

## Revenue Proposal Reference Group Meeting No.4

Details of Meeting	
Date and time of meeting	13:00 – 16:30, Thursday 22 May 2025
Location	Powerlink Offices, Virginia
Attendees	Organisation
<b>RPRG members – customer representatives</b>	
Alicia Kennedy (online)	Queensland Farmers' Federation (QFF)
Katie-Ann Mulder (online)	Queensland Renewable Energy Council (QREC)
Chris Hazzard	St Vincent de Paul Society
Mark Grenning (Independent Chair)	Energy Users Association of Australia (EUAA)
Michael Bray (online)	Aurizon
Robyn Robinson (online)	Council on the Ageing (COTA)
<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>	
Gary Edwards	Chief Operating Officer
Jacqui Bridge (13:00-14:00)	Executive General Manager Energy Futures
Darryl Rowell (14:00-15:00)	Chief Financial Officer
Nina Zhuang	Finance and Modelling Lead, Revenue Reset
Michelle Beavis	Opex Lead, Revenue Reset
Aidan Lawlor	Capex Lead, Revenue Reset
Jessica Purdy	Customer Engagement Specialist, Revenue Reset
Eleonore Bridier	Customer Engagement Specialist
<b>Invited stakeholders</b>	
Michael Brothers	Australian Energy Regulator (AER)
Mike Swanston (online)	AER Consumer Challenge Panel No.34
David Prins (online)	AER Consumer Challenge Panel No.34

## Meeting Agenda

1. Engagement check in (13:00)
2. Operating expenditure forecast (14:00)
3. Capital expenditure forecast (15:00)
4. Regulated revenue forecast (16:00)

## Overview / Notes of Meeting

Roger Smith, Director Revenue Reset, opened the meeting with introductions and an overview of the agenda. Presentation slides that accompany these notes are published on the [Powerlink Customer Panel webpage](#).

### 1. Engagement check in

Gerard Reilly, General Manager Communications, Customer and Engagement, provided an update on the engagement approach, highlighting the importance of ongoing improvement and the need for broader engagement with directly connected and large customers, including an upcoming regional engagement forum in Gladstone (August 2025) and the annual Transmission Network Forum (November 2025) in Brisbane.

#### 1.1 Engagement with direct-connect and commercial and industrial (C&I) customers

Powerlink is proposing three questions for engagement with Powerlink directly connected and Energy Queensland C&I customers, seeking their input on the trade-off between cost and reliability, expected changes in demand, and any other factors for consideration in its 2027-32 Revenue Proposal. It was noted that questions and supporting information should have regard to different customers' knowledge of the transmission system and exposure to Powerlink's prescribed prices.

##### *Discussion, questions and responses*

The RPRG's feedback included focusing questions to better understand customers energy strategy, including future electrification plans. Other feedback was to include questions touching on the predictability of future costs and customer satisfaction with transmission services, what we should stop or continue doing and what the 2027-32 regulatory period should provide for customers. Members suggested that engagement at the Gladstone and Brisbane forums include a structured activity to enable input from customers and offered to take on a supporting role at the events.

#### 1.2 Broader feedback on Powerlink's engagement approach

Powerlink invited the RPRG to provide feedback on the engagement approach to date, to guide ongoing improvement and ensure feedback is incorporated throughout the process. The Revenue Proposal Engagement Plan will be updated to reflect this discussion.

##### *Discussion, questions and responses*

Members were positive about Powerlink's engagement, confirming the information provided in previous meetings has been well targeted and helpful to expand their understanding of the revenue determination process and outcomes to date. Powerlink has responded to requests for additional breadth and depth of information to be provided on topics of interest to the RPRG and adapted engagement activities accordingly.

The group acknowledged the value of having diverse backgrounds on the RPRG and that sufficient discussion time was allowed for in meeting agendas. Greater visibility of forecasting and modelling assumptions and a review of the meeting schedule to maximise member participation and discussion time for new topics was suggested.

## 1.3 Future meetings

Roger Smith and Jessica Purdy provided an overview of agenda items for future meetings and timing of specific meetings. This included Powerlink's proposal to move discussion on Resilience and Climate Adaptation to a future Customer Panel meeting.

### *Discussion, questions and responses*

1. Members noted an expectation to review historical capital expenditure and the expected ex-post review for prudence and efficiency at a future meeting.
  - a. Powerlink will circulate dates of future meetings with proposed agenda items, and poll members for preferred meeting dates to maximise the availability of RPRG members.

## 2. Operating expenditure forecast

Michelle Beavis, Opex Lead-Revenue Reset, presented the updated operating expenditure forecast, which increased from \$2.2 billion (Cut 1, February 2025) to \$2.4 billion (Cut 3, May 2025), primarily due to system strength services costs and AEMO Participant Fees, now forecast through to the end of the 2027-32 regulatory period<sup>1</sup>. The RPRG were seeking to understand which components of the forecast are within versus outside Powerlink's control and what can be influenced by customers. Step changes, trend and insurance were identified for further coverage at future meetings.

