

## Revenue Proposal Reference Group Meeting No.1

Details of Meeting	
Date and time of meeting	09:00 – 12:00, Wednesday 12 February 2025
Location	Powerlink Offices, Virginia
Attendees	Organisation
<b>RPRG members – customer representatives</b>	
Alicia Kennedy	Queensland Farmers' Federation (QFF)
Chris Hazzard	St Vincent de Paul Society
Katie-Ann Mulder	Queensland Renewable Energy Council (QREC)
Mark Grenning (online)	Energy Users Association of Australia (EUAA)
Michael Bray	Aurizon
<b>RPRG members – Powerlink representatives</b>	
Roger Smith (RPRG Chair)	Director Revenue Reset
Gerard Reilly	General Manager Communications, Customer and Engagement
Jenny Harris	General Manager Network Regulation
<b>Guests and speakers</b>	
Jacqui Bridge	Executive General Manager Energy Futures
Aidan Lawlor	Capex Lead, Revenue Reset Team
Michelle Beavis	Opex Lead, Revenue Reset Team
Nina Zhuang	Finance Lead, Revenue Reset Team
Wendy Miller (online)	Customer Strategist
Eleonore Bridier (online)	Customer Engagement Specialist
<b>Invited stakeholders</b>	
Steven Spencer (online)	Australian Energy Regulator (AER)
David Prins (online)	AER Consumer Challenge Panel No.34
Mike Swanston (online)	AER Consumer Challenge Panel No.34
<b>Apologies</b>	
Robyn Robinson	Council on the Ageing (COTA)

## Meeting Agenda

1. Welcome and informal introductions
2. Operating environment and context
3. Engagement approach
4. Framework and Approach paper update
5. Capable of acceptance criteria
6. Preliminary positions and initial forecasts

## Overview / Notes of Meeting

At the start of the meeting, informal introductions were given by members of the Revenue Proposal Reference Group (RPRG), observers, guests and speakers, together with members of the full Revenue Reset Team.

### Operating environment and context

Jacqui Bridge, Executive General Manager Energy Futures, provided an overview of the operating environment and the context within which the Revenue Proposal is being prepared, specifically highlighting the differences between the current environment and that when the previous Revenue Proposal was submitted in 2020/21.

### Discussion, questions and responses

It would be helpful to understand the operating environment context, e.g. drivers of cost – maximum demand, minimum demand, usage, etc. – and how this might drive Powerlink's approach.

1. Regarding evolving policy, how will Powerlink frame its policy context for the Revenue Proposal?
  - a. There is a lot of work that needs to be progressed irrespective of policy settings. The Queensland Government has indicated that they will release an 'Energy Roadmap' toward the end of 2025, which will inform the Revenue Proposal in January 2026.
2. While it is understandable why the minimum demand is getting lower and the slope of the of the ramp-up is getting steeper, what is driving the rise in the peak?
  - a. Maximum load continues to grow in recent years – in response to population growth, etc. – but has been masked to a certain extent by additional generation in the distribution network, hence the decreasing minimum demand. This is illustrated by the fact that we had a new record for maximum demand this year.
3. In terms of equipment costs, are any of those increases a rollover in issues of supply chain from the COVID period or is this just generally what you would expect?
  - a. The cost increases appear to be related to the global demand for equipment – most governments have net zero targets which is driving a significant amount of investment.
4. Do we have a feel for what's contributing to the 30% cost increases [*referenced by AEMO in the 2024 Integrated System Plan*]?
  - a. The cost increases are as reflected in the estimates provided by individual network businesses to AEMO. While Powerlink does not have a specific breakdown of each estimate, based upon its own experience, the cost increases are driven by general increases across all elements of delivery, in response to global demand and scarcity of skilled labour.

## Engagement approach

Gerard Reilly, General Manager Communications, Customer and Engagement and Engagement Lead for the Revenue Reset Team, provided an overview of the engagement approach undertaken to date and planned throughout 2025, emphasizing the importance of building capacity in customer representatives and advocates. He highlighted the role of the customer panel and the need for meaningful feedback and input from members to ensure a comprehensive engagement process.

Gerard and Wendy Miller, Customer Strategist, discussed the potential to leverage the existing Queensland Household Energy Survey to gain valuable insights for the Revenue Proposal.

