

2023-27 Revenue Proposal

Revenue Proposal Reference Group

10 August 2021



- Update on progress and key milestones.
- Engagement.
- Capital productivity.
- Demand Management Innovation Allowance Mechanism (DMIAM).

A large, light gray circular graphic containing a map of Queensland. A white line with circular nodes represents a power line route along the eastern coast of the state. The text "Progress update" is overlaid on the map.

Progress update

Upcoming regulatory milestones



* dates indicative.

- 11 information requests, comprising 53 questions and 149 sub-questions.
- Majority of questions have been related to capex. There have also been 5 capex workshops with the AER.
- Other topics have included the 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.

Engagement

A large, light gray circular graphic containing a map of Queensland. Overlaid on the map is a white line representing a power transmission route, which starts in the southeast and extends towards the north. Along this route, there are several small white circles representing substations or connection points. The word "Engagement" is written in a large, black, sans-serif font across the center of the map.

- Majority of elements of the Revenue Proposal have gained support from our customers, or conditional support pending AER review.
- Key topics from submissions and our response:

Topic	Response
Capital productivity	<ul style="list-style-type: none">• For discussion today.
Capable of Acceptance criteria	<ul style="list-style-type: none">• Integrate suggested additional criteria into our Revised Revenue Proposal.
Engagement breadth	<ul style="list-style-type: none">• Seek to build in further breadth of engagement as part of BAU.
Contingent project trigger	<ul style="list-style-type: none">• We have proposed a more specific trigger to the AER.
Meeting our opex productivity	<ul style="list-style-type: none">• For ongoing consideration throughout the next regulatory period.
Cost Allocation Methodology	<ul style="list-style-type: none">• For discussion and consideration for the 2028-32 regulatory period.
Aurizon SVCs	<ul style="list-style-type: none">• One-on-one meeting held with Aurizon in July 2021 to discuss.
RAB transfer process explanation	<ul style="list-style-type: none">• For AER consideration.

- Further detail will be available in our Response to Revenue Proposal Submissions document.

- Focus 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.

2021 Engagement Timeline



	2021											
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Regulatory milestones	Powerlink lodges Revenue Proposal		AER releases Issues Paper and calls for public submissions	AER Public Forum	Closing date for public submissions				AER Draft Decision	AER Pre-determination Conference		Powerlink lodges Revised Revenue Proposal
Engagement activities			RPRG meeting Customer Panel meeting	AER Public Forum Customer Panel meeting [#]	Customer Panel meeting and Customer Panel meeting [#]	Customer Panel meeting		RPRG meeting	Transmission Network Forum	Customer Panel meeting		
	One-on-one briefings as required											

Meeting was without Powerlink attendance.

Is our Draft Engagement Plan reasonable?

How will customers provide views on Capable of Acceptance post the Draft Decision?

