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6 May 2025

Dr Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
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via email: AERResets2027-32@aer.gov.au

cc: Michael Brothers, A/Director Reset Coordination and Strategy

Dear Kris,

Powerlink 2027-32 Revenue Determination Process
Preliminary Framework and Approach Paper

Powerlink appreciates the opportunity to make this submission in response to the Australian Energy Regulator's (AER's) Preliminary Position Paper on the Framework and Approach for Powerlink's 2027-32 revenue determination process.

The Preliminary Framework and Approach (F&A) Paper sets out the AER's proposed approach to the application of incentive schemes, expenditure forecasting assessment guidelines, and depreciation to determine the opening regulatory asset base (RAB) for Powerlink's 2032-37 regulatory period. Powerlink recognises that the purpose of this paper is for the AER to obtain feedback from stakeholders on its preliminary positions on the amendments and replacements required to the F&A Paper. We also note that the positions set out in the AER's Preliminary F&A Paper are not binding on either the AER or Powerlink.

Powerlink supports in principle the AER's proposed approach to many of the matters set out in the Preliminary Position Paper, with specific comments identified below.

- Small-Scale Incentive Scheme (SSIS): we support the AER's proposed approach not to apply a SSIS to Powerlink's next regulatory period.

- Demand Management Innovation Allowance Mechanism (DMIAM): we welcome the opportunity to engage further on this issue with the AER and our customers. We seek to implement innovative solutions for prescribed transmission services within the normal course of business, and will investigate where there is an appetite from customers and a need for Powerlink to pursue the mechanism.

- Expenditure Forecasting Assessment Guideline: we support the proposed application of the updated guideline[1], noting the incorporation of an emissions reduction element into the National Electricity Objectives.

- Depreciation approach: we support the AER's preliminary position to continue using the forecast depreciation approach to establish the RAB at the commencement of Powerlink's 2032-37 regulatory period.

The following sections provide additional context and Powerlink's position in relation to the remaining matters set out in the AER's Preliminary Position Paper.

Service Target Performance Incentive Scheme (STPIS)

Powerlink supports the AER's proposed approach to apply the latest version of the STPIS[2] to Powerlink in the 2027–2032 regulatory period, following the AER's recent extensive review.

We note that the AER propose to establish a working group[3] to identify a suitable replacement measure for the Market Impact Component (MIC) of the STPIS. We welcome the opportunity to work with the AER and other stakeholders on developing an effective alternative that takes into account the variability and complexity of outage planning and provides flexibility for Transmission Network Service Providers (TNSPs) to address unforeseen operational needs.

We also note the potential for the early application of the updated STPIS to the remaining ears of our current regulatory period[4]. We will engage with