

Powerlink 2027-32 Revenue Proposal (Draft)

Submission from the Powerlink Revenue Proposal Reference Group (RPRG)

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## 1. Summary and Conclusions

### Introduction and Summary

Powerlink is a licensed, regulated operator of the monopoly high voltage electricity transmission network in Queensland, running from Cairns to the New South Wales border. This Transmission Network Service Provider (TNSP) is subject to 'revenue cap' regulation by the Australian Energy Regulator (AER). This means that every five years Powerlink makes submissions to the AER on the proposed revenue that the AER should 'allow' for the next 5-year period to deliver its 'prescribed' (ie regulated) services. These services include:

- shared transmission services provided to directly connected customers and distribution networks (Ergon, Energex and Essential Energy)- prescribed transmission use of service services
- connection services for the Queensland Distribution Network Service Providers (DNSP) who are connected to the transmission network (prescribed exit services)
- grandfathered connection services provided to generators and customers directly connected to the transmission network that were in place on 9 February 2006 (prescribed entry and exit services), and
- services required under the Rules or to comply with jurisdictional electricity legislation that are necessary to ensure the integrity of the transmission network, including through the maintenance of power system security and quality (prescribed common transmission services).

The AER sets the 'maximum allowed revenue' (MAR) for the five year period with individual consumer prices set by Powerlink following established rules. For the average residential or small business consumer, Powerlink's transmission charges make up ~7% of the total bill. The percentage for large customers varies depending on whether they are directly connected to Powerlink's system or connected via the Energex or Ergon distribution network.

Powerlink's proposal for the current 2022-27 period had ambitious stretch targets. The AER considered it capable of acceptance at the Draft Decision stage<sup>1</sup>. Compared with the previous 2017-22 period, capex was 3% lower and opex was slightly higher. MAR was 12% lower and the Regulated Asset Base (RAB) was forecast to decline, (continuing a trend for the previous decade). By the end of the 2022-27 period, nominal prices for residential and small business consumers were forecast to be only 0.7% higher than at the end of the previous period ie a decline in real terms.

At the time Powerlink clearly stated that it's ambitious plan was driven by a desire to create 'constructive discomfort' in the organisation and that it did not have a clear pathway to how the expenditure targets would be achieved. At the time the then Revenue Proposal Reference Group noted that it would be challenging for Powerlink to achieve its targets but was very supportive of Powerlink's intent.

The AER process to determine Powerlink's allowed revenue for 2027-32 period that starts on 1<sup>st</sup> July 2027, will continue to follow the standard 'propose/response' model. It starts with Powerlink's submission of its regulatory proposal (January 2026); the AER then responds with a Draft Determination (September 2026); Powerlink then submits its revised regulatory proposal (December 2026) and the AER then responds with its final determination (April 2027).

Powerlink has now published its Draft Revenue Proposal inviting stakeholder feedback on Powerlink's current thinking on its January 2026 regulatory proposal. This Draft Revenue Proposal is prepared in a

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<sup>1</sup> <https://www.aer.gov.au/industry/registers/determinations/powerlink-determination-2022-27/final-decision>

business and operating environment that is radically different to that when the 2022-27 plan was prepared in 2020-21:

- Domestic and international cost pressures have contributed to actual and forecast operating and capital costs for the current 2022-27 period being much higher than the AER allowances
- System complexity has increased greatly with the expansion in renewable generation eg the 'operating envelope' referring to the difference between minimum and maximum demand, has increased almost 50% from 2018 (4,834MW) to 2024 (7,032MW) driven by expanding rooftop solar and this is expected to continue to increase; cyber security is a much bigger risk than in the past
- The challenges of deliverability – this covers community engagement and social licence, environmental compliance, changing market regulation, changing government policy and supply chain resource constraints as the demand for energy transition resources exceeds supply, not just in Australia, but around the world.

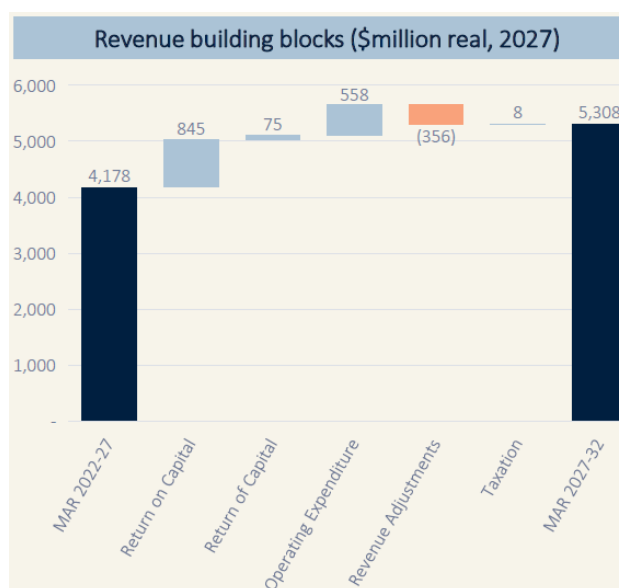
The next table shows how much the actual/forecast expenditure for the current period is above the AER allowances. The current and expected business and operating environment is driving a further large increase in proposed expenditure in 2027-32. This results in a 27% increase in MAR in 2027-32 compared to the current period.

\$26/27m	2022-27			2027-32		
	Allowance	Actual/Forecast	% change	Forecast	% change vs 2022-27 allowance	% change vs 2022-27 actual/forecast
Opex <sup>1</sup>	\$1,253.3	\$1,495.0	+19.3%	\$1,831.3	+44.1%	+22.2%
Capex	\$1,074.7	\$1,653.7	+53.9%	\$2,796.7	+260%	+69.1%

1. Excludes debt raising costs

\$26/27m	AER Allowance 2022-27	Powerlink forecast 2027-32	% change
Maximum allowed revenue	\$4,177.9	\$5,308.1m	+27%

The waterfall chart shows the main contributors to the increased MAR:



- The increase in 'return on capital' mainly reflects higher interest rates since 2021 with a higher Regulated Asset Base (RAB) from 2022-27 capex making a smaller contribution; the rate of return is calculated at 6.71% compared with 5.08% in the AER's final decision on 2022-27<sup>2</sup>
- The increase in 'return of capital' reflects higher depreciation from a higher RAB
- The large increase in opex has a big impact because that cost flows through immediately into customer bills (compared to capex which is covered by straight line depreciation over the asset life that can be decades)
- The 'revenue adjustments' reflect Powerlink having to effectively pay 30% of the capex and opex overspend above the AER allowances in the current period; this payment is reflected as a reduction in the MAR for the next period.

The return on capital is outside of Powerlink's control. The return of capital reflects past approved capex. Powerlink's ability to influence is centred on the proposed capex and opex spend. Powerlink assumes that the capex overspend is prudent and efficient and will be rolled into the starting RAB for 2027-32. The large forecast current and next period capex results in a significant rise in the RAB over time.

Regulated Asset Base	\$26/27	% change
Start of current period – 1 <sup>st</sup> July 2023	\$7,158m	
Start of next period – 1 <sup>st</sup> July 2027	\$8,402m	+17.4%
End of next period – 30 <sup>th</sup> June 2032	\$10,378m	+23.5%

MAR can vary from year to year so the AER undertakes a 'smoothing' process so that year to year price changes are not overly large. The next table summarises the price impact on residential and small business customers for both the AER's default revenue smoothing and Powerlink's proposal to lower year 1 increase and higher increase in years 2-5 that gives a 'smoother' price path.

	Annual increase for residential customer Year 1/Years 2-5	Annual increase for small business customer Year 1/Years 2-5
Default revenue smoothing	\$11 or 8%/3%	\$22 or 8%/3%
Powerlink alternative revenue smoothing	\$8 or 5%/5%	\$15 or 5%/5%

The increases for larger customers tend to be customer specific.

It is important to note the exclusions from these 2027-32 forecasts:

- Three 'contingent' projects with an indicative total capex of \$1.9b that may be built depending on customer demand; the cost would be included in the Powerlink RAB and paid for in transmission charges
- Six 'future' ISP projects with an indicative total capex of \$5.8b again where the cost would be included in the Powerlink RAB and paid for in transmission charges
- Priority Transmission Investment projects<sup>3</sup>, in particular Copperstring (estimated cost of nearly \$14b nominal<sup>4</sup>) and Gladstone reinforcement (estimated cost of \$2.45b nominal<sup>5</sup>); the extent to which

<sup>2</sup> See p. 40 <https://www.aer.gov.au/documents/aer-powerlink-2022-27-final-decision-april-2022>

<sup>3</sup> <https://www.powerlink.com.au/priority-transmission-investments>

<sup>4</sup> [https://edge.sitecorecloud.io/giclimited1-qiccom-prod-94af/media/Project/QIC/QIC/Investment-Capabilities/Infrastructure/Energy-Roadmap/QIC\\_CopperString-Review-Report\\_2025.pdf](https://edge.sitecorecloud.io/giclimited1-qiccom-prod-94af/media/Project/QIC/QIC/Investment-Capabilities/Infrastructure/Energy-Roadmap/QIC_CopperString-Review-Report_2025.pdf)

<sup>5</sup> [https://hdp-au-prod-app-pq-projects-files.s3.ap-southeast-2.amazonaws.com/8917/5014/1929/Gladstone\\_PTI\\_Final\\_Assessment\\_Report\\_web.pdf](https://hdp-au-prod-app-pq-projects-files.s3.ap-southeast-2.amazonaws.com/8917/5014/1929/Gladstone_PTI_Final_Assessment_Report_web.pdf)

the costs of these projects is included in the Powerlink RAB is a decision for the Queensland Energy Minister

- Additional projects that might arise from the State Government’s announcement of its Energy Roadmap on 10 October 2025<sup>6</sup>.

At our June 2025 meeting Powerlink provided the RPRG with a preliminary view of the impact of including the then possible six contingent projects on RAB and customer prices. The Draft Proposal does not provide this information for the now proposed three projects or the ISP projects.

#### The Role of the Revenue Proposal Reference Group

Powerlink has appointed the Revenue Proposal Reference Group (RPRG) from customer representatives on its Customer Panel along with Powerlink representatives and invited stakeholders including the AER and the AER Consumer Challenge Panel<sup>7</sup>. Under our Terms of Reference<sup>8</sup> we are providing a customer centric input into the 2027-32 Revenue Proposal.

Our focus is to ensure the proposal reflects the National Electricity Objective of the long-term interests of consumers<sup>9</sup>, enhances network efficiency and meets regulatory requirements. We meet regularly with Powerlink staff to examine in depth key parts of the proposal as it is being developed and provide customer and stakeholder perspectives on the reasonableness of Powerlink’s proposed positions. We also report back to the full Customer Panel at each Panel meeting seeking their comments on our views and their areas of concern.