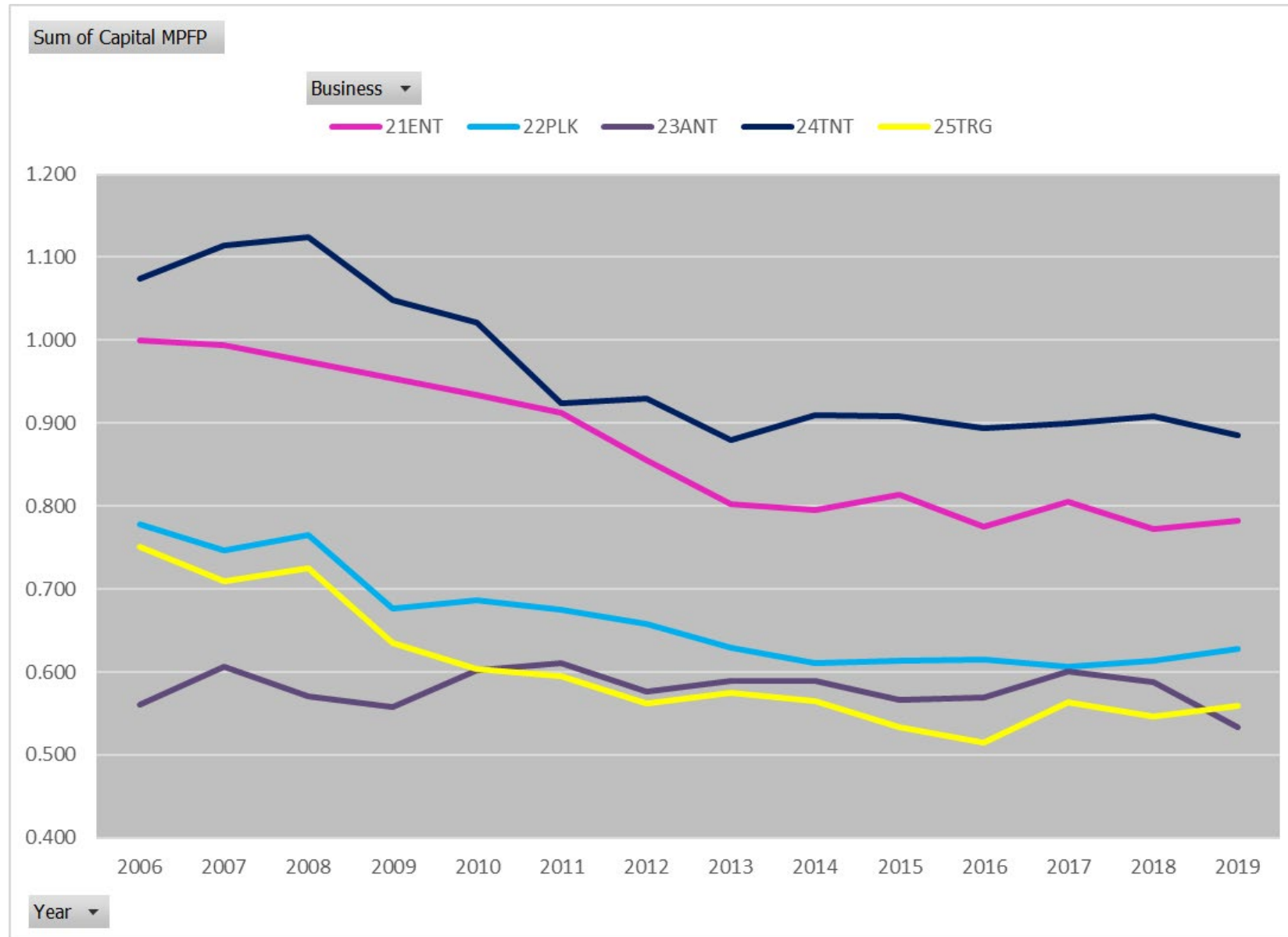
Capital productivity

A large, light gray circular graphic containing a map of Queensland. Overlaid on the map is a white line representing a power transmission route, with several small circles indicating substations or key points along the line.

- Both the CCP 23 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 productivity.

