



## Revenue Proposal Reference Group Meeting Minutes

<b>Date:</b> Thursday 10 August 2021	<b>Start time:</b> 3pm	<b>Finish time:</b> 4.30pm	<b>Venue:</b> Webinar	<b>Meeting no:</b> 12			
<b>Acting chair:</b> Greg Hesse (Powerlink)			<b>Minutes:</b> Sharon Iseppi (Powerlink)				
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; vertical-align: top;"> <p><b><u>Attendees</u></b></p> <p><b><u>RPRG representatives:</u></b>            Georgina Davis (Queensland Farmers' Federation)            Mark Grenning (Energy Users Association of Australia)            Claire Hamilton (Shell)            Robyn Robinson (Council on the Ageing)            Henry Gorniak (CS Energy)</p> <p><b><u>Customer Panel representatives:</u></b>            Dean Gannaway (Aurizon)</p> <p><b><u>Australian Energy Regulator (AER) Consumer Challenge Panel</u></b>            Mark Henley            Bev Hughson            David Prins</p> <p><b><u>AER</u></b>            David Chan            Slavko Jovanoski            Albert Tong            John Thompson            Mark Langeluddecke            Patrick Wu</p> </td> <td style="width: 33%; vertical-align: top;"> <p><b><u>Apologies:</u></b>            Matthew Myers</p> </td> <td style="width: 33%; vertical-align: top;"> <p><b><u>Powerlink members:</u></b>            Jenny Harris            Greg Hesse            Gerard Reilly</p> <p><b><u>Other Powerlink attendees:</u></b>            Dana Boxall            Andrew Bannister            Jacinta Grech-Holmes            Toni Umakoshi            Roger Smith            Rachael Lim            Nicole Maguire            Kiara Bowles</p> </td> </tr> </table>					<p><b><u>Attendees</u></b></p> <p><b><u>RPRG representatives:</u></b>            Georgina Davis (Queensland Farmers' Federation)            Mark Grenning (Energy Users Association of Australia)            Claire Hamilton (Shell)            Robyn Robinson (Council on the Ageing)            Henry Gorniak (CS Energy)</p> <p><b><u>Customer Panel representatives:</u></b>            Dean Gannaway (Aurizon)</p> <p><b><u>Australian Energy Regulator (AER) Consumer Challenge Panel</u></b>            Mark Henley            Bev Hughson            David Prins</p> <p><b><u>AER</u></b>            David Chan            Slavko Jovanoski            Albert Tong            John Thompson            Mark Langeluddecke            Patrick Wu</p>	<p><b><u>Apologies:</u></b>            Matthew Myers</p>	<p><b><u>Powerlink members:</u></b>            Jenny Harris            Greg Hesse            Gerard Reilly</p> <p><b><u>Other Powerlink attendees:</u></b>            Dana Boxall            Andrew Bannister            Jacinta Grech-Holmes            Toni Umakoshi            Roger Smith            Rachael Lim            Nicole Maguire            Kiara Bowles</p>
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**1. Update on progress and key milestones**

- Greg Hesse, A/Manager Revenue Reset

**Summary:**

- 11 information requests from the AER, comprising 53 questions and 149 sub-questions.
- Majority of questions have been related to capex. There have also been five capex workshops with the AER.
- Other topics have included the Efficiency Benefit Sharing Scheme (EBSS), insurance costs, cost pass throughs and clarification questions about our models.
- In addition to these activities, we have had numerous informal discussions to clarify information and build understanding.

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

Q. What is the difference between the number of information requests this time compared to the previous period, because with our RPRG hats on we felt that you'd put in a good proposal and it deserved less scrutiny, perhaps, than what you may have experienced in the past.

C. The AER would have to go back and look at some of the stats but in the past, we have seen information requests in the vicinity of around 60-odd by the draft decision stage, but just so we're comparing apples with apples, I'd have to check how many questions and sub-questions would be in those because I do acknowledge that with this particular Reset for Powerlink, some of those information requests might have been collated into one larger information request. Looking at the numbers of questions might be the better comparison.

R. We think it looks similar to our previous Revenue Proposal.

C. I'm surprised by the significant number of information requests that Powerlink has received. I thought their submission did note that whilst capable of acceptance wasn't really well-defined, the AER should actually approach its task having regard to the extent of the engagement and the materiality issues raised in the submission. In the way I've read them, the submissions don't appear to support information requests of that significance or quantum.