We will be preparing three submissions – this one on the Draft Regulatory Proposal, another in May 2026 on the regulatory proposal and the third in January 2027 on the Draft Determination and revised regulatory proposal. A draft of this submission was presented to the Powerlink Customer Panel and their comments have been incorporated.

#### Summary of RPRG Responses to the Draft Regulatory Proposal Guiding Questions

To assist stakeholders in their review of the Draft Regulatory Proposal, Powerlink has provided a series of ‘Guiding questions’ to elicit response to specific issues. A summary of RPRG’s responses to the guiding questions is shown in the table below.

##### ***Guiding question and response***

- 1. In your view, is our draft Revenue Proposal capable of acceptance as an overall package? What are your reasons for this view?**

As this is a draft document and there are many issues still to be resolved prior to publication of the final Revenue Proposal, RPRG considers that it is too early to say whether the Revenue Proposal is capable of acceptance.

- 2. Has Powerlink clearly explained the external factors that have influenced expenditure outcomes in the 2023-27 regulatory period?**

<sup>6</sup> <https://www.treasury.qld.gov.au/policies-and-programs/energy/energy-roadmap/>

<sup>7</sup> <https://www.aer.gov.au/consumer-challenge-panel>

<sup>8</sup> <https://www.powerlink.com.au/sites/default/files/2025-04/Revenue%20Proposal%20Reference%20Group%20-%20Terms%20of%20Reference%20-%20February%202025.pdf>

<sup>9</sup> <https://www.aemc.gov.au/regulation/neo>

Yes. Powerlink has provided a comprehensive explanation of the external factors affecting its 2023–27 expenditure outcomes and the challenges it faces for 2027–32.

**3. Are there any other key operating environment factors Powerlink should address as part of its Revenue Proposal?**

We propose four – workforce capability and skills availability, insurance market volatility, the impact of the 2024 Enterprise Bargaining Agreement (EBA) on the ability to meet forecast capex and opex expenditure; and impact of the State Government’s recently announced Energy Roadmap on the Proposal.

**4. Do you support Powerlink’s engagement approach to date? What could we do better?**

RPRG supports the collaborative approach to developing the 2027–32 Engagement Plan.

The depth of engagement with the RPRG has been impressive. We have sought and been provided with additional information as required and have been comfortable challenging Powerlink’s position on many aspects of the proposal. There are several substantive issues mentioned in this submission that will be the topic of further engagement in the lead-up to the January 2026 regulatory proposal.

Powerlink has expanded the breadth of its engagement for this regulatory determination, with mixed results. Some opportunities for improvement have been suggested.

**5. Have we demonstrated how engagement has influenced the draft Revenue Proposal?**

RPRG is satisfied that Powerlink has identified the impact of engagement to date on the draft Revenue Proposal. There are several important issues that we will continue to engage on in the lead-up to the January 2026 Revenue Proposal. We look forward to seeing how feedback in this submission is reflected in the January 2026 submission.

**6. Is the forecast capital expenditure underpinned by appropriate and transparent forecasting methodologies?**

See response to question 7.

**7. Is the forecast capital expenditure supported by clear explanations as to why forecasts are different from historical expenditure?**

Combined answer to questions 6 and 7:

Not at this stage. We look forward to further discussions prior to submission of the January 2026 proposal on the accuracy of the capex forecasts at the project approval stage, portfolio delivery given the major project list outside of business-as-usual (BAU) capex, the impact of the EBA and relevance of a portfolio risk component. This will include discussion of a range of post implementation reviews to understand the learnings from the ‘on cost’ and ‘on time’ project delivery in recent years and how productivity initiatives have influenced the forecasts.

**8. Do you support our intent to propose an alternative approach to the calculation of net carry-overs from application of the CESS? What are the reasons for your support or lack of support for this approach?**

Not at this stage. Firstly we do not support retrospective changes in methodology. Secondly our general approach is that any substantive change in AER methodology should come via a network wide review rather than an individual network reset. We look forward to further discussions prior to submission of the January 2026 proposal.

**9. Is the forecast operating expenditure underpinned by appropriate and transparent forecasting methodologies?**

While the Draft Proposal mostly follows the AER methodology, there are some matters that require further discussion before we can come to a view.

**10. Is the forecast operating expenditure supported by clear explanations as to why forecasts are different from historical expenditure?**

At a high level, yes. However we look forward to further discussion prior to the January 2026 submission to better understand the justification.

**11. Do you support our intent to propose an alternative output measure that better reflects the complexity of operating and maintaining a transmission system? What are the reasons for your support or lack of support for this approach?**

On the basis of our preliminary discussions, we do not support it. Our general approach is that any substantive change in AER methodology should come via a network wide review rather than an individual network reset.

We look forward to further discussions prior to the January 2026 submission.

**12. Is our base year selection supported by clear and reasonable explanations as to why it has been proposed?**

Not at this stage. We await further information on base year productivity in the HoustonKemp report, the AER's 2023-24 benchmarking report published next month to discuss whether any base year efficiency adjustments are required. Also look forward to discussion on the impact of the 2024 EBA on the ability to deliver on the forecast and how productivity initiatives in the current period have influenced the forecasts.

**13. Do you support our intent to propose an alternative approach to smooth the impact on prices in the first year of the 2027-32 regulatory period, noting that it may lead to higher price increases in later years if the energy demand forecast does not eventuate?**

Yes. RPRG agrees that the alternative price path offers more predictable and stable prices for customers which is consistent with the preferences expressed by direct connect and C&I customers. Given current cost-of-living and cost-of-doing business pressures on Powerlink's customers, price relief in the initial years of the next regulatory period (albeit modest) would be welcomed, even if it results in steady price increases for the remainder of the period.

**14. Do you have any further comments on our draft Revenue Proposal or supporting communications and information?**

No further comments.

## 2. Business and Operating Environment

### What Powerlink is proposing

The 2027–32 regulatory period will be defined by rising costs, greater system complexity, and increased customer and community expectations. Powerlink is responding to these challenges with a strategy that prioritises affordability, reliability and trust, while enabling the safe and efficient delivery of Queensland’s energy transmission.

#### *Customer and Community Expectations*

Customers consistently highlight affordability, reliability, and price predictability as key priorities:

- **Affordability:** on the household cohort, lower-income households, renters and those without rooftop solar are particularly exposed to electricity price pressures; the viability of larger customers can also be very dependent on electricity prices, particularly those that are trade exposed
- **Predictability:** large commercial and industrial users value price stability and Powerlink is exploring mechanisms such as revenue smoothing
- **Reliability and Resilience:** high reliability is expected and achieving this is more difficult with the expected increase in severe weather events
- **Social Licence:** maintaining community trust is critical. Powerlink is embedding early engagement, landholder support, and community benefit-sharing into its project delivery framework.

#### *Rising Cost Environment*

The global energy transition, coupled with supply chain challenges and geopolitical instability, has driven unprecedented cost increases in recent years. The combined effects of the COVID-19 pandemic and the Russia–Ukraine war caused major delays and increased costs for key transmission equipment (e.g., transformers, switchgear). Long lead times and constrained global manufacturing capacity significantly raised input costs. Transmission infrastructure costs more than doubled for some equipment categories between 2019 and 2023. Broader construction sector inflation, competition for skilled labour and higher raw material costs also drove up project costs. Australian infrastructure projects face up to 55% higher transmission project costs than in 2023.

#### *System Complexity*

The transformation of the energy system is presenting increasing operational and planning challenges. More than 9,500 MW of large-scale renewable generation and 8,000 MW of rooftop solar have been added in Queensland since 2018, expanding the operating envelope (the difference between minimum and maximum demand) and increasing variability in demand. Growth in inverter-based resources and battery storage creates both opportunities and operational challenges. Rapid growth of large-scale renewable generation and rooftop solar required unanticipated investment in system strength, network support and operational tools. Legislation to address the significantly increased cyber security risk places increased compliance requirements on networks.

#### *Deliverability risk*

Supply chain pressures, social licence, environmental and landowner approvals and rapid regulatory reform all combine to produce increased project delivery risk for a much larger proposed capex spend.

Powerlink’s strategy is designed to navigate these challenges while continuing to deliver value for customers and the community. Customers are placed at the centre of decision-making, consistent



with Energy Charter commitments and strengthening social licence and community trust. The focus remains of maintaining affordability and value for money with driving efficiencies in capex and opex leveraging new technologies, forecasting tools and market-based solutions to manage system complexity. All of this while ensuring compliance with cyber, environmental, and regulatory requirements.

#### RPRG comments

We acknowledge that Powerlink is operating in an increasingly complex and challenging context, shaped by global supply chain disruptions, rising equipment and labour costs and the accelerating pace of Queensland's energy transition. While these external pressures are significant, we expect Powerlink to manage these challenges without compromising the delivery of services that are affordable, reliable, transparent and aligned with community expectations.

While Powerlink's charges represent only ~7% of most customers' bills, this is still a significant cost and an efficient and reliable transmission network is essential to ensure unconstrained and competitive wholesale prices. Customers expect Powerlink to continue to demonstrate innovation and efficiency in its expenditure to limit cost impacts. This means rigorous testing and justification of all proposed cost increases and transparency in how efficiencies and alternatives are being pursued. We welcome initiatives such as asset life-extension strategies and new procurement approaches.

We strongly value the maintenance of a reliable network, particularly during extreme weather events. We support targeted investment where it provides demonstrable long-term value and efficient network resilience. We are pleased to see the many initiatives that Powerlink has made in focussing on social licence and community engagement. Powerlink has considerable goodwill in the community and it has the opportunity to learn from recent experience in southern States on the challenges of new network build. We expect this commitment to deliver tangible benefits to landholders, Traditional Owners, and communities directly affected by new or upgraded infrastructure.

#### *Key operating environmental environment factors Powerlink should address as part of its Revenue Proposal*

We propose three:

- Workforce Capability and Skills Availability

The transition to a renewable energy system is creating unprecedented demand for specialist skills across engineering, project management, cyber security, and field operations. More detail on how Powerlink intends to manage these workforce pressures—through training, apprenticeships, partnerships and targeted recruitment, would provide assurance that these delivery risks are being actively addressed.

- Insurance Market Volatility

Insurance costs for energy infrastructure are rising globally, driven by climate-related risks and a hardening insurance market. Explicitly addressing how these costs impact both operational and capital expenditure, as well as outlining mitigation strategies, would enhance transparency. This will be discussed at the November RPRG meeting when Marsh will present.