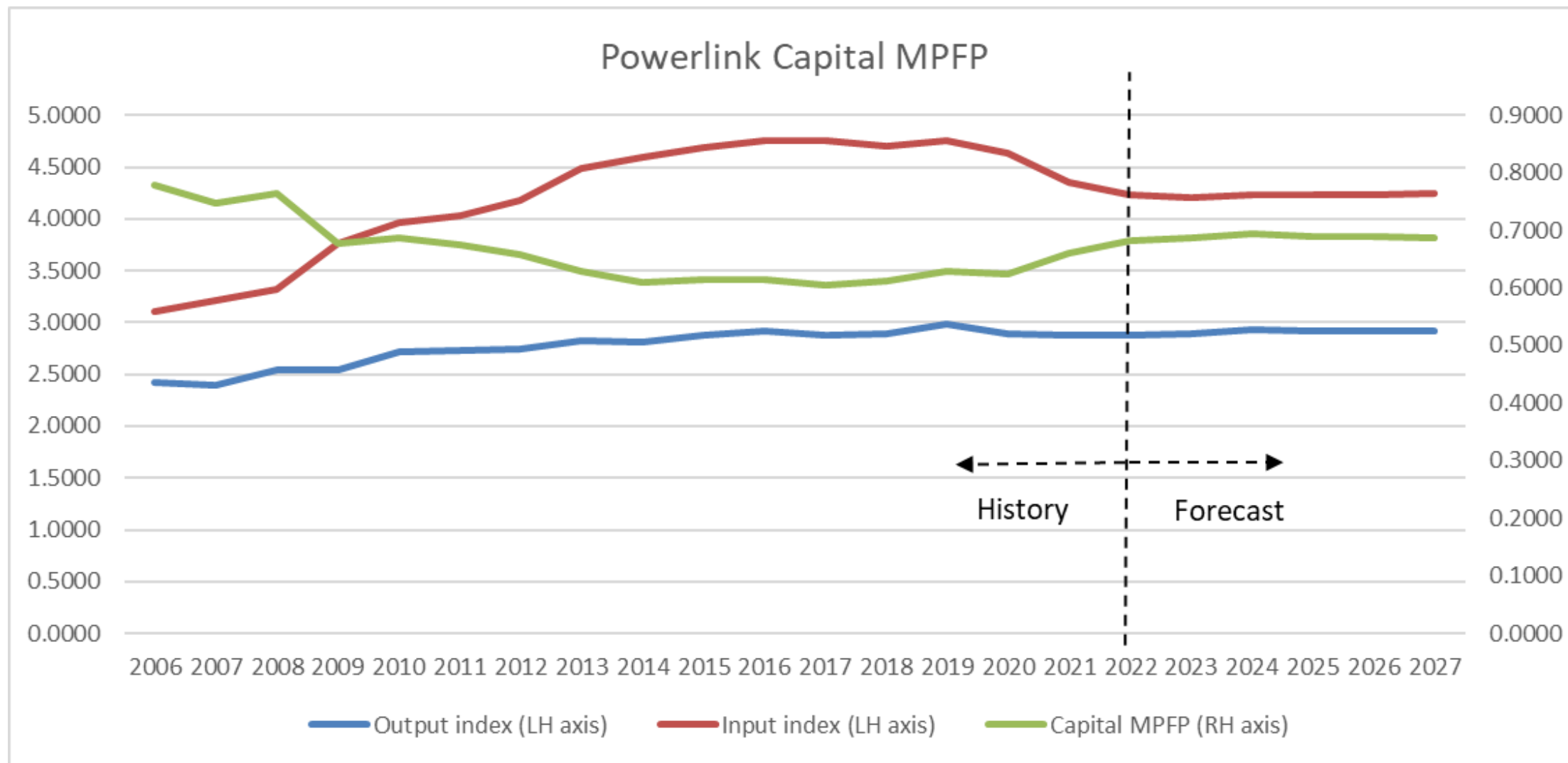
- Capital productivity is one of the benchmarking metrics published by the AER in their annual TNSP benchmarking report.
- Capital productivity is measured as the ratio of physical outputs to physical inputs:
- Outputs are:
 - annual energy delivered across the transmission network (GWh) ~ 15%
 - maximum demand supplied across the transmission network (MW) ~ 25%
 - number of customers supplied (transmission + distribution) ~ 8%
 - length of transmission circuits (km) ~ 53%
 - energy not supplied (MWh) – a negative output ~ -1%
- Inputs are:
 - capacity of overhead transmission lines (MVA.km) ~ 38%
 - capacity of underground transmission cables (MVA.km) ~ 2%
 - capacity of transmission network transformers (MVA) ~ 60%