### *Discussion, questions and responses*

There was general support for the consideration of leveraging the Queensland Household Energy Survey to broaden engagement and input to the revenue determination process, but a need to consider the energy literacy of the average householder. While the survey provides valuable input to the planning and forecasting processes, there was a question as to whether it would be suitable to address issues more directly related to transmission.

The RPRG considered whether the topic of how much a customer would be willing to pay so that others may benefit, i.e. public good versus individual household interest, or whether a question could /should be framed to determine customers' understanding and appetite for balance of risk in relation to climate, cyber or reliability:

- upfront cost to mitigate risk versus cost pass-through;
  - risk borne by customer versus risk borne by Powerlink;
  - how this might differ with changing cost thresholds or timeframe, i.e. intergenerational impacts; and
  - are customers prepared to take more or less risk.
5. What are the existing questions on the survey?
    - a. Powerlink to circulate the most recent list of questions together with indicative responses / insights.
  6. How might a question be framed to determine a customers' approach to risk?
    - a. Powerlink to develop and circulate potential survey questions related to risk appetite and asset resilience for feedback.

## Framework and Approach paper update

Roger Smith, Director Revenue Reset, provided an update on the framework and approach consultation process, explaining that Powerlink wrote to the AER on 30 October 2024, formally commencing the revenue determination process. The AER expects to publish a position paper on the Framework and Approach (F&A) in March 2025 for public consultation, with the final F&A paper to be published by 31 July 2025.

### *Discussion, questions and responses*

7. What sort of involvement will the RPRG have on the development of the hybrid approach to capex forecasting methodology?
  - a. This will be discussed in more detail at the RPRG meeting in March, where Powerlink will present a proposed approach – need justification, documentation, etc. – and seek feedback from the RPRG. Powerlink's expectation of the hybrid approach is that it will consist of a mixture of 'bottom-up' forecasts with 'top-down' and trend analysis.

8. The RPRG would appreciate an additional opportunity to consider the proposed methodology in greater detail.
  - a. Powerlink will arrange a dedicated session to enable a deeper dive into the proposed methodology (after the RPRG meeting in March).
9. In respect to the negative carryover, what does this mean for the current Revenue Proposal; is it an application to recover more revenue in the next period because Powerlink has under-recovered in the current period, and if so what is the process around demonstrating that these costs are appropriate?
  - a. The reference to net carryover amounts relates to the circumstances under which Powerlink may have overspent its capex and opex allowances, and for the AER to apply discretion having regard to the circumstances. If the overspend is due to reasons that are prudent and efficient, should Powerlink carry a penalty in the subsequent period.

### Capable of acceptance criteria

Roger Smith discussed the criteria for a revenue proposal to be considered capable of acceptance, acknowledging that feedback from our previous revenue determination process was that a clear understanding of the criteria for capable of acceptance was needed earlier in the process. The importance of demonstrating prudence and efficiency in the forecasts and the need for clear communication and transparency throughout the process.

### Discussion, questions and responses

The discussion around these criteria acknowledged that the Customer Panel's focus should be on the three engagement criteria predominantly (as guided by the customer representative members of the RPRG). It was proposed the reasonableness of expenditure forecasts (the proof point criterion) was largely to be assessed by the AER as part of the revenue determination process, based upon their knowledge, experience and capacity to assess expenditure forecasts. However, the RPRG were not precluded from commenting on the reasonableness of forecasts where they were able to infer a position – for instance, based upon the engagement undertaken around the standard base-step-trend approach to operating expenditure forecasts.

When specifically asked whether it was viable to ask the Customer Panel to sign off on the proof point, the consensus was that the Customer Panel should be expected to review the engagement around the formulation of the forecasts rather than the reasonableness of the forecasts directly. It was noted that the proof point was dependent upon the three engagement criteria (nature of engagement, breadth/depth of engagement and evidence of impact), and is effectively a pub-test, i.e. does the outturn forecast align with customer expectations?

It was noted that no recent Revenue Proposals included expenditure forecasts that were in line or lower than historical expenditure, suggesting that the previously defined proof point criterion was no longer relevant in the current operating environment. It was also noted that in the Victorian distribution revenue determination process, reasonableness had been considered from a consumer perspective, i.e. was it reasonable for a consumer to pay an additional \$x for the services provided?