- Impact of the 2024 and 2028 EBAs on the ability to meet forecast capex and opex expenditure

The 2024 EBA resulted in a significant increase in labour costs for the 4 year duration out to 2028. The next EBA will apply for the majority of the forecast period. We look forward to further discussions with Powerlink on the impact of the EBA on their ability to meet forecast opex and capex in both the current and forecast period.

- Impact of the State Government’s Energy Roadmap

The Queensland Government Energy Roadmap 2025 is outlined as a pragmatic plan for the energy system. The Roadmap commits to the building of the Eastern Link of Copperstring (by QIC) and the Gladstone reinforcement project (by Powerlink) as well as Government-led investments including new gas-fired generation capacity. The impact of this Roadmap on transmission services needs to be further understood for the forecast period.

#### *Guiding questions and responses*

#### **2. Has Powerlink clearly explained the external factors that have influenced expenditure outcomes in the 2023-27 regulatory period?**

Yes. Powerlink has provided a comprehensive explanation of the external factors affecting its 2023–27 expenditure outcomes and the challenges it faces for 2027-32.

#### **3. Are there any other key operating environment factors Powerlink should address as part of its Revenue Proposal?**

We propose four – workforce capability and skills availability, insurance market volatility, the impact of the 2024 Enterprise Bargaining Agreement (EBA) on the ability to meet forecast capex and opex expenditure; and impact of the State Government’s recently announced Energy Roadmap on the Proposal.

### **3. Customer Engagement**

#### Powerlink’s Approach

Key elements of Powerlink’s engagement approach for the 2027-32 Regulatory Determination have included the following activities:

- Early conversations with Powerlink’s business-as-usual Customer Panel in March and June 2024 to discuss the proposed approach and timeframes
- An optional introductory training session for Customer Panel members- ‘Revenue Determinations 101’ in September 2024
- A half day in-person co-design workshop focussing on the proposed engagement scope, schedule and participation levels and involving the Customer Panel, Australian Energy Regulator, Consumer Challenge Panel, government and other stakeholders in November 2024
- Publication of a 2027-32 Revenue Determination Engagement Plan and Business Narrative in December 2024
- Establishment of the RPRG in December 2024 to enable more in-depth scrutiny of revenue proposals by a dedicated smaller group of Customer Panel members

- Monthly RPRG meetings to review draft regulatory proposal content from February 2025
- Appointment of an independent chair of the Customer Panel members of the RPRG in March 2025
- Update of Queensland Household Energy Survey (QHEs) questions to incorporate issues relevant to Powerlink's regulatory determination and conduct of the survey in March/April 2025
- Survey of directly connected and C&I customers in June 2025
- Hosting the inaugural Central Queensland Transmission Network Forum in Gladstone in August 2025
- Optional substation and control room site tours for Customer Panel members in August 2025 to enhance real-world understanding of aspects of the regulatory proposal
- Publication of a Draft Revenue Proposal in September 2025, to seek feedback on initial positions.

#### RPRG comments

The RPRG has encouraged Powerlink to align its customer engagement program with the expectations set out in the AER's Better Resets Handbook<sup>10</sup>. Our comments here reflect our assessment of Powerlink's customer engagement to date against the Handbook's three engagement criteria:

- Nature of engagement
- Breadth and depth of engagement
- Evidenced impact of the engagement.

#### *Nature of engagement*

The nature of engagement is about *how* networks engage with their customers.

The RPRG consider that Powerlink has been sincere in its engagement and has been open to receiving feedback (both positive and negative) from customers and responding to that feedback. We have regularly noted the attendance of executive managers and Board members at RPRG and Customer Panel meetings, and their active contributions to group discussions.

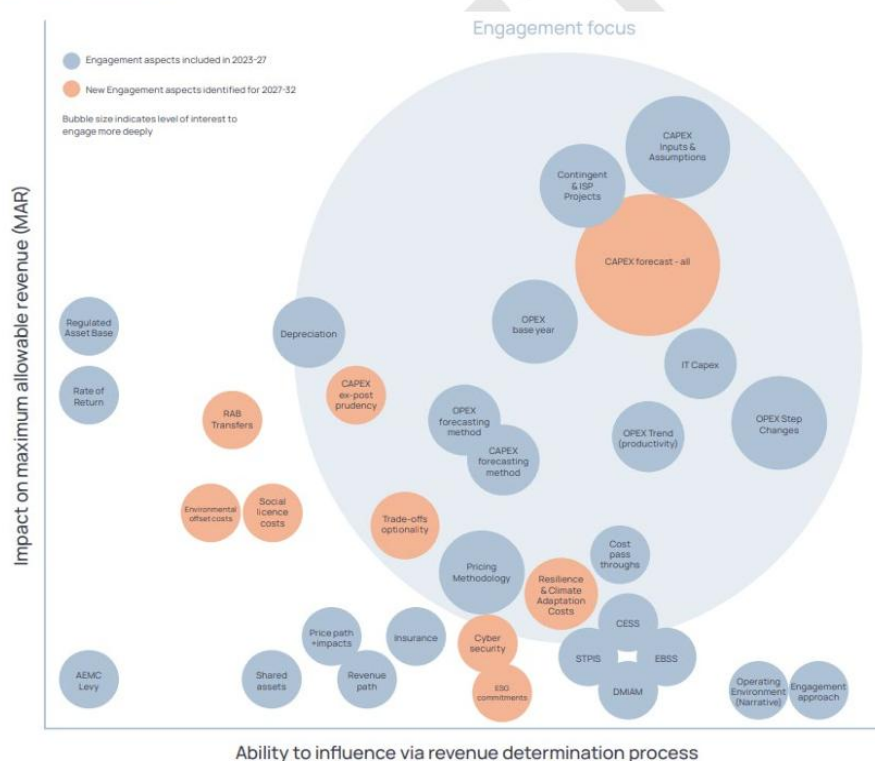
The co-design engagement workshop in November 2024 was an important starting point for the engagement program for the 2027-32 Regulatory Determination. In a collaborative process, Powerlink with its customers, customer representatives and stakeholders agreed the priority engagement topics for this reset, and the level of influence that customers could expect to have in relation to each topic. This process enabled customers to partner with Powerlink in 'setting the agenda' for the engagement. The primary output from the workshop was the Powerlink Engagement 'Bubble Diagram' which is shown below<sup>11</sup>. The diagram has continued to function as a roadmap for engagement with the Customer Panel and RPRG.

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<sup>10</sup> <https://www.aer.gov.au/industry/registers/resources/guidelines/better-resets-handbook-towards-consumer-centric-network-proposals/update>

<sup>11</sup> It should be noted that the diagram has been updated as engagement activities have progressed, and the version shown here was released in an updated Engagement Plan in June 2025.

Figure 3.2 - Engagement scope



Through the development of a Business Narrative, and offerings of an introductory training session and site tours of its facilities, Powerlink has made significant effort to equip Customer Panel members to understand the operating context of the business, as well as the regulatory processes associated with a Regulatory Determination. Powerlink has taken care to ensure that materials prepared for consideration by the RPRG and Customer Panel are clear and are presented in a way that is appropriate for a non-technical audience. Meeting schedules and particular meeting agendas are prepared well in advance. Draft slides are shared a few days prior with final versions at the meeting to enable participants adequate time for preparation. The RPRG had its own pre-meeting prior to each RPRG meeting with Powerlink to discuss the agenda items. To ensure transparency of the process, meeting materials are made publicly available on the Powerlink website.

Independence has been a critical concern for RPRG members. We welcomed Powerlink's decision to agree to the appointment of an independent chair for the Customer Panel members of the RPRG, as well as the RPRG remuneration arrangements which support the Customer Panel members of the RPRG members to meet independently of Powerlink.

Accountability for commitments made during regulatory determination processes is achieved through the Customer Panel's explicit requirement for regular (annual) reporting back by Powerlink on progress against prior commitments. Understanding commitments made by Powerlink in the 2022-27 Regulatory Determination process has formed an important backdrop to RPRG's analysis of the 2027-32 Draft Regulatory Proposal.

### *Breadth and depth of engagement*

In the 2022-27 regulatory determination, the then RPRG was critical of the lack of breadth in Powerlink's engagement program. The current RPRG commends Powerlink for the steps they have taken to respond

to this feedback. We note that there are several new elements of the engagement program which have been introduced in an attempt to address this identified shortcoming. The new elements comprise:

- Extension of the annual QHES to include questions relevant to Powerlink's regulatory proposal
- A survey of direct connect and C&I customers
- An inaugural Central Queensland Transmission Network Forum.

Although these initiatives have not been entirely fruitful on this occasion, we applaud the efforts made and encourage Powerlink to explore further development of these initial approaches.

While the QHES survey may not necessarily be representative of the views of Queensland households due to a bias towards households which own solar PV, Electric Vehicles (EVs) and battery storage,<sup>12</sup> the QHES results, together with feedback from the Central Queensland Transmission Forum participants, and the small sample of results from the direct connect and C&I customers<sup>13</sup> do provide an indication of the broadly desired outcomes of the regulatory proposal:

- Cost and price predictability as a priority
- A reliable network, but not at an additional cost
- Support for electrification and emissions reduction.

At this point in the process, RPRG consider that they have been exposed to deep engagement on the majority of the topics identified in the engagement scope Bubble Diagram. RPRG members have felt comfortable challenging many aspects of the material discussed with Powerlink. Where we felt that more information was needed, such as the capital expenditure forecasting methodology, we have sought and been provided with additional briefings. The level of engagement has enabled the RPRG to provide this detailed response to the Draft Regulatory Proposal.

#### *Evidenced impact of the engagement*

Table 3.4 of the Draft Regulatory Proposal lists the areas where Powerlink had identified the impact that engagement to date has had on the Draft Proposal. RPRG generally agree with these statements.

Publication of the Draft Proposal itself is a major milestone in the engagement program. It is anticipated that consideration of submissions received from customers and stakeholders on the Draft Proposal, and Powerlink's subsequent responses will provide further evidence of the impact of customers' views on the formal Regulatory Proposal.

#### **Guiding questions and responses**

##### **4. Do you support Powerlink's engagement approach to date? What could we do better?**

RPRG supports the collaborative approach to developing the 2027-32 Engagement Plan.

The depth of engagement with the RPRG has been impressive. We have sought and been provided with additional information as required and have been comfortable challenging Powerlink's position on many aspects of the proposal. There are several substantive issues

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<sup>12</sup> <https://qhes.com.au/>

<sup>13</sup> We note that a survey report has not been provided with the Draft Regulatory Proposal

mentioned in this submission that will be the topic of further engagement in the lead-up to the January 2026 regulatory proposal.