Q. Could the AER provide in the Draft Decision more direction and guidance around customer engagement, and provide a breakdown of those information requests between matters which are essentially not really subject to negotiation with customers and the stakeholders, and other matters? If there are questions which relate to matters which haven't necessarily been raised as significant by stakeholders, then is it not conducive to customer engagement?

R. We will provide this query on to the AER [Powerlink response].

**Actions:**

- **AER to consider including in the Draft Decision a breakdown of information requests between those matters that may be subject to engagement/negotiation with customers/stakeholders vs matters that would not be subject to engagement.**

**2. Engagement**

- Gerard Reilly, General Manager Communications

**Summary:**

- Majority of elements in the Revenue Proposal have gained support from our customers, or conditional support pending AER review.
- Key topics from submissions and our response were presented.
- Focus for Draft Engagement Plan Post Revenue Proposal Lodgement is on Customer Panel/RPRG, AER and AER CCP23 engagement.
- Broader engagement as necessary (e.g. with our directly connected customers on our Proposed Pricing Methodology).
- Very tight window for engagement between the Draft Decision and Revised Revenue Proposal (45 business days).
- Intend to get input on Revised Revenue Proposal positions and discuss capable of acceptance in October 2021.
- Further discussion with the Customer Panel/RPRG in November 2021 only if absolutely necessary on a material issue.
- Will provide an update on figures just prior to Revised Revenue Proposal lodgement.

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

- C. On the subject of specificity of the trigger raised in the CCP23 submission for contingent projects, more details have been provided to the AER after further discussions were held to provide a greater degree of specificity around the wording of the contingent project triggers.
- C. Some specific questions were asked around SVCs, a meeting took place with Aurizon to discuss that and the RAB transfer process. Is there anything you wanted to elaborate on the RAB transfer process explanation?
- R. I can't recall specifically who asked about that and wanted to know how the process works, what does the AER do, but I think the AER gave a very high-level response at the time the question was asked, but it's certainly a matter that's ongoing at the moment between Powerlink and the AER.



- C. Powerlink is intending to publish in the next few weeks a document which is our summary of all the key elements of the submissions that we have received and how we're going to go about dealing with those as part of this process. This will be emailed and available on the Powerlink website.
- Q. Based on previous history, you conduct an annual Transmission Annual Planning Report (TAPR) forum, but every four or five years it coincides with the Revenue Proposal, have you found the questions that you received in those TAPR forums has resulted in an updated or new input to your final Revenue Proposal?
- R. We used to have the Transmission Annual Planning Report or the TAPR forum, and that's actually evolved over the last four to five years into what we call our Transmission Network Forum (TNF). That's the event that we're hosting on 3 September to discuss high-level issues. At last year's TNF, Matt Myers gave a dedicated presentation on where we were up to in terms of the development of the Revenue Proposal and we did receive some commentary on that. I couldn't tell you exactly right now exactly how the feedback we received at that particular session influenced the proposal.
- C. Input received from the last TAPR session was considered. Questions that were asked about cyber security were investigated. Some customers were also interested (not necessarily customers who spoke up at the forum but contacted us afterwards) to make sure that was there anything associated with them in their developments, which our planners take into account. Typically for the Revised Revenue Proposal, there isn't really a whole lot of time to make any substantial change. The other thing we need to keep in mind too is a lot of this is set around what we proposed to the AER in our original Revenue Proposal, so then it's back and forth over what things have been revised. We cannot include completely new content.
- C. The point is that it is another forum in your engagement cycle that you could argue is certainly an opportunity for quite a diverse group of participants to provide you with feedback and insight.
- C. The timing for the Transmission Network Forum is unfortunate. If there was an opportunity to hold it prior to the Revised Revenue Proposal, this would give that broad group of stakeholders an opportunity to comment on the Draft Decision and/or Powerlink's proposed response. I think that would close the loop. In the program that you've set out to date, I'm not seeing an opportunity for broader stakeholders to have a say about the Draft Decision or your plans for the Revised Revenue Proposal.
- R. This is a good point and definitely something for Powerlink to consider.
- C. You may wish to add a new item in your Draft Engagement Plan Post Revenue Proposal Lodgement under the heading for October to December 2021 a reference to the AER Public Forum on 14 October 2021, to highlight Powerlink's participation in the upcoming draft decision pre-determination conference. [AER comment]

- C. I agree with the comments about potentially scheduling the Transmission Network Forum in association with Revised Revenue Proposal timing but overall I think this is a reasonable plan given the 45 day constraint you have. I think what you've shown in the past is that you're flexible to expand on this based on the Draft Decision. If for example you receive information in the Draft Decision that says there are problems in 10 major areas, I'm sure you would recognise that and adapt as required.
- R. Yes, if something comes out of the Draft Decision and there is value in having a conversation with our customers and stakeholders, we will do so. We are always conscious of people's time and resources and not getting everyone together unless there is a meaningful conversation to be had.

