network Capability Incentive Parameter Action Plan (NCIPAP) projects in our Revenue Proposal.

As a refresher on STPIS and background to this update, please read the incentive schemes customer overview sent out with this slide pack.

Market Impact Component (MIC)



Our Market Impact Component (MIC) performance has been impacted significantly in recent years.



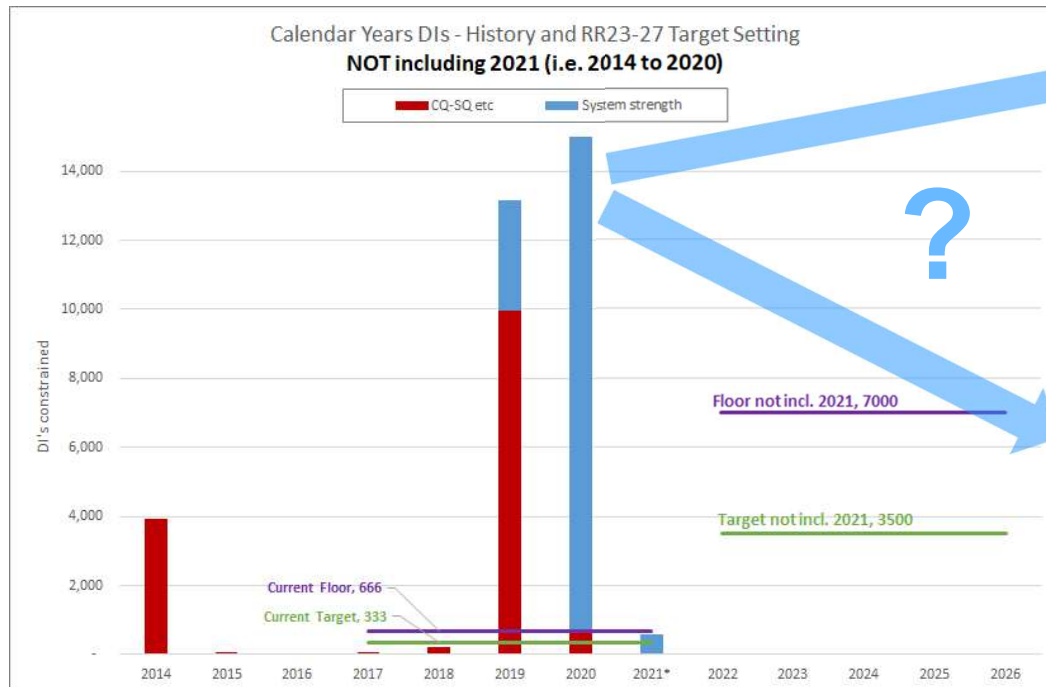
- Our network performance and operating environment has changed significantly in recent years.
- Changes in power flows and the emergence of system strength constraints have significantly impacted our MIC performance.
- The current target of 333 Dispatch Intervals (DIs) will apply to Powerlink until 30/6/2022.

Market Impact Component (MIC)



Our future performance under the MIC is highly uncertain and we have proposed that our targets are based on the most recent information available.

Target based on 2014-2020 (AER requirement)



Potential increase of the constraints:

- More renewables connecting,
- project outages,
- changing of generation patterns etc

Potential reduction of the constraints:

- Inverter turning etc

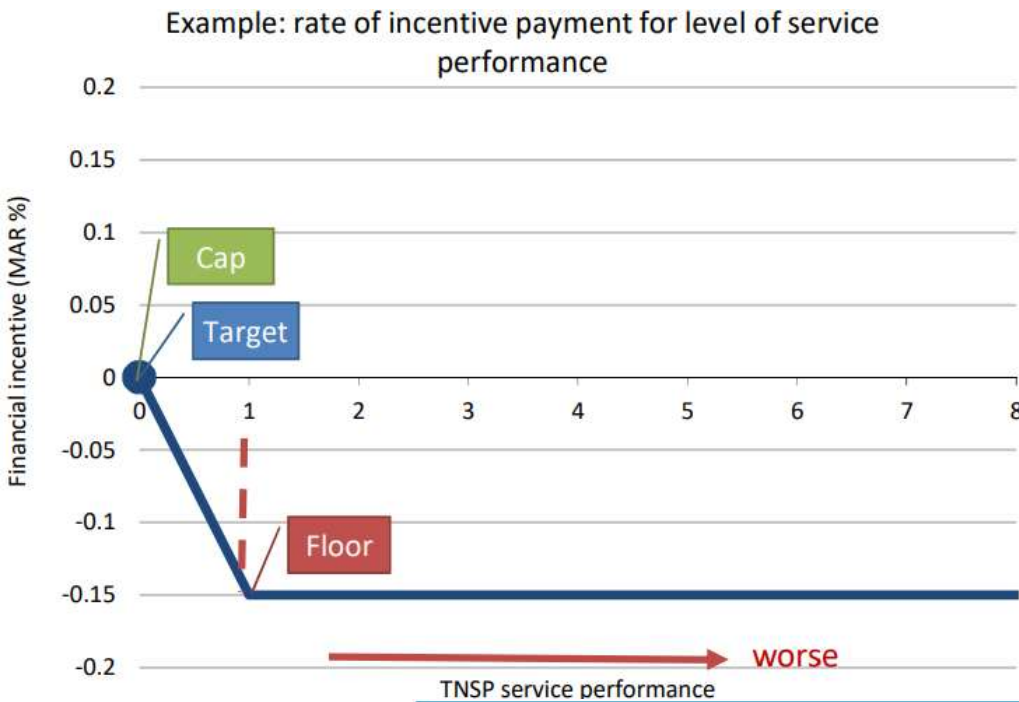
Target based on 2015-2021
(our proposed years)

- We have proposed the AER uses the most recent MIC data available for their Final Decision in April 2022 (i.e. including calendar year 2021).
- Inclusion of 2021 MIC performance data in the target setting will reduce the uncertainties that exist in the understanding of future MIC trends during the next 2023-27 regulatory period.
- Use of the most recent data for target setting will help ensure STPIS targets are fit-for-purpose.