Powerlink has expanded the breadth of its engagement for this regulatory determination, with mixed results. Some opportunities for improvement may include:

- Easing the burden for customers by amalgamating the direct customer/C&I survey with existing surveys/engagements conducted for these customers.
- Consider hosting Draft Proposal feedback workshops with existing customer cohorts eg QFF members
- Reviewing the format of the Central Queensland Transmission Forum to provide more of a focus on obtaining feedback on the Draft Regulatory Proposal

#### **5. Have we demonstrated how engagement has influenced the draft Revenue Proposal?**

RPRG is satisfied that Powerlink has identified the impact of engagement to date on the draft Regulatory Proposal. There are several important issues that we will continue to engage on in the lead-up to the January 2026 submission. We look forward to seeing how feedback in this submission is reflected in the January 2026 submission.

## **4. Capital Expenditure**

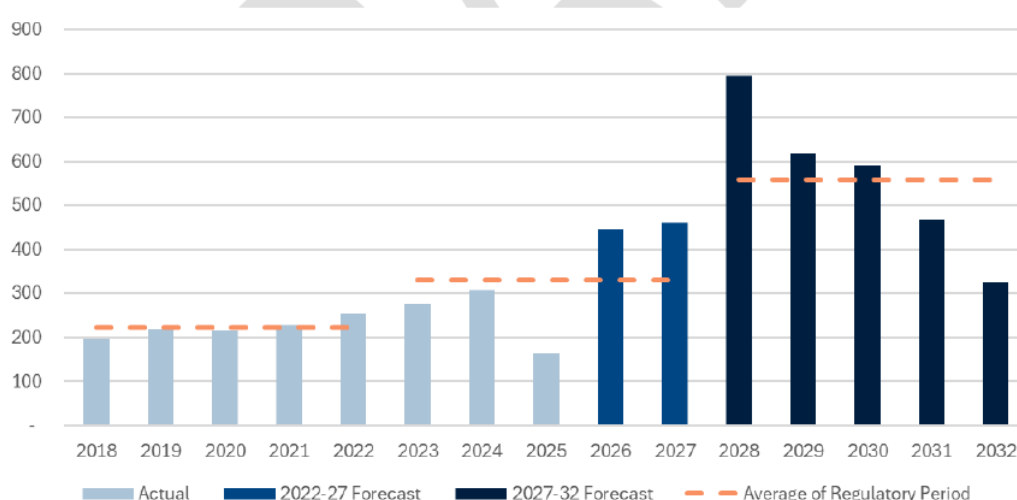
### What Powerlink is proposing

The table summarises the AER allowance and actual and forecast spend for the current period and forecast spend for 2027-32.

	<b>2022-27</b>			<b>2027-32</b>		
	AER allowance	Actual / Forecast	% change vs allowance	Forecast	% chg vs 2022-2027 AER allowance	% chg vs 2022-2027 Actual / Forecast
\$2026/27m	\$1,074.7	\$1,653.9	+54%	\$2,796.7	+260%	+69%

Forecast expenditure increases significantly in the last two years of the current period and the first three year of the 2027-32.

Figure 5.1 - Capital expenditure by driver (\$million real, 2026/27)



Powerlink argues the proposed expenditure meets the rules, capital expenditure criteria and factors – meet expected demand, comply with regulatory obligations, maintain quality, reliability and security, and contribute to achieving emissions reductions. Key drivers are:

- reinvestment in the transmission network to maintain safety, security, reliability and quality of supply as assets continue to age
- response to the changing use of electricity and the transmission network, and new obligations to provide system strength services, and
- critical investment in the redevelopment of the Virginia complex and the development of a facility in Gladstone to support the growing regional workforce.

The major category is ‘network – non-load driven ie replacement capex, which makes up 81% of total capex and is a 60% increase on forecast expenditure in the current period. As explained in Powerlink’s Forecast Expenditure Methodology<sup>14</sup>, the AER’s view, expressed as part of the current period reset, was that the repex model was not suited to TNSP replacement capex forecasts. Bottom up forecasts are preferred to modelled forecasts. So Powerlink uses a hybrid approach which integrates top-down and bottom-up methods with 84% a bottom-up forecast.

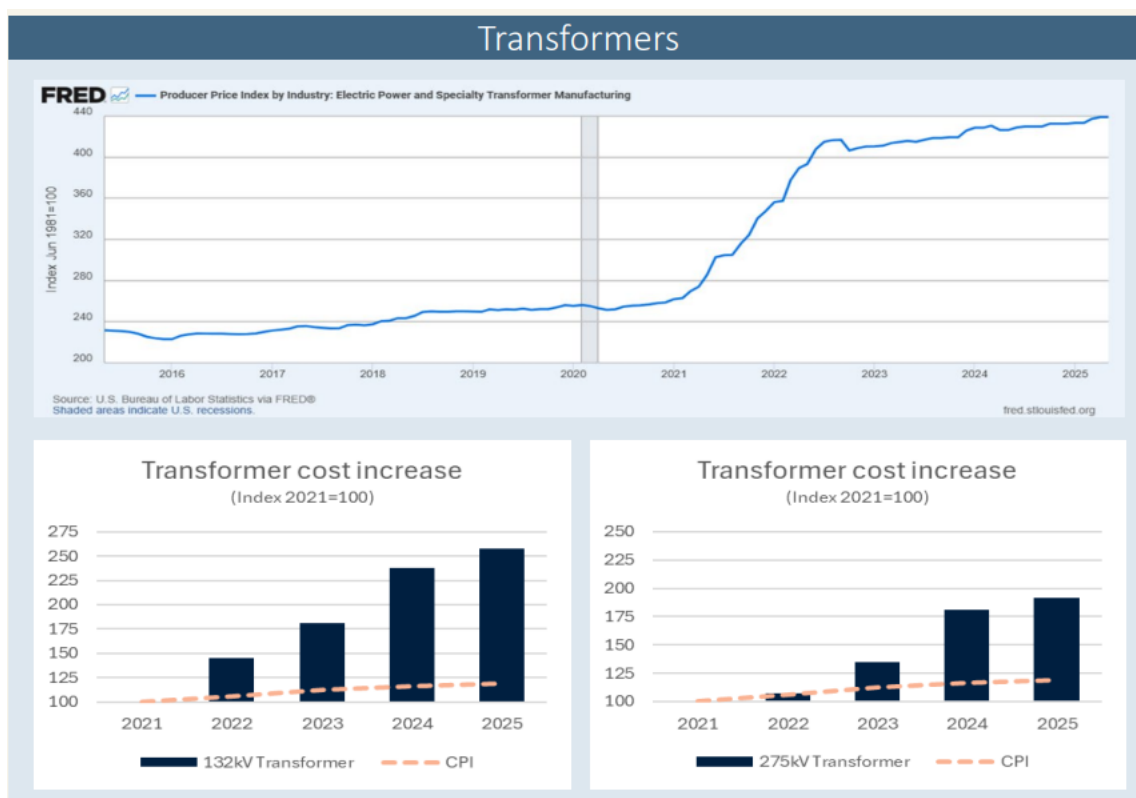
\$26/27m	Actual/forecast 2022-27	Forecast 2027-32	\$ increase	% increase	Methodology
Network – load driven	76.2	182.7	106.6	139.8%	Bottom-up
Network – non-load driven	1,420.2	2,274.2	853.9	60.1%	mixture
Total network	1,496.4	2,456.9	960.5	64.2%	
Non-network	157.5	339.8	182.4	115.7%	Top down
Total	1,653.9	2,796.7	1,142.8	69.1%	Bottom up- \$2,344.9m Top down – \$451.8m

<sup>14</sup> <https://www.powerlink.com.au/sites/default/files/2025-06/Powerlink%20Queensland%20-%202027-32%20Revenue%20Proposal%20-%20Expenditure%20Forecasting%20Methodology.pdf>

Like all network businesses, Powerlink is facing strong upward pressures on materials and labour costs. On materials it says (p. 102):

“Although there are still many unknowns in the global economic environment, along with the broader rate of global and local inflation, the rate of price growth appears to be moderating back towards long term trend in line with CPI. To be clear, there is no indication that materials prices will decline in real terms.”

The following cost escalation for transformers based on US Bureau of Labor Statistics data shows that the costs of delivering transmission assets has doubled in the last four years. Powerlink has expanded its proactive engagement with suppliers and developed alternative supply chains for its equipment supply to mitigate these cost pressures.



On labour, Powerlink says that it 2024 Working at Powerlink Agreement (a four year EBA):

“... reflects increasing demand for skilled labour in the energy sector and is critical to enable Powerlink in securing and retaining the resources to deliver our capital and operating objectives.”

#### Capital Expenditure Sharing Scheme (CESS)

The CESS incentive scheme means the network effectively pays for 30% of the capex it spends above the AER allowance for the period. Customers only pay for the remaining 70% when the AER assesses that the additional capex meets the capex criteria ie is prudent and efficient. If the overspend occurs there is a ‘negative carryover amount’ representing the 30% contribution that is paid for by the network through a reduction in the MAR in the following period. Using the AER’s standard CESS calculation methodology, Powerlink estimate this amount at \$(121.6)m for 2027-32.



There is also an additional \$(4.0)m 'true-up' for actual capex in 2021-22 being higher than forecast at the time of assessing the negative carryover amount for the current 2022-27 period. So the total estimated MAR reduction in 2027-32 is \$(125.6)m.

Powerlink have proposed an alternative CESS calculation methodology. It is driven by the 'unprecedented' increases in costs in major plant items, materials and skilled resources over the current period. Powerlink have re-calculated the AER allowed capex to:

"... include the cost increases outside of Powerlink's control, allowing a more reasonable assessment of those cost increases that were within Powerlink's control."

Increasing the allowance this way reduces the overspend with the CESS carryover amount for the current period from \$(121.6)m to \$(37.9)m.

#### *Ex post review*

Under the rules, the AER is required to decide whether the roll forward of the RAB from the previous period contributes to the achievement of the capex incentive objective ie reflects the capex criteria of prudence and efficiency. The AER can undertake what is referred to as an 'ex post' review of past capex where it exceeds the AER allowance. This assessment is undertaken over a five-year period – the last three years of the previous period and the first two years of the current period ie the last 5 years where audited expenditure is available. Under the rules the AER may exclude capex from being rolled into the RAB in three circumstances:

- when a network service provider has overspent, the amount of capex above the total capex forecast that does not reasonably reflect the capital expenditure criteria can be excluded from the RAB
- where there is an inflated related party margin, the inflated portion of the margin can be excluded from the RAB, and
- where a change to a network service provider's capitalisation policy has led to opex being capitalised, the capitalised opex can be excluded from the RAB

There has been discussion of whether there would be an ex post review for the 5 years – 2020-21 to 2024-25. Powerlink's expenditure over those 5 years- 2020-21 to 2024-25, is shown in the following table (p.50) that shows a significant fall in capex in year 5 (2024-25):

*Table 4.4 - Capital expenditure – ex post review period (\$million nominal)*

	2021	2022	2023	2024	2025 <sup>(1)</sup>	Total
AER Allowance	185.5	179.7	209.3	239.9	184.9	999.4
Actual	180.5	207.2	242.9	280.7	154.9	1,066.1
Difference	(5.1)	27.5	33.6	40.8	(30.1)	66.7
Difference (%)	(3%)	15%	16%	17%	(16%)	6.7%

(1) 2024/25 actuals are preliminary and subject to finalisation and audit.