### *Discussion, questions and responses*

1. Is the step change for cloud-based services a trade-off between capex and opex, and is there a reduction in hardware resulting from the switch to new software?
  - a. The change is associated with the application of accounting standards for this category of expenditure.
  - b. There will be a counterfactual position to the cloud-based step change – which may result in lower capex or offset potential increases in capex.
  - c. The proposed cloud-based step change will be discussed in more detail at a subsequent meeting.
2. Will labour cost pressures driving increased expenditure in this period be carried forward in the base year or trend?
  - a. Recent labour cost increases will be included in the base year and escalated in line with the appropriate Wage Price Index (WPI) built into the trend assumptions.
  - b. Future increases have the potential to be higher than the WPI forecast.
3. Is Powerlink taking action to reduce insurance premiums (e.g. use of self-insurance, excess adjustments)?
  - a. We seek to take a balanced approach to manage insurance premiums, considering coverage, excesses, and self-insurance as appropriate. Previously we have taken additional risk for towers and lines due to significant increase in premiums.
  - b. Insurances will be discussed in more detail at a subsequent meeting.
4. Does Powerlink have insurance for cyclones and is resilience expenditure in the base year mitigating against insured risks?

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<sup>1</sup>See presentation slides for further detail on the operating expenditure forecast.

- a. Costs in the base year reflect a typical weather year and extreme events are covered by insurance.
  - b. We would anticipate adjusting the base year to remove non-recurrent costs in the event of an extreme event.
- 5. Why has Powerlink not included a step change for insurance costs, as some other networks have done?
  - a. Powerlink considers insurance cost escalation does not align with the step change criteria.
- 6. How is the productivity factor in the trend component calculated?
  - a. The productivity factor used in this update of the forecast is based on an industry average Opex Partial Factor Productivity from the AER benchmarking report.
  - b. Productivity factor will be discussed in more detail at a subsequent meeting.
- 7. Regarding system strength service charges, who are we paying and for what?
  - a. The National Electricity Rules require Powerlink to procure all system strength services for Queensland, to enable the stable operation of the transmission network. System strength services may be procured from non-network proponents (opex), typically existing synchronous generators, or by investing in network solutions (capex), such as synchronous condensers.
  - b. Costs are forecast based on the Regulatory Investment Test (RIT-T) consultation currently underway for optimal combination of opex and capex.
  - c. Powerlink will provide further details via an overview sheet and supporting resources.
- 8. How does the EBSS penalty value correlate to the overspend amount?
  - a. The value results from complex calculations which consider incremental over or underspend per year.
  - b. EBSS application will be discussed in more detail in a subsequent meeting, and a dedicated overview sheet will be prepared by Powerlink.
- 9. Can Powerlink indicate the relative level of certainty for each component of the opex forecast?
  - a. As all components are still in development, none are considered to be certain at this time.

### 3. Capital expenditure forecast

Aidan Lawlor, Capex Lead-Revenue Reset, presented the updated capital expenditure forecast, which increased from the previous high scenario forecast of \$2.7 billion to \$3.07 billion<sup>2</sup>. The increase was mainly due to the inclusion of additional synchronous condensers and physical security projects to comply with the Security of Critical Infrastructure Act. The group acknowledged the critical importance of supporting narrative to explain the substantial increase in Powerlink's capital expenditure requirements in this Revenue Proposal compared to the current period's allowance.

#### *Discussion, questions and responses*

- 1. Are there any trends in the year-to-year profile of replacement or total capex?
  - a. Replacement is relatively stable throughout the forecast period.
  - b. Non-network, system services and remaining network (excluding replacement) are higher in the first two years, driven by specific projects. These will be discussed in more detail at a subsequent meeting.
- 2. Are deferred projects from the current period likely to impact expenditure in 2027-32 and what are the drivers for any potential deferrals?

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<sup>2</sup> See presentation slides for further detail on the capital expenditure forecast.

- a. Potential for deferrals is not confirmed, as reprioritisation of projects occurs in the normal course of business where required throughout the regulatory period, based on evolving risk and deliverability constraints.
  - b. Ex-post review of current period capex will examine drivers of differences between forecast and actual expenditure.
3. How do capex unit rates in this forecast compare with previous forecasts?
  - a. Unit costs have not been used as most estimates included in Cut 3 are bottom-up.
  - b. Powerlink will provide further information to illustrate changes in cost inputs for typical project components as the engagement progresses.
4. Why were system strength needs not anticipated in the previous reset and are we expecting the RIT-T to identify non-network alternatives?
  - a. System strength was an emerging issue at the time of the 2023-27 proposal, which also predated the rule change requiring Powerlink to procure system strength services.
  - b. Early renewables were typically self-remediating for system strength and our technical understanding of the issue has advanced with each new connection.
  - c. The RIT-T currently underway will determine the base level of system strength to be funded through prescribed transmission service revenue, which will be supplemented by system strength unit prices charged to renewable generators that choose not to self-remediate.
  - d. Powerlink's preference is to minimise deployment of synchronous condensers if it is more efficient to secure non-network alternatives.
  - e. Powerlink will provide further details via an overview sheet and supporting resources.
5. Why does augmentation capex not appear to reflect increasing energy demand (e.g. for growth of data centres) and will the demand forecast be updated prior to the draft Revenue Proposal?
  - a. Forecast augmentation of the prescribed network in 2027-32 is based on applying our reliability standards to the latest energy forecast.
  - b. Contingent and PTI projects may reflect increased demand in some areas of the network and will be discussed in more detail at the June RPRG meeting.
  - c. An updated demand forecast will be sourced from the Transmission Annual Planning Report (TAPR), due late October 2025.
6. What is driving higher replacement expenditure in 2027-32?
  - a. A large population of secondary systems (electronic components) installed to support expansion of the transmission network into Far North Queensland and Surat regions are reaching end of life and technical support limits (obsolescence).