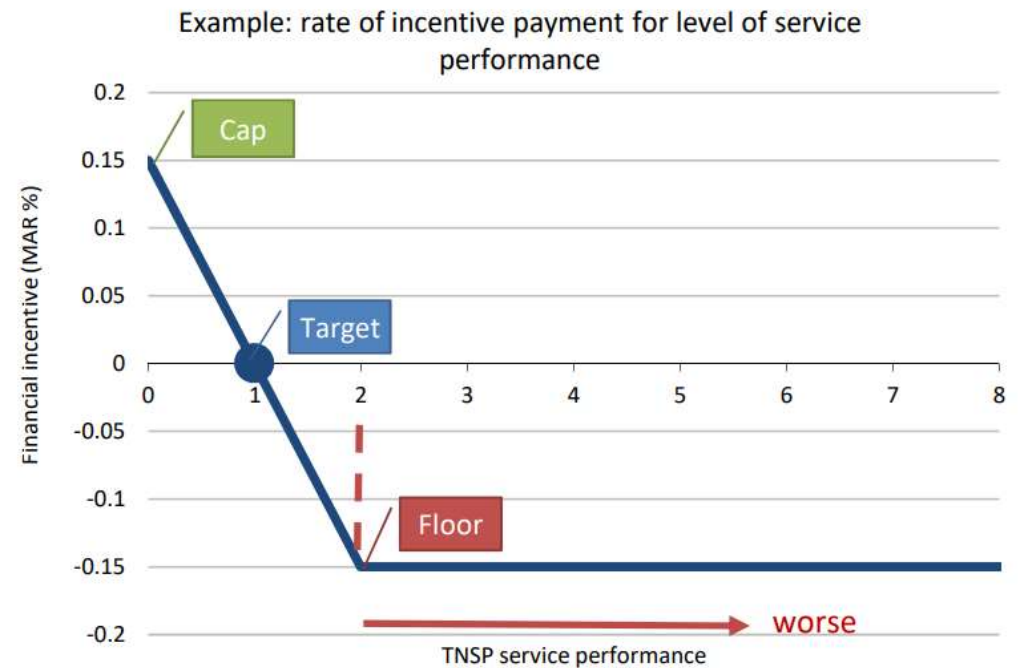
Service Component (SC)



We have proposed an alternative target of one in lieu of zero for our large loss of supply event sub-parameter.



vs.



| Incentive target | Number of events | | |
|------------------|------------------------------|----------------------------------|----------------------------------|
| | Zero | 1 | 2 |
| Zero | \$0 | Penalty of -0.15% of MAR (floor) | Penalty of -0.15% of MAR (floor) |
| 1 | Bonus of +0.15% of MAR (cap) | \$0 | Penalty of -0.15% of MAR (floor) |

Reasons for an alternative target



- A zero threshold essentially results in a penalty-only arrangement being applied for “large” loss of supply events.
- This is not in the best interests of customers. The costs to maintain a performance level aimed to meet a zero target, which are ultimately borne by customers, would be higher compared to a lower target.
- A zero target is also contrary to the intent of the scheme, which aims to incentivise Powerlink to provide service-level improvement and benefit to customers. The reason for this is that if a zero target is achieved, a TNSP would be subject to a penalty-only incentive (disincentive) for the relevant parameter/s in the future.
- Our proposed alternative target better reflects the intent and design principles of the scheme, and targets a higher level of performance than our 2018-22 target for this parameter.

Network Capability Component (NCC)



We have not proposed any Network Capability Incentive Parameter Action Plan (NCIPAP) projects in our Revenue Proposal. Potential projects will be considered in-period.

- We only look for NCIPAP projects that provide genuine customer and market benefits and therefore meet the objectives and criteria of the NCC.
- We identified 12 potential projects shortlisting to three credible candidate priority projects.
- Further reviews resulted in a range of technical issues that may impact on potential market/customer benefits. These issues require more analysis and timing/technology alignment prior to the progression of a NCIPAP.
- We will consider potential NCIPAP projects further and may propose projects to the AER within the 2023-27 regulatory period.
- We would be happy to engage with our customer panel on any potential NCIPAP projects before they are proposed in-period.

- We improved our performance in the Service Component (SC) and Network Capability Component (NCC) of the scheme during the current 2018-22 regulatory period.
- Changes in power flows and the emergence of system strength constraints have impacted our Market Impact Component (MIC) performance. This is expected to continue into the 2023-27 regulatory period.
- We proposed SC and MIC targets consistent with the AER's historical data ranges and our alternative proposed data range, which incorporates the most recent calendar year. This is to ensure our 2023-27 target incorporates the impact of significant changes in our operating environment.
- We proposed an alternative target of one in lieu of zero for the large loss of supply event sub-parameter of the SC.
- We did not propose any Network Capability Incentive Parameter Action Plan (NCIPAP) projects in our Revenue Proposal.
- We engaged WSP to independently assess the robustness of our methodology to determine the best fit statistical distributions for the SC.

RPRG feedback on our Revenue Proposal

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