This fall in 2024-25 is the result of Powerlink reviewing the application of its Cost Allocation Methodology (CAM) ie what proportion of 'shared' costs are allocated to prescribed services and directly recovered from customers through this reset process and what costs are recovered outside of the reset process. For example, how much of a particular cost category eg vehicles, was assigned to prescribed services and how much is assigned to other, non-regulated/non-prescribed, services?

The current CAM was agreed with the AER in 2008 and Powerlink considers that it remains appropriate. The review of the application of the CAM concluded that too much of the 'shared' capex costs were

allocated to prescribed services and too little to additional non-prescribed activities supporting the energy transition. This misapplication was identified in 2022-23, 2023-24 and 2024-25. Rather than go back and change the data for all three years, it was decided that all the adjustment would be taken in 2024-25.

This changed application of the CAM meant that there was a 6.7% overspend in the five year period which Powerlink argues is not material in the context of the operating environment discussed above. So their view is that no ex post review is required.

*Other possible projects that are not included in the above forecast*

A number of major capital projects are not included in the above numbers. The indicative costs shown are total costs, not the share of costs expected to be incurred in 2027-32. These costs may increase due to the State Government's recently announced Energy Roadmap.

Project category	Indicative total capital cost (\$b)
Three contingent projects that may or may not be built depending on additional demand or timing of generation closure/reduction in minimum demand	\$1.9b
Six 'Future ISP projects' that are listed in the AEMO 2024 ISP <sup>a</sup>	\$5.8b
Two 'Priority Transmission Projects (PTI)' – Gladstone reinforcement <sup>15</sup> and CopperString <sup>16</sup>	\$16.5b
Total	\$24.3b

a. This list may change in the 2026 ISP (draft December 2025, final June 2026) that will be available before submission of Powerlink's revised proposal in December 2026.

If they proceed, the full capex costs of contingent and ISP projects will be reflected in Powerlink's RAB and paid for as a prescribed service by all consumers.

The Gladstone project is required to provide system security and reliability and is scheduled to be completed in 2029 to coincide with the potential closure of Gladstone Power Station and will be delivered by Powerlink.

The Queensland Government's Energy Roadmap has committed to the construction of the 330kV Eastern Link of the CopperString transmission line in North Queensland (Townsville to Hughenden) starting in 2028 with completion expected by 2032. There will be a continuing assessment of the Western Link from Hughenden to Mt Isa<sup>17</sup>. The Roadmap includes a \$2.4b Government funding commitment for CopperString with the QIC recommending that it be delivered as a regulated asset under the PTI framework that is being used for the Gladstone project<sup>18</sup>. This project would be delivered by QIC, not Powerlink, presumably through a separate RAB.

<sup>15</sup> [https://hdp-au-prod-app-pq-projects-files.s3.ap-southeast-2.amazonaws.com/8917/5014/1929/Gladstone\\_PTIFinalAssessmentReport\\_web.pdf](https://hdp-au-prod-app-pq-projects-files.s3.ap-southeast-2.amazonaws.com/8917/5014/1929/Gladstone_PTIFinalAssessmentReport_web.pdf)

<sup>16</sup> [https://edge.sitecorecloud.io/giclimited1-qicom-prod-94af/media/Project/QIC/QIC/Investment-Capabilities/Infrastructure/Energy-Roadmap/QIC\\_CopperString-Review-Report\\_2025.pdf](https://edge.sitecorecloud.io/giclimited1-qicom-prod-94af/media/Project/QIC/QIC/Investment-Capabilities/Infrastructure/Energy-Roadmap/QIC_CopperString-Review-Report_2025.pdf)

<sup>17</sup> See pp. 39-40 <https://www.treasury.qld.gov.au/files/Queensland-Energy-Roadmap-25-043.pdf>

<sup>18</sup> See p. 14 [https://edge.sitecorecloud.io/giclimited1-qicom-prod-94af/media/Project/QIC/QIC/Investment-Capabilities/Infrastructure/Energy-Roadmap/QIC\\_CopperString-Review-Report\\_2025.pdf](https://edge.sitecorecloud.io/giclimited1-qicom-prod-94af/media/Project/QIC/QIC/Investment-Capabilities/Infrastructure/Energy-Roadmap/QIC_CopperString-Review-Report_2025.pdf)

The Energy Minister determines the proportion of capex that goes into the RAB (whether Powerlink or QTC) for PTI projects.

#### RPRG comments

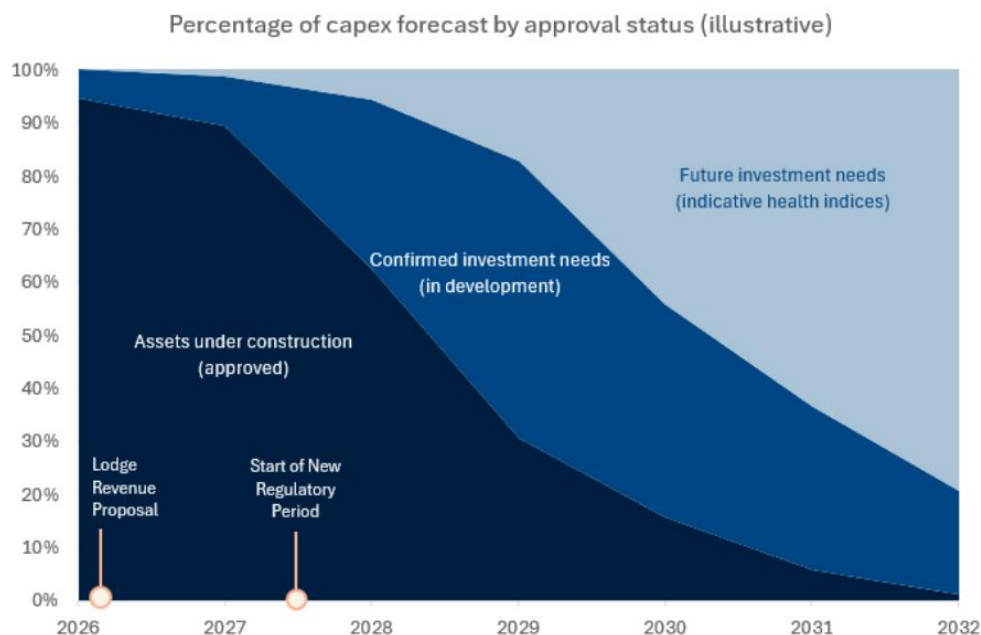
The Draft Proposal proposes a significant increase in capex. It is the role of the AER to assess prudence (ie the expenditure should be at the time proposed) and efficiency (ie the amount of expenditure is efficient). We do not have the expertise to do that. Our role is to seek to understand the main capex drivers, the forecasting methodology used and how Powerlink has addressed the risks we see consumers facing over 2027-32. We raise questions and challenge Powerlink to improve its explanation and consumer understanding of why such a large increase in capex spend is justified.

Our focus is on five topics – capex forecasting methodology, deliverability, impact of the EBA, the proposed change in the CESS calculation, the ex-post review and the impact of projects currently outside of the revenue proposal.

#### *Capex forecasting methodology*

The RPRG has had extensive discussions with Powerlink on its capex forecasting methodology. We think that conceptually the approach is reasonable. Forecasting uses phases of capex expenditure development – assets under construction following approval, confirmed investment needs where options are being assessed (perhaps through a RIT-T process) and future investment needs. The level of project definition and cost estimate accuracy varies for each category. The indicative percentage of capex in each phase is illustrated in this figure:

*Figure 5 Capital expenditure forecasting phases*



Our discussion has focussed particularly on network project estimate classes and accuracy for the project approval phase. This table (p.70) provides the typical level of maturity of project definition required and the corresponding accuracy of the AACE estimate class.

Table 5.8 - Estimate classes and accuracy (source: AACE International, Powerlink)

Estimate Class	Maturity of Project Definition	Typical Accuracy Range	Typical Estimate Type
Class 5	0% to 2%	-50% to +100%	Concept Estimate
Class 4	1% to 15%	-30% to +50%	
Class 3	10% to 40%	-20% to +30%	
Class 2	30% to 75%	-15% to +20%	
Class 1	65% to 100%	-10% to +15%	

The cost pressures Powerlink highlights in the Draft Proposal have led to the costs of many network projects across the NEM being significantly above the cost presented at the time of project approval. To take a Powerlink example, we discussed the lessons learnt from the Kamerunga sub-station project in Cairns. The RIT-T completed in 2019 had two options for brownfield replacement with the outdoor air insulated switchgear (AIS) option selected and approved for completion in December 2022 at a cost of \$35.5m. The brownfield replacement was subsequently found to be not technically feasible. A revised strategy for replacement at a new site was developed and a revised RIT-T was undertaken. The cost is now estimated at \$123m with the plan to commence site works in March 2027. This experience led to a revision in planning process to improve project cost accuracy and reduce unknown delivery risk at the time of final approval.

But the approval process only requires an AACE Class 3 estimate which has a typical accuracy of -20% to + 30%. It is not just the cost estimate class a network selects for the project approval stage, it is also whether that cost estimate is accurate for the chosen class. Recent experience suggests that while networks are embracing the AACE framework developing robust class estimates, it is a work in progress as claims of a particular class at project approval stage have not borne out following construction where costs have increased by a much greater amount than the upper bound of the selected class accuracy range. The AER is now recognising this uncertainty and in the case of Marinus required the project proponents to develop a rigorous Class 2 estimate before considering its revenue proposal<sup>19</sup>.

We look forward to further discussions with Powerlink on the appropriate level of cost accuracy and risk factors for different projects eg by size and whether they are standard 'repeatable' or 'one-off' projects.

The other area for further discussion is the absence of a capex portfolio risk factor. Historically the approach was that no portfolio risk factor was included because it was assumed that the underspend and overspend over the five years would 'balance out' with underspends equalling 'overspends'. We think it is worth considering whether this is still the case and likely to remain the case over 2027-32. The Powerlink and AACE accuracy bands do not produce a cost estimate that has symmetrical higher and lower cost risk and reflect current experience of overspend being much more likely than underspend.