#### 4. Regulated revenue forecast

Nina Zhuang, Finance and Modelling Lead-Revenue Reset, discussed the revenue and pricing impacts of the updated forecasts. The current forecast shows a 44% increase in the average Maximum Allowed Revenue (MAR) in real terms for the next regulatory period. This would result in prices increasing by 15% in the first year of the regulatory period (\$24 for residential customers and \$46 for small business customers) and 3.5% per annum for the following years of the regulatory period. Discussion focused on distinguishing revenue drivers within Powerlink's control.

1. Have PTI projects been included in the revenue forecast?
  - a. No, PTI and contingent projects are not included in Cut 3 and if added would increase the Regulatory Asset Base (RAB) and MAR. This will be discussed in detail at the June RPRG meeting.
2. How does the increase in WACC impact customer prices?

- a. **Post-meeting note:** A 30-basis-point increase in WACC results in a 2.5% increase in MAR, which in turn leads to a corresponding 2.5% increase in customer prices.
- 3. Does growth in energy demand offset price increases for customers?
  - a. Yes, there is a 15% increase in energy forecast based on AEMO's Electricity System Statement of Opportunity demand forecast, which is used to calculate unit prices for customers.
- 4. Distribution companies consult on price path, is this something Powerlink is considering?
  - a. The price path is currently calculated based on the default smoothing in the PTRM, but we will consider alternative smoothing profiles in our assessment of average price impacts for customers.
- 5. How sensitive is the forecast to the State Government energy roadmap due to be released in late 2025?
  - a. Modelling and assumptions that Powerlink provides to inform the government roadmap also inform our regulated expenditure and revenue forecasts, hence we do not anticipate a significant impact on the ex-ante capex forecast.

## Actions Arising

	Action	Responsible person	Due
1.6	Include the potential impacts on the maximum allowed revenue arising from large capital projects that are outside of the revenue determination process	Roger Smith	22/05/25 defer to 11/06/25
2.2	Update Engagement Plan including change of participation level for social performance and feedback on the forward meeting schedule	Jessica Purdy	30/06/25
2.3	Provide updated charts to illustrate the split of regulated capex between categories for actual/forecast capex within the current 2022-27 period	Aidan Lawlor	Complete
2.4	Provide updated charts to illustrate the split of regulated capex between categories forecast for the 2027-32 regulatory control period	Aidan Lawlor	Complete
2.6	Review forecasting approach used for insurance costs in the prior regulatory period and report back to RPRG	Michelle Beavis	Complete
3.1	Provide information on the distribution of projects (grouped by value) over both the current and forecast regulatory periods	Aidan Lawlor	Complete
3.2	Provide a view of the likely value of approved projects anticipated at the time of submitting the Revised Revenue Proposal	Aidan Lawlor	22/05/25 defer to 21/08/25
3.3	Provide commentary on the guiding principles for option selection and the risk of change to forecasts	Aidan Lawlor	11/06/25 defer to 21/08/25
3.4	Provide information to the RPRG to illustrate how changes to the preferred option may have led to material cost increases in the current regulatory period	Aidan Lawlor	11/06/25 defer to 21/08/25
3.6	Present information on the value of opex subject to the EBSS, and forecast revenue adjustments arising	Michelle Beavis	Complete
4.1	Share updated customer engagement questions with the RPRG	Jessica Purdy	Complete
4.2	Add Contingent and PTI projects to RPRG agenda for June	Jessica Purdy	11/06/25
4.3	Confirm opex base year, step changes, trend and insurance are included in RPRG agendas for further coverage	Jessica Purdy	30/06/25
4.4	Present a timeline of the ex-post review process for capex overspend in the current period	Roger Smith	21/08/2025
4.5	Provide an overview sheet to explain application of the EBSS	Michelle Beavis	30/06/2025
4.6	Provide information on changing costs of typical project components	Aidan Lawlor	21/08/2025

## Notes of Meeting and Actions Arising

Powerlink 2027-32 Revenue Proposal  
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	Action	Responsible person	Due
4.7	Update and circulate system strength overview sheet	Sally Taylor	30/06/2025
4.8	Propose alternative smoothing profiles for price path	Nina Zhuang	16/07/2025