**Key action**

- **Powerlink to consider rescheduling the Transmission Network Forum to occur post the AER Draft Decision being received.**

**3. Capital Productivity**

- Greg Hesse, Stream Lead Capital Expenditure

**Summary:**

- Both the CCP23 and the EUAA submissions to our Revenue Proposal raised the issue of declining capital productivity, as measured through the AER Annual TNSP Benchmarking Reports.
- Our Customer Panel also raised the issue of capital productivity at their meeting in June 2021.
- Stakeholders have suggested consideration should be given to having an explicit capital productivity target, similar to operating expenditure (opex) productivity.
- Capital productivity is one of the benchmarking metrics published by the AER in their annual TNSP benchmarking report.
- Capital productivity is measured as the ratio of physical outputs to physical inputs.

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

- Q. To simplify things, you are saying that Powerlink assets are there but they're delivering benefits or productivity in ways that aren't being overtly measured due to the changing role of the network compared to 10 years ago?
- R. Due to changes in technology, it is no longer just about the energy, gigawatt hours, transferred out across the network, there are all these other things being transported or relying on or leveraging off the transmission system infrastructure that aren't being captured in those measures.

- C. Would the AER would like to respond? [Powerlink question]
- R. The Opex Team are not on the call to make comment, but the point was well made when Powerlink took the AER through the capital productivity 12 months ago. I cannot recall the specifics of the conversation but the discussion was about the way it is currently measured and that it isn't as good as it could be. Happy to circle back with information if it is required. [AER response]
- R. From the CCP23 perspective, we support Powerlink's analysis and request for further investigation. We particularly identified it across the board in the context of the ISP projects, which will ultimately add to the assets but won't necessarily change the flow of energy through the system. So, the ratio becomes distorted and needs to be reconsidered. We appreciate the extra insights into the other services Powerlink are providing.
- C. I appreciate the presentation - it is fascinating - and look forward to the AER's response to it.
- Q. Question on slide 18 (The Evolving Role of Electricity Transmission): I think the logic flows because transmission systems are now providing these additional services (e.g. system strength, inertia etc.) that are improving productivity which is not registered in the current methodology. Is it too simple to say that because you're improving your productivity, someone has lower productivity and if so, who or what? Because these services are being provided by different parties than what they were before. So, do we say that generators' productivity has fallen?
- R. That is a really good question, and we hadn't thought of it from that perspective. We focused from a transmission perspective. There are two parts to that: there is the actual source of the service, whether that's a synchronous machine/condenser/grid forming battery etc. and the actual use of the transmission network that ties it all together. The latter now doesn't necessarily follow the gigawatt hours energy flow across the network. This is something to think about the overall supply chain aspect.
- C. ElectraNet has put into commission several synchronous condensers. It is not their existing transmission system that is providing the system strength, it is a new bit of kit providing it. It is not immediately obvious that ElectraNet's productivity would go up. Their inputs have increased by a whole bunch of synchronous condensers.
- R. It has been illustrated by the point that we really need to step back and think as these things get sliced different ways. That, as said before, the energy used to capture everything. Now, when things get sliced different ways and different people can provide different parts of that, this whole benchmarking measure and being able to compare in effect one TNSP to another in very different circumstances – previously, you could think they're all based around central generating stations, whether it's La Trobe Valley or the Hunter Valley, but they've got large central generating stations transporting bulk electricity to large areas, they can be comparable.
- Depending on how they develop now, yes, ElectraNet's capital inputs will seemingly increase, but there's no corresponding measure of an increase in the output as a result of that, even though from a service level provision, clearly there has been.
- C. Going forward, we have to take a system perspective because consumers might benefit overall by the ISP projects giving access to cheaper electricity and the supporting things that the networks build in order to support expansion in renewables and cheaper electricity costs, but none

of that will be reflected in the transmission productivity. It will sit in the productivity of the total system, not in the productivity of the individual components.