Capital productivity



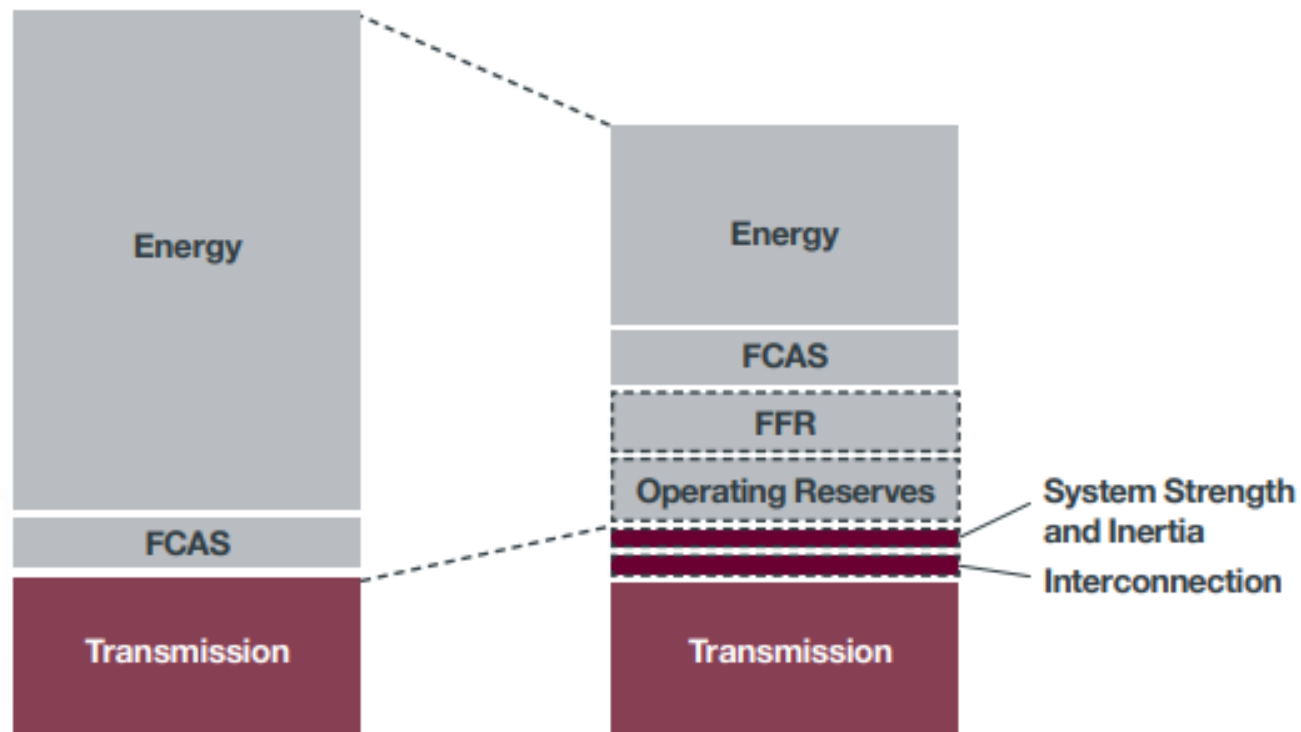
- Capital productivity is not determined directly by the level of capital expenditure, particularly when capital expenditure is predominantly reinvestment in existing assets.
 - If existing physical capacity of the network is maintained then the input measure is insensitive to the level of capital expenditure.
 - Conversely, if a small amount of capital expenditure provides significant additional capacity it can strongly affect capital productivity.
- Capital productivity does not translate directly into costs to consumers, in the way the operating expenditure productivity does.
- Our Revenue Proposal forecasts no material change in the physical capacity of the network, so even reducing forecast capital expenditure to \$0 will not improve capital productivity.
- For these reasons we do not propose a capital productivity target to be reasonable.

Capital productivity forecast



- The specification for measuring capital productivity reflects the power system of 10 years ago, where almost all electricity was moved from large central generating stations across the transmission network and delivered to distribution networks and large direct-connect customers.
- Through the energy transition a number of essential system services that were previously bundled with energy are being separately identified, procured and paid for – e.g. system strength and inertia. These separate essential system services still rely on the transmission network to be effective, but their use of the network is not included in the specification of the output measure used for benchmarking.
- The current benchmarking specification is becoming increasingly disconnected from how the power system is now being developed and operated. The input still captures the physical capacity of the equipment being used to provide transmission services, but the output does not include the full suite of services that the transmission network is providing.
- We consider that the current specification is now likely to be understating TNSP productivity.

The Evolving Role of Electricity Transmission



FCAS - Frequency Control Ancillary Services
FFR - Fast Frequency Response

Source: ElectraNet Preliminary Revenue Proposal, July 2021
Diagram is for indicative purposes only.

A large, light gray circular graphic in the background contains a map of Queensland. Overlaid on the map is a network of white lines and circles, representing a power transmission system. The text is centered over this graphic.

Demand Management Innovation Allowance Mechanism (DMIAM)

- 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 operating expenditure 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.

Is our DMIAM position reasonable?