### *Deliverability*

Here we refer to both 'on time' and 'on budget' at the time of project approval and again this has been the subject of a number of discussions with Powerlink. In recent years all networks have experienced substantial increases in capex and project delays due to a range of supply chain pressures.

There is a relatively small section in the Draft Proposal on deliverability (pp. 67-8). It says that:

"We have a proven ability to deliver capital projects to meet the needs of Queensland customers for a safe, secure and reliable supply of electricity."

<sup>19</sup> <https://www.aer.gov.au/documents/marinus-link-revised-commencement-and-process-paper-december-2024>

The Draft Proposal briefly describes a number of initiatives that are being taken to support deliverability eg establishment of a Major Projects Division, portfolio risk management, field delivery resource models, and supply chain initiatives. Powerlink has not undertaken specific risk analysis in relation to the impact of these initiatives not delivering the expected benefits.

The annual capex spend profile shown above has a significant increase in years 4 and 5 of the current period and then a further very large increase in year 1 of the forecast period. Our concern is that this BAU programme will place considerable pressure on Powerlink resources at a time when they are also committed to delivering CopperString Eastern Link and Gladstone reinforcement. Powerlink's response is that this large increase over the next three years is driven by procurement of major plant items eg synchronous condensers, that utilise different resources than those used in BAU type projects such as replacement of substation primary plant and secondary systems. This means they are able to deliver these large projects in parallel with the BAU replacement capex.

We acknowledge the considerable effort that Powerlink is putting into the issue. We look forward to further discussions at our November and December meetings where we will be provided with our requested data on the historical record of project deliverability 'on cost' and 'on time' and will discuss a range of post implementation reviews of capex projects.

#### *Impact of the 2024 EBA*

The capex escalation methodology applies the 1.1% annual real increase (p. 100). Yet the 2024-28 EBA provided for significant increases in total labour costs well above the 1.1% annual real with unclear productivity offsets. The very similar Energy Queensland EBA was analysed by the Energy Queensland Regulatory Reference Group as part of its submission to the AER on the EQ 2025-30 revenue reset<sup>20</sup>. The increase represented one of the biggest first-year pay rises in the country at that time and contractors to Powerlink are required to provide equal or better terms<sup>21</sup>.

We note that this EBA expires in 2028, year one of the next period, so the majority of the labour costs in the next period will be governed by the next EBA. We look forward to further discussions with Powerlink on the impact of these increased costs on the capex forecast.

#### *Proposed change to the CESS calculation*

The RPRG has only had a preliminary discussion on the CESS carryover and details are sketchy. Powerlink are not proposing to pass judgement on which costs were or were not outside their control as that would require subjective analysis. Rather they are proposing to apply actual cost increases to specific asset type cost inputs and update the allowance escalation assumptions for prevailing CPI and wage price indices. We look forward to a more detailed discussion in a forthcoming RPRG meeting.

So we are unable to support the proposed approach at this stage. Consistent with our view on Powerlink's proposal discussed below to change the methodology for calculating the trend component in opex, we are concerned that approval of this approach would set a costly precedent for all networks to follow the same course. Any review of the approach should come via a network wide review rather than an individual network reset.

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<sup>20</sup> See pp 36-7 <https://www.aer.gov.au/documents/eql-reset-reference-group-submission-ergon-energys-revised-proposal-and-draft-decision-2025-30-january-2025>

<sup>21</sup> <https://www.afr.com/work-and-careers/workplace/qld-union-s-13pc-pay-rise-may-spoil-energy-relief-20240523-p5jfbz0>

### *Ex post review*

The AER ex post review follows a two stage process set out in the Capital Expenditure Incentive Guideline<sup>22</sup>:

Stage 1- initial consideration of actual capex performance – is the overspend significant, what is the network’s history of capex spend and are there any specific concerns? if there are then

Stage 2 – a deeper bottom up review of the capex overspend – what were the drivers and the network’s management and planning tools and practices eg application of RIT-D, appropriate project management plans and processes including asset management, project delivery controls, procurement strategies, asset lifecycle management, resourcing strategies, program management, risk management and appropriate project and capital governance. Any capex that is not deemed prudent and efficient is removed from the RAB ie the network earns neither return on or return of the capital. .

The only time an ex post review has been undertaken was for Ergon for the 2017-18 to 2023-24 five year period. Here the AER concluded that the over spend was material. The Stage 2 bottom-up review was on \$1,195m with particular focus on repex covering:

- Main drivers and reason for over spend – review unit cost and volume changes, Ergon’s asset management and governance arrangements, with a particular focus on pole replacement
- Whether Ergon applied appropriate project management and planning processes including internal governance
- How much of the overspend was efficient and prudent.

The AER’s Draft Determination ‘placeholder’ decision was to allow \$598.8m or 50% below Ergon’s proposal as prudent and efficient. Ergon decided not to contest the decision.

The RPRG has only had a brief discussion with Powerlink on their view that an ex post review is not required. It seems there are two related reasons:

- The actual overspend is relatively small once the amendments are applied to ensure that the CAM is correctly applied, and
- The overspend meets the capex criteria as it was spent to meet compliance obligations

Our initial questions/comments are:

- Why has the CAM issue only arisen now when there was the possibility of an ex post review?
- Why does the changed CAM application only go back three years? What assurances can Powerlink provide that consumers have not been overpaying for prescribed services for much longer than three years given the CAM for the current period was approved by the AER in 2008<sup>23</sup>.
- The AER accepted the Powerlink capex forecast that was based on the ‘old’ CAM application. We look forward to Powerlink explaining why the actual expenditure post the CAM adjustment is compared to the AER allowance based on the ‘old’ CAM application. Intuitively we would expect the allowance based on the ‘new’ allocation to be lower and hence the overspend higher than 6%.

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<sup>22</sup> See pp.13-19

<https://www.aer.gov.au/system/files/AER%20capital%20expenditure%20incentive%20guideline%20-%20April%202023.pdf>

<sup>23</sup> <https://www.aer.gov.au/documents/powerlink-trp-2022-27-cost-allocation-methodology-january-2021>

- We would like to better understand the cost recovery process for these costs that have moved from prescribed to non-prescribed services
- What specific compliance obligations have led to the overspend given a larger proportion of the overspend has been in repex that, unlike augmentation does not have deterministic obligations?

Powerlink will be providing additional information at our November meeting and we look forward to that discussion.

*The impact of capex projects currently outside of the reset proposal*

We recommend that Powerlink provide analysis of:

- What changes to current contingent and ISP projects might flow from the Energy Roadmap
- The potential impact of this perhaps revised project list on MAR and consumer prices.

***Guiding questions and responses***

**6. Is the forecast capital expenditure underpinned by appropriate and transparent forecasting methodologies?**

See the response to question 7.

**7. Is the forecast capital expenditure supported by clear explanations as to why forecasts are different from historical expenditure?**

Combined answer to questions 6 and 7:

Not at this stage. We look forward to further discussions prior to submission of the January 2026 proposal on the accuracy of the capex forecasts at the project approval stage, portfolio delivery given the major project list outside of business-as-usual (BAU) capex, the impact of the EBA and relevance of a portfolio risk component. This will include discussion of a range of post implementation reviews to understand the earnings from the 'on cost' and 'on time' project delivery in recent years and how productivity initiatives have influenced the forecasts.

**8. Do you support our intent to propose an alternative approach to the calculation of net carry-overs from application of the CESS? What are the reasons for your support or lack of support for this approach?**

Not at this stage. Firstly we do not support retrospective changes in methodology. Secondly our general approach is that any substantive change in AER methodology should come via a network wide review rather than an individual network reset. We look forward to further discussions prior to submission of the January 2026 proposal.

## 5. Operating Expenditure

### What Powerlink is proposing

Powerlink have used the standard AER base, trend, step methodology ie set an efficient cost level for the base year, then add on costs reflecting higher output and labour and materials costs, then subtract costs reflecting productivity gains and finally add costs for specific 'step change' factors. In addition

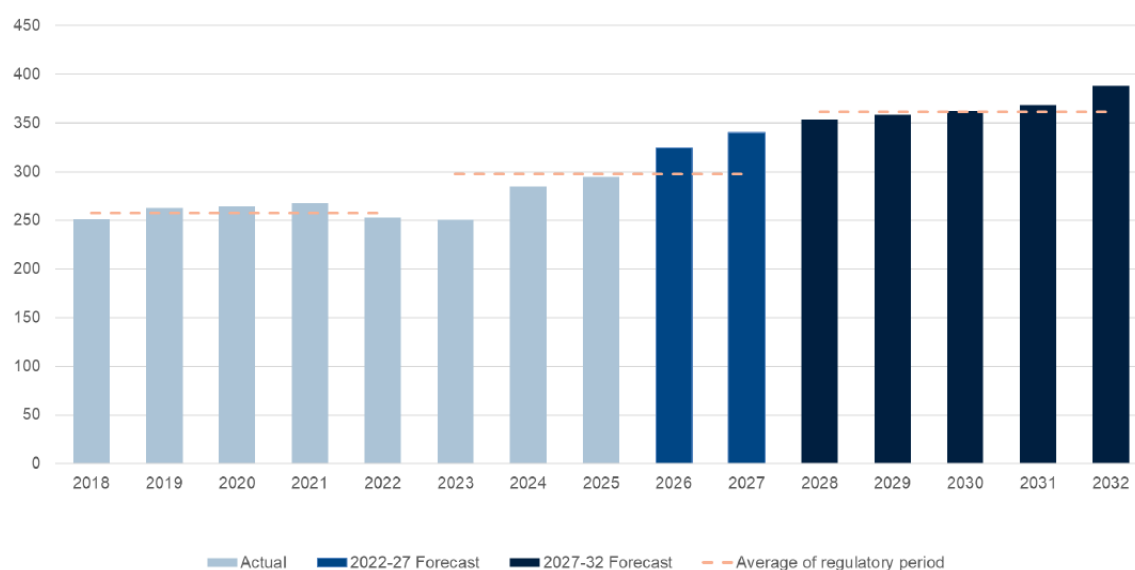
there are some category specific forecasts. The table summarises the AER allowance and actual and forecast spend for the current period and forecast spend for 2027-32.

	2022-27			2027-32		
	AER allowance	Actual / Forecast	% change vs allowance	Forecast	% change vs 2022-2027 AER allowance	% change vs 2022-2027 Actual / Forecast
\$2026/27m <sup>1</sup>	\$1,253.3	\$1,495.3	+19.3%	\$1,805.5	+44.1%	+20.7%

1. Excludes debt raising costs

The figure shows the significant increase in real annual opex over the period 2018-2032.

