

# Asset Reinvestment Review Working Group

11 March 2022

# Agenda

- Introductions
- Engagement Approach
- Roles & Responsibilities
- Background to Asset Reinvestment Review
- Investment context
- Initial views on scope

# Introductions

## ARR Working Group Membership

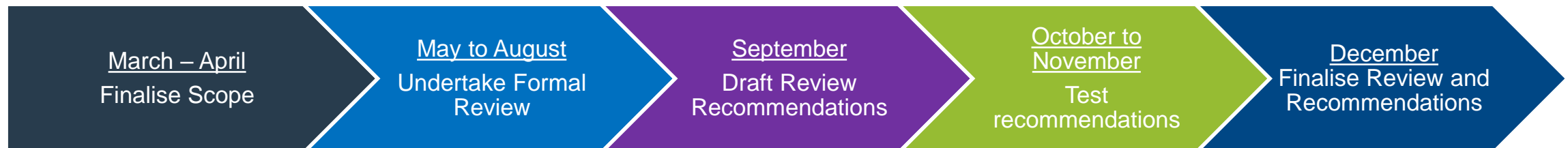
- Mark Henley, Uniting Communities
- Bev Hughson, Darach Energy Consulting Services
- Chris Hazzard, St Vincent de Paul
- Mark Grenning, EUAA
- Andrew Broadbent, CS Energy
- Albert Tong, AER Representative
- Paul Ascione, GM Asset Strategies & Planning
- Gerard Reilly, GM Communications, Customer & Engagement
- David Gibbs, Manager Asset Strategies
- Lutfiye Manli, Manager Asset Management System
- Nathaniel Dunnett, Manager Portfolio, Planning & Optimisation
- Jules Taylor, Customer Strategist

# Engagement Approach

- **Engagement Objectives**

- Enable in-depth and timely discussion on key elements of the asset reinvestment review, including its scope
- Ensure customer, stakeholder and AER insights are heard and considered
- Build understanding of Powerlink's asset reinvestment requirements.

- Establish ARR Working Group, but with a commitment to keeping our wider Customer Panel updated



# Review Background

- AER stated that Powerlink's current asset reinvestment models are well developed and generally provide a reasonable assessment of the expected benefits of the proposed investment
- The AER did identify areas for further improvement in the repex asset management approach, particularly in relation to transmission lines replacement expenditure with an opportunity to take a more targeted economic risk-based approach.
- Powerlink's current asset management practice for transmission lines includes compliance in its approach

## Timing

- Committed timeframe for completion of review is by 30 June 2023
- We will seek to adopt improvements identified through the review as soon as practicable over the remainder of the 2023-27 regulatory period

# Typical Compliance Approach

## Compliance based

- the need and timing for intervention on network assets based on meeting industry compliance obligations
  - Reinvestment is triggered when compliance requirements are not at acceptable level
  - Compliance requirements include complying with the Electricity Act 1994 (Queensland), National Electricity Rules, Electrical Safety Act (Queensland), Electrical Safety Regulations and associated Codes of Practice, Work Health and Safety Regulations, and relevant standards and guidelines.



# Typical Economic Risk-based Approach

## Economic Risk based

- the need and timing for intervention on network assets based on economic risk
  - o Reinvestment is triggered when risk cost exceeds the cost of intervention, based on the assumption that assets are replaced when the annual risk cost is greater than the annualised asset replacement cost
  - o Risk cost = Probability of Failure x Consequences of Failure (\$)

Consequences categories : Network, Safety, Financial , Environmental

		Condition (Likelihood)				
		C1	C2	C3	C4	C5
Asset Criticality (Consequence)	>10 times replacement cost	Orange	Orange	Orange	Red	Red
	<=10 times replacement cost	Yellow	Orange	Orange	Red	Red
	<=3 times replacement cost	Yellow	Yellow	Orange	Orange	Red
	<=1 times replacement cost	Green	Yellow	Yellow	Orange	Orange
	<=0.3 times replacement cost	Green	Green	Yellow	Yellow	Orange

Example

# Powerlink Investment Context

All investments involve assessments and trade-offs

Ross Chalumbin  
Transmission Line  
Replacement





# Initial Scope view

Asset reinvestment framework needs to:

- Consider the social licence to operate over the asset life
- Be consistent with good electricity practice
- Align with the AER guideline
- Needs to consider best practice approach used by other utilities
- Be predictable and repeatable

The initial scope needs to focus on both the prudence and efficiency elements of reinvestment capex and look at matters such as:

- our risk-cost modelling
- the extent to which an economic risk-based framework informs network asset reinvestment decisions,
- the role of deterministic criteria in an economic assessment framework
- the balance between capital and operating expenditure.

# Key Questions

- Are there other key aspects we need to include as part of the review scope?
- What key information would help enable your participation and input?

# Next Steps

- Powerlink will circulate an updated scope document
- Start to identify information required to assist discussions
- Feedback from Working Group on approach and first meeting

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