R. Happy to take on board these comments.

C. I don't have a comment specifically on capital productivity but I think what this slide's showing (no.18) is directly related to one of the questions we're asking of the AER and that is how existing transmission assets, either prescribed or negotiated, are changing in their use, in the way that the network is evolving, and how that change in use is being reflected in the RAB and relevant prices and cost allocations. So, I think this slide is indicative of that change of use.

C. If the AER representative could provide this information back to the AER, it would be appreciated.

Q. This is a question for the AER then – if the inputs and outputs aren't changing and the \$800 million capex is largely repex, what is the mechanism by which the AER is going to assess the prudence and efficiency of that spend?

R. Happy to take the question offline as the relevant staff are not on the call. [AER response]

#### **Key action**

- **Powerlink to collect and collate questions from the Customer Panel and RPRG to be provided to the AER for response.**

#### **4. Demand Management Innovation Allowance Mechanism (DMIAM) - Greg Hesse, Stream Lead Capital Expenditure**

##### **Summary:**

- The AER's Final DMIAM Guideline, published on 27 May 2021, provides for funding to undertake R&D demand management projects that are not part of the efficient expenditure of the business.
- We forecast the DMIAM would provide Powerlink with up to an additional \$3.3 million of opex for these projects in the 2023-27 regulatory period.
- We have reviewed the types of projects we have been considering as candidates for the DMIAM. Where we can identify benefits to customers, we will assess these opportunities as part of our normal business activities, including our innovation framework.
- We have concluded that we do not wish to be funded for expenditure that will not otherwise be considered efficient.
- We have written to the AER to ask that the DMIAM not be applied to Powerlink's 2023-27 regulatory period (refer to letter sent to the Customer Panel on 9 July 2021). We consider the AER has the discretion to not apply the DMIAM.

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

- C. Just to reinforce – we are not saying that we will not be doing innovation for the next five years, rather it will be included in our existing BAU innovation framework.
- Q. What is the impact of Powerlink not proceeding with DMIAM and does this come straight off the opex allowance?
- R. It is a separate allowance. The opex allowance represents the efficient opex expenditure, this is on top of that and does not affect the main opex allowance.
- Q. Thinking of the rationale for not proceeding with the DMIAM, it seems that the argument is that nobody should proceed with it because it is funding inefficient expenditure. Are you being critical of the design of the scheme?
- R. No, it reflects an honest reflection of where Powerlink is in our approach and that we would be generally, in the first instance, look for upfront identifiable benefits to our customers through expanded network capability. We don't think it has universal application, it's a Powerlink view of the world.
- Q. Thank you for exploring the subject. In previous Powerlink Revenue Proposals are there any examples of projects that did occur that came under this mechanism? That might help us better understand this topic.
- R. It is a new feature in the regulatory framework. The closest analogy would be the Network Capability Incentive Parameter Action Plan (NCIPAP) component of the STPIS. This still relies on there being an overall net benefit to customers over a period. The intention was for networks to undertake small improvement pieces that might be a bit more discretionary and didn't always get the profile in the business. Powerlink has always been very selective in our approach to the NCIPAP and in our Revenue Proposal this time around we didn't propose any projects to put forward under that category.
- C. The DMIAM scheme is not intended to fund inefficient projects, its purpose is to provide funding for research and development projects in demand management that have the potential to reduce long-term network costs, which is written in the rules. There are very stringent criteria for which projects can be funded under the scheme. If Powerlink does not wish to proceed with the DMIAM scheme and wishes to undertake projects with funding from their shareholders, that would be their decision to make. [AER response].
- R. Powerlink isn't suggesting that we are going to fund it from shareholders. We are saying we will actually do that as part of our BAU innovation approach.
- Q. It is appreciated that Powerlink doesn't want to raise prices without the need for it, or to raise expectations that you were going to actually use that funding, so that is welcomed. Is the challenge here that Powerlink hasn't been able to identify any foreseeable projects that fit within the scope of the scheme, or is it the scope of the scheme itself is too narrow or poorly defined?