Figure 6.1 - Total actual historical and forecast operating expenditure (\$million real, 2026/27)



### Base year

Powerlink propose 2025/26 (year 4 of the current period) as the base year. Networks tend to choose year 3 of the current period because audited revealed costs are available at the time of submitting the regulatory proposal. Powerlink considers that 2024/25 is not representative as it excludes new regulatory and compliance costs and the volume of maintenance was not representative of a typical year due to the impact of Cyclone Alfred and limited access to some substations. So the 2025-26 forecast serves as the 'base year'. This has then been adjusted downwards for non-recurrent costs of \$6.9m.

HoustonKemp have been engaged to perform an independent assessment of the efficiency of the forecast base year expenditure. This report is not yet available, but initial findings are that Powerlink's operating efficiency has declined in 2023/24 and is forecast to continue declining in 2024/25 and 2025/26 due to higher costs more than offsetting higher output. This is a reflection of the rapidly changing operating environment discussed above.

### Trend

The 'trend' component is a combination of a number of variables- (output change + real price change – productivity). Powerlink propose a change in how the 'output change' component is measured. Currently it is a combination of four measures, each with different weightings:



Table 6.5 - Output measures

Output measure	Weighting <sup>72</sup>
Energy throughput	14.9%
Ratcheted maximum demand (RMD)	24.7%
Number of customers	7.6%
Circuit length	52.8%

The ‘number of customers’ measure is meant to be a proxy for the complexity of the TNSP. Powerlink argue that, while it may have been in the past, it is no longer an adequate measure. After analysis of various possible measures, Powerlink is proposing to substitute the measure of ‘transmission connected renewable energy supply (GWh)’ for ‘number of customers’ in this 7.6% weighting component. This new measure is seen as much more reflective of network complexity eg driving the increased operating envelope. The table shows the forecasts for each measure based on the step change scenario in AEMO’s 2024 Integrated System Plan:

Growth rate (%) per annum	2028	2029	2030	2031	2032
Number of customers	1.05	1.03	1.01	1.04	1.01
Renewable energy supplied	10.41	3.68	35.92	7.34	15.50

Using Powerlink’s proposed measure would increase the ‘trend’ opex component by \$54.4m above the 2027-32 opex forecast in the Draft Plan which uses the ‘number of customers’ output measure.

Powerlink follows the AER’s accepted approach to ‘real price change’ for labour (simple average of the network’s and the AER’s consultants’ forecasts giving a 1.1% annual real increase) and materials (zero real price growth) using the AER’s 70.4/29.6 weightings. While there have been considerable material cost increases in recent years, Powerlink says the rate of price growth (p.91):

“...appears to be moderating back towards the long term trend line in line with CPI. To be clear, there is no indication that materials prices will decline in real terms”

Powerlink proposes an annual 0.3% productivity improvement, in line with the TNSP actual average over 2006-23.

#### Step changes

There are four step changes totalling \$101.6m:

Physical security uplift – cost associated with complying with obligations for physical security under the SOCI Act	\$13.7m
Transition to cloud based solutions – opex/capex substitution with move to cloud based solutions rather than in-house IT provision	\$64.4m
Addressing sole overnight control room operator risk	\$13.4m
Synchronous condenser maintenance	\$10.1m
Total	\$101.6m

Powerlink are considering a possible trade-off between the revised trend forecast and the control room operator risk as both seek to address the costs of increased system complexity.

#### *Category specific forecasts*

There are three:

- (i) Insurance – indicative estimates are that 2027-32 costs will increase ~\$10m over 2022-27; more accurate cost forecast will be available in November when this issue will be discussed with the RPRG
- (ii) AEMC levy – regulatory requirement
- (iii) AEMO participant and cyber security fees – regulatory requirement

#### RPRG comments

Powerlink's 'constructive discomfort' approach to 2022-27 opex meant that there was already considerable risk of not being able to achieve the stretch targets even in the absence of the then unknown impact of the Ukraine war. The AER will be assessing whether a more measured and 'less stretch target' approach for 2027-32 meets their expenditure guideline<sup>24</sup>. We comment on each part of the 'base, trend, step' methodology.

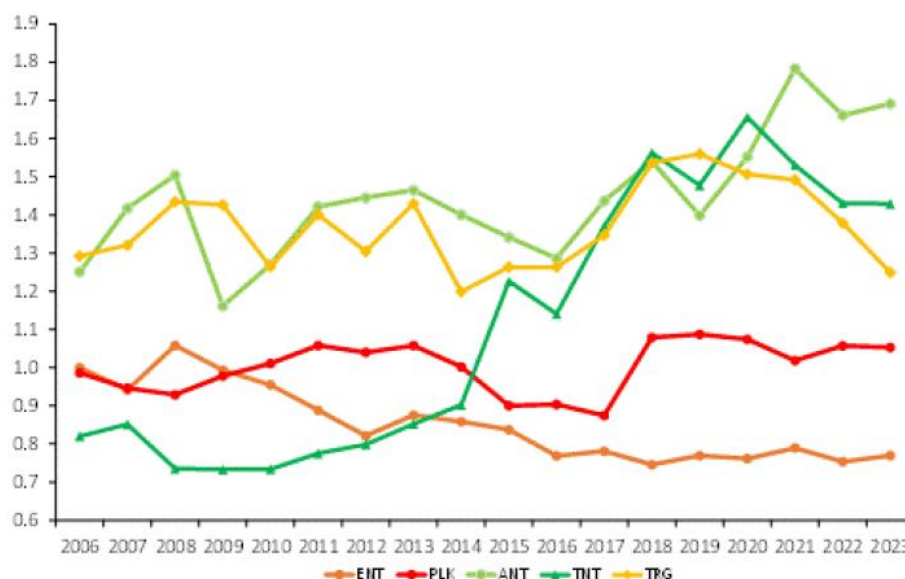
#### *Base year efficiency*

The most recent productivity numbers are in the 2024 report for 2022-23<sup>25</sup>. The 2023-24 results will be published in the next month. The 2022-23 results show Powerlink as fourth of the five TNSP based on opex multilateral partial factor productivity (MPFP) with a large spread of results among the five TNSPs:

<sup>24</sup> <https://www.aer.gov.au/documents/aer-expenditure-forecast-assessment-guidelines-october-2024>

<sup>25</sup> <https://www.aer.gov.au/industry/registers/resources/reviews/annual-benchmarking-reports-2024>

**Figure 13 Electricity transmission opex MPFP indexes by TNSP, 2006–23**



Powerlink’s opex productivity had a varied trend from 2005-6 to 2016-17, increased significantly in 2017-18 and has had a slightly decreasing trend since then. As noted above, Powerlink forecasts that decreasing trend will continue until at least 2025-26. All networks have concerns about the measurement methodology giving misleading results especially due to their claimed different operating environment factors eg Powerlink having network in a tropical climate zone increases its costs above other transmission network. Each network claims its own special features which they argue makes it difficult to fairly measure comparative productivity. Nevertheless this AER believes that its methodology is robust and there is a programme of regular improvements in its methodology<sup>26</sup>. We consider that it is reasonable for consumers to use the benchmarking results to assess relative performance.

We can understand the reason for Powerlink choosing 2025-26 as the base year. However audited actual costs for that year will not be available until after the AER issues its Draft Determination in September 2026 so the AER’s initial assessment will be based on forecast costs in January 2026. The AER’s assessment of base year efficiency (or, more correctly, the opex level at which Powerlink is ‘not materially inefficient’) for the current period was relatively straightforward given:

- proposed opex was lower than the forecast for the then current period of 2017-22, and
- the then recent improvement in opex productivity and partial performance indicator data.

The AER commented on the positive impact of EBSS in the preceding year (2017-18) as we see in the 2017-18 result shown above. The AER noted<sup>27</sup>:

“Further, there is also some evidence from the PPIs of improved performance which in part reflects lower opex over time.”

<sup>26</sup> Most recently in 2018 – see <https://www.aer.gov.au/industry/registers/resources/reviews/review-operating-environment-factors-distribution-network-service-providers>

<sup>27</sup> Draft Decision Attachment 6 Opex p. 15

<https://www.aer.gov.au/industry/registers/determinations/powerlink-determination-2022-27/draft-decision>

It is going to be a lot more complex this time. With Powerlink's revealed costs showing a deteriorating trend with a substantial over allowance forecast for the current period, we look forward to further discussions with Powerlink following the completion of the HoustonKemp analysis eg is it going to propose a base year efficiency adjustment in its regulatory proposal?

While we acknowledge that we are only in the early stages of assessing the base year, it is worth contrasting Powerlink's position (the current forecast opex in the proposed base year of 2025-26 is 10% higher than preliminary audited of opex in 2024-25) with that of Ergon Energy in its 2025-30 reset.

- Ergon had average opex productivity performance and a large forecast overspend on period allowance
- Ergon proposed year 4 of the current period (2023-24) as the base year when only a forecast was available
- The actual opex in 2023-24 was 23.5% higher than the forecast in its initial proposal
- In its revised proposal Ergon proposed a much higher downward base year efficiency adjustment to 2023-24; given the size of the inefficiency, Ergon proposed an increase in allowed opex to cover the costs of transitioning its costs to the 'not materially inefficient' level over the full five years rather than all in year 1 as is the standard approach
- The Energy Queensland Reset Reference Group (the equivalent of the RPRG) left the base year decision to the AER but did not support Ergon being allowed the transition costs; this allowance had only been permitted once before under different circumstances, for Ausgrid's 2014-19 reset. The RRG were not convinced that the issues facing Ergon in 2025-30 period eg a very generous EBA combined with, at that time, only vague transition plans, gave any confidence that Ergon would be able to achieve the necessary productivity improvements<sup>28</sup>
- The AER decided that use of 2023-24 did not meet the opex criteria and so used 2022-23 (year 3) as the base year where it found that the audited costs in that year were not materially inefficient; this resulted in the approved opex being 9% below Ergon's revised proposal; so the AER's decision meant that it did not decide on the merits of allowing for transition costs<sup>29</sup>.

#### *Trend - output change*

We can understand why Powerlink has proposed the replacement of 'number of customers' with 'transmission connected renewable energy supply (GWh)'. We have two comments:

The first and most substantive is that we are concerned about the potential for the AER approval of Powerlink's proposed change sets a precedent not only for all TNSPs but also for all DNSPs. If there is a risk of this then a review of the output weights should be undertaken as part of an overall review of the relevant AER guideline(s) for both TNSPs and DNSPs. It is the same reason why the AER undertakes a regular RORI review of WACC rather than having a debate at each network reset. Powerlink has considered a range of possible measures before landing on the proposed one. A guideline review process would provide an opportunity for stakeholders to consider a wide range of possible measures in a public way.

The second covers practical matters:

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<sup>28</sup> See pp 35-7 <https://www.aer.gov.au/documents/eql-reset-reference-group-submission-ergon-energys-revised-proposal-and-draft-decision-2025-30-january-2025>

<sup>29</sup> <https://www.aer.gov.au/documents/aer-final-decision-attachment-6-operating-expenditure-ergon-energy-2025-30-distribution-determination-revenue-proposal-april-2025>

- does this new measure double count given it has overlap with the ‘energy throughput’ measure?
- how sustainable is the measure in the medium to longer term eg does it still remain an indicator of increasing complexity when the supply of renewable power is moving from 75-80% as it might be when the supply is moving from 35-50%

#### *Trend – labour costs*

Powerlink has followed the standard approach on labour cost escalation giving a 1.1% annual real increase. As we discussed above, the 2024-28 EBA resulted in wage increases considerably above that. Given Powerlink’s selection of 2025-26 as the base year, the majority of the increased costs are in the base year. We look forward to further discussion with Powerlink on how the EBA has impacted on base year costs and how this should be considered in deciding base year efficiency and any base year adjustment. Also how Powerlink plans to offset these labour costs with improved productivity. Given the next EBA from 2028 will cover the majority of the forecast period we are interested in what productivity measures will be required in that EBA to give consumers confidence that Powerlink will be able to operate within the opex allowance.

#### *Productivity*

Powerlink proposed 0.5%/yr for the current period. The EUAA submission to the 2022-27 reset welcomed the 0.5%/yr stretch productivity growth target but highlighted the risk to consumers under the Efficiency Benefit Sharing Scheme (EBSS) if the stretch target of 0.5 per cent productivity improvement is not achieved. Consumers did not want to see a situation where consumers were paying 70% of the increased costs from a failure to meet the stretch target. Yet this is what has happened.

We see Powerlink’s lower ambition as more achievable but still not particularly noteworthy. Powerlink is forecasting a decline in its productivity at the same time as it expects other TNSPs to also have declining productivity. The Draft Proposal reports (pp 54-5) on progress in productivity initiatives in the current period eg material supply chain and direct purchasing, vegetation management, improved efficiency of central processes and activities that have offset cost increases. Powerlink estimates that these initiatives will deliver ~\$13m in savings in the current period plus \$15m in avoided costs. The value of productivity initiatives in the forecast period is still being evaluated. We look forward to further discussion on specific productivity measures for 2027-32.

#### *Step changes*

Powerlink proposed no step changes in the current period<sup>30</sup>:

“Our proposal to target no real growth in operating expenditure and not to pursue any operating expenditure step changes, was carefully considered ... On balance, we decided to take up the challenge of no step changes and no real growth in operating expenditure in the interests of customers and to drive the business harder to find further efficiencies and productivity improvements to become a world-class transmission service provider.”

Two of the proposed step changes in 2027-32 are driven by regulatory changes (physical security uplift and syn con maintenance). We would question whether three of the step changes for between \$10-13m meet the materiality threshold for a step change given they are only 0.6-0.7% of total opex. The transition to cloud base solutions is driven by changing procurement methods occurring across all

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<sup>30</sup> See p. 98 <https://www.aer.gov.au/system/files/Powerlink%20-%20TRP%202022-27%20-%20Revenue%20Proposal%20-%20January%202021.pdf>

network and accounting standards. We look forward to further discussions with Powerlink on possible trade-offs with control room operator risk and the new output measure.

***Guiding questions and responses***

**9. Is the forecast operating expenditure underpinned by appropriate and transparent forecasting methodologies?**

While the Draft Proposal mostly follows the AER methodology, there are some matters that require further discussion before we can come to a view.

**10. Is the forecast operating expenditure supported by clear explanations as to why forecasts are different from historical expenditure?**

At a high level, yes. However we look forward to further discussion prior to the January 2026 submission to better understand the justification.

**11. Do you support our intent to propose an alternative output measure that better reflects the complexity of operating and maintaining a transmission system? What are the reasons for your support or lack of support for this approach?**

On the basis of our preliminary discussions, we do not support it. Our general approach is that any substantive change in AER methodology should come via a network wide review rather than an individual network reset.

We look forward to further discussions prior to the January 2026 submission.

**12. Is our base year selection supported by clear and reasonable explanations as to why it has been proposed?**

Not at this stage. We await further information on base year productivity in the HoustonKemp report and the AER's 2023-24 benchmarking report published next month to discuss whether any base year efficiency adjustments are required. Also look forward to discussion on the impact of the 2024 EBA on the ability to deliver on the forecast and how productivity initiatives in the current period have influenced the forecasts.

## **6. Price Path**

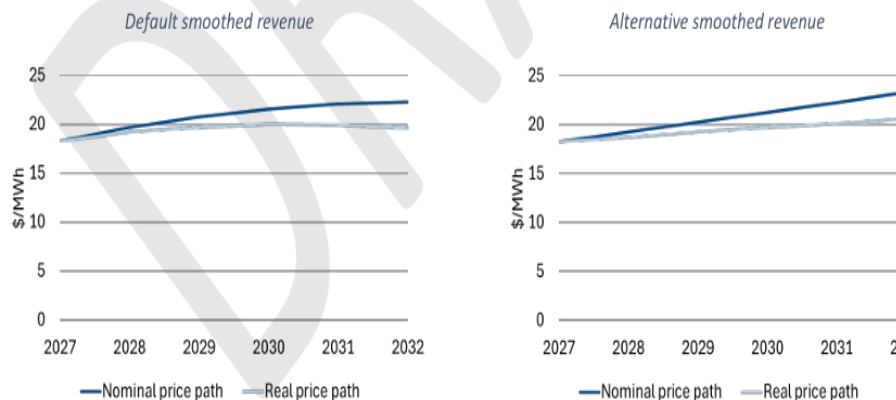
### What Powerlink is proposing

Powerlink is forecasting a Maximum Allowed Revenue (MAR) for the 2027-32 regulatory period of \$5,743.2 million (\$nominal) or \$5,308.1 million (\$real, 2026/27) which is 27% higher than the allowed MAR in real terms for the 2022-27 regulatory period.

The increase in MAR results in a forecast increase in the indicative transmission price in the first year of the next regulatory period of 8%. For average residential and small business customers, this represents an estimated increase in the first year of \$11 and \$22 respectively. The annual price increases for average residential customers and small businesses would be 3% in nominal terms for the remainder of the 2027-32 regulatory period.

Powerlink has also presented an alternative revenue smoothing approach and price path. Under the alternative scenario, the indicative impact on the transmission component of electricity prices in the first year of the next regulatory period (2027/28) would be a nominal increase of \$8 or 5% for residential customers, and a nominal increase of \$15 or 5% for business customers. The annual price increases for average residential customers and small businesses would be 5% in nominal terms for the remainder of the 2027-32 regulatory period. These two options are shown graphically below.

Figure 11.3 - Indicative price path from 2026/27 to 2031/32



Powerlink states that the alternative approach to smoothing revenue results in a more balanced price path relative to the default method.

#### RPRG comments

RPRG agrees that the alternative price path offers more predictable and stable prices for customers which is consistent with the preferences expressed by direct connect and C&I customers. Given current cost-of-living and cost-of-doing business pressures on Powerlink's customers, price relief in the initial years of the next regulatory period (albeit modest) would be welcomed, even if it results in steady price increases for the remainder of the period.

RPRG is concerned, however, that the forecast price impacts identified in the Draft Regulatory Proposal understate the actual price impacts that will be passed on to customers in the 2027-32 period. As highlighted in earlier sections of this submission, we understand that there are potentially further very significant costs which customers will face. These will likely arise from a range of sources, including the following.

- An alternative calculation of the CESS carryover amount from the 2022-27 regulatory period – Powerlink has proposed an alternative approach to calculating the CESS penalty for 2022-27 which would have the effect of increasing the forecast MAR by \$90.3 million, with corresponding increases in customer bills. Powerlink has provided information in the Draft Regulatory Proposal to quantify the increase. Under the default price path, prices for residential and small business customers would increase by 10% in year 1, followed by annual increases of 3% for the remainder of the regulatory period
- An alternative calculation for the rate of change of opex output growth. If included, this results in an overall increase of \$54.4 million to the total operating expenditure forecast
- Expenditure that may occur under the Queensland Government's Priority Transmission Investment arrangements is not included in the Draft Regulatory Proposal. The Queensland Energy Minister will determine whether and when any such expenditure is added to Powerlink's regulated asset base, and commensurate costs passed through to customers

- Powerlink has proposed three contingent projects and there are six future ISP projects in the 2024 ISP, with a combined total forecast expenditure of \$7.7b. While it is highly unlikely that all of these projects will proceed, expenditure on any approved contingent project during the regulatory period will also result in increases in customer bills
- Under the regulatory framework, more costs are being excluded from approved regulatory revenue forecasts and passed through to customers as part of the annual pricing process. These include system security network support costs
- Powerlink advises that they are still considering potential network support expenditure for the 2027-32 regulatory period, and this may be included in the 2027-32 Revenue Proposal.

RPRG will seek further information from Powerlink on credible future price scenarios arising from issues external to the regulatory proposal, as well as regulatory determination issues which have not yet been finalised.

#### *Guiding questions and responses*

#### **13. Do you support our intent to propose an alternative approach to smooth the impact on prices in the first year of the 2027-32 regulatory period, noting that it may lead to higher price increases in later years if the energy demand forecast does not eventuate?**

Yes. RPRG agrees that the alternative price path offers more predictable and stable prices for customers which is consistent with the preferences expressed by direct connect and C&I customers. Given current cost-of-living and cost-of-doing business pressures on Powerlink's customers, price relief in the initial years of the next regulatory period (albeit modest) would be welcomed, even if it results in steady price increases for the remainder of the period.

## **6. Pass through events**

### What Powerlink is proposing

Powerlink is proposing four pass through events that it considers consistent with the rules with the rules

- insurance coverage- risk of liability losses that exceed and/or are not covered due to gaps in, insurance coverage where there is a lack of insurers capacity or reasonable commercial terms
- insurer credit risk- where an insurer becomes insolvent and Powerlink is consequently subject to additional costs than allowed under the insurance policy with that insurer
- natural disaster- triggered where Powerlink could not obtain insurance coverage on reasonable commercial terms and the disaster caused a material increase in costs to Powerlink, and
- terrorism- an unforeseen act of terrorism for which Powerlink did not have insurance against caused a material increase in costs to Powerlink.

The first three are approved events in the current period, the fourth has been added on the recommendation of Marsh, Powerlink's insurance broker.

### RPRG comments

We look forward to further discussion on these events when we meet with Marsh at the November RPRG meeting.