It was also noted that capable of acceptance from customers is related to whether they trust the business.

10. How would the proof point criterion be reframed to reflect the prevailing operating environment?
  - a. Powerlink will develop a proposal for the capable of acceptance criteria and circulate to the RPRG for consideration.

## Preliminary positions and initial forecasts

An overview of key preliminary positions and initial forecasts were presented to the RPRG by the relevant revenue reset leads per the slide pack.

### *Discussion, questions and responses*

It was noted that the current forecast network support costs will not be subject to consultation as part of the revenue determination process as they will be a cost pass-through, and that the costs are a result of a new obligation on Powerlink to secure the system strength services necessary to continue to operate the network effectively throughout the energy transition.

11. Are system strength cost pass-through forecasts only included to 2030 because this is the period that the current RIT-T is focused on?
  - a. Yes, Powerlink will consider how to illustrate the likely ongoing need to secure such services while acknowledging the uncertainty in requirements and costs beyond 2030 – and update future forecasts accordingly.
12. It would be good to illustrate the percentages of controllable costs by category over subsequent regulatory control periods.
  - a. Powerlink will provide an updated chart for the current 2022-27 period and the forecast 2027-32 period illustrating the percentage of controllable costs by category.
13. From where has the trend data used in the operating expenditure forecast been sourced?
  - a. The output growth is based upon Powerlink demand forecasts, the price growth is based upon recent wage price indices produced for the EQL revenue determination, and the productivity rate is derived from the most recent AER benchmarking report. Powerlink will expand on the referenced sources for inputs and assumptions for future forecasts.
14. What is the minimum maturity level of risk management that a network business must meet under the *Security of Critical Infrastructure Act 2018*?
  - a. It was thought that the required maturity level is level 2 – but Powerlink will investigate and confirm the current obligations under recent amendments.
15. Confirming that ISP projects are not included in these forecasts.
  - a. Correct – actionable ISP projects, potential contingent projects and projects subject to the priority transmission investment framework are excluded from the forecasts.
16. When will Powerlink be commencing the ex-post review into historical capital expenditure?
  - a. The forecast capital expenditure for the current regulatory control period will be subject to assessment by the AER, who will assess whether the nature of the overspend requires an ex-post review. The AER has advised it does not apply a particular materiality threshold number to commence an ex-post review.

17. In respect to the impacts on an average household bill, does it mean that if it is \$100 at the start of the 2027-32 period, then it will be \$113 at the end of the period – so 2.4% nominal increase per year?
  - a. Yes, the preliminary forecast is for a 2.4% nominal increase per year.  
Note – the price impact is partially mitigated by an increase in the forecast demand in the period; Powerlink will review options to represent the impacts to customers under alternative demand growth scenarios.
18. Does the capital expenditure forecast and resulting maximum allowed revenue forecast exclude billions of dollars of other large capital projects that are approved through alternative regulatory processes, such as the priority transmission investment framework?
  - a. Yes, Powerlink acknowledges that significant capital expenditure is not included in the preliminary forecasts presented and committed to reflecting the revenue and pricing impacts in future forecasts, while attempting to recognise the uncertainty around the impacts of these projects that sit outside of the revenue determination process.

## Actions Arising

Action	Responsible person	Due
Circulate the 2024 survey questions and link to the dashboard of results to provide context for potential new survey questions	Wendy Miller	28/02/25 complete
Circulate draft potential new research questions (if any) for inclusion in the Queensland Household Energy Survey / consumer insight	Wendy Miller	07/03/25
Set up additional consultation session outside of the formal March meeting to review the capital expenditure forecasting methodology	Roger Smith	07/03/25
Circulate an updated paper on the criteria for capable of acceptance – taking into account discussion within meeting	Roger Smith	07/03/25
Provide chart illustrating percentage of total controllable operating costs by category for RP22-27 and RP27-32	Michelle Beavis	07/03/25
Include the potential impacts on the maximum allowed revenue arising from large capital projects that are outside of the revenue determination process	Roger Smith	With cut2 forecasts