- R. Powerlink doesn't believe the scope of the scheme is too narrow or poorly defined. Powerlink, through the ENA, contributed to the development of the scheme and several features in there we thought would be really useful – like Network Service Providers being able to pool their allowances to pursue joint projects across network boundaries. If we were to step back and say what are the things we are really interested in and would fit best with what Powerlink is wanting to do, how we are set up, and where we see the opportunities, we thought they are probably not the sort of things the DMIAM should be funding. For that reason, maybe it isn't appropriate for us as part of this cycle.
- C. A large part of this decision goes to Powerlink management trying to further push an internal culture of constructive discomfort. That has come down very strongly, and that's about trying to push staff to think outside the box more, leverage the innovation framework and trying to ensure that if we come up with a good idea and think that it is great and deliver more value for our customers, that they come in as part of BAU. Similarly, Powerlink does not want to be asking customers for any more money than we thought was necessary for us to do what we needed to do.
- C. I appreciate Powerlink's position and note there is not anything that says you have to have something under the DMIAM. You have that discretion. I appreciate Powerlink's comments around not having to ask for more money unnecessarily and to use business as usual to go that extra mile for what I think you called 'constructive discomfort' as part of the culture.
- Q. When I consider Powerlink's perspectives on this topic, I come back to the overall question of what is the DMIAM scheme supposed to be. I think part of the challenge is that you don't quite know whether something will come out of these innovation projects that's in the long-term interest of consumers. The AER is offering some research and development money to get you to the position where you will be able to decide whether a potential initiative actually has legs or not. If Powerlink wants to manage that process themselves, I think that's fine. I think there's also a divide between what's in the long-term interest of consumers, but it's not a requirement of the regulatory process in its own right. Some stakeholders might say you ought to be doing anyway but there isn't a regulatory requirement set in stone for you to actually do it. I'd be interested in terms of when you do use the incentive scheme, how you see that working? What's the incentive scheme really intended to do for you? Because if you are always acting in the interest of consumers and it is clear cut what is long-term interest, why would you ever participate in any incentive scheme that was optional?
- R. DMIAM is an allowance not an incentive scheme. You only recover your direct costs spent on these projects, there is no bonus associated to incentivise you to take part. This is a distinction compared to distribution where there is both an allowance and bonus component. Secondly, where businesses have come from historically, like when the NICPAP component of the STPIS was being introduced, a lot of the things that were being highlighted and put forward were some of the low hanging fruit, and within Powerlink, we were already doing that within our base opex.
- R. Powerlink's position on this is not unreasonable, I appreciate Powerlink's comments and the effort that has been put into seeing what reasonable expenditure is to ask consumers to pay for and I welcome your willingness to fund that internally.

Q. What has been the position of other networks because ElectraNet has already been through this – did they take a similar position?

R. DMIAM for transmission is only new. The only other example is AusNet who have received their Draft Decision. At the time of their Revenue Proposal, they didn't have a lot of detail on the initiatives they might like to undertake but I do believe they were looking at part of the scheme.

## **5. General business**

**Verbal update was provided on the latest inflation data released from the RBA.**

### **Summary:**

- Recent inflation data has been released for June 2021 and there has been a significant increase in inflation compared to the position that had been previously expected.
- At the time of our Revenue Proposal, the outlook from the RBA for inflation to the end of June 2021 was about 2.25 per cent and the actual was 3.85 per cent, 1.6 per cent up.
- The implication of that in relation to the Revenue Proposal is primarily in how you refer our actual opex in the current period in real terms, in 21/22 dollars with updated inflation.
- In terms of how you view the actual opex in the current period, holding all other assumptions constant, Powerlink is likely to be impacted by around \$12 million or \$13 million within the current period. This will need to be considered in terms of when we look at our opex and no real growth strategy from the current period to the next period. It is not about actually spending more opex in the current period, it's just how the same expenditure translates into 21/22 dollars. It is a significant difference from a forecasting perspective compared to where we were at with the Revenue Proposal six months ago.
- In our Revenue Proposal we adopted the standard AER modelling assumptions of using the RBA's statement of monetary policy outlook at the time, so it was what would have gone into standard AER models at that time and the increase has occurred since then.

### **Comments (C), questions (Q) and response (R)**

Q. What is the process regarding the increase in inflation? With advanced warning, which in this case there is, can an update or revised proposal be submitted? What about during the next five years, what scope is there if there's a major jump? It's not unlikely this could happen, it's just more a case of when. How will you deal with those large deviations in inflation?



R. The issue with this one, is what it means within the current period rather than in the next period. In the regulatory framework and the models there is a degree of self-correction within the regulatory period to those shifts in inflation between forecast and actual. This is primarily within the current period. What that translates to in the constant dollars in the final year of the regulatory period, that's the primary issue that we're considering at this point and haven't thought too much further into the next regulatory period.

**5. Meeting closed 4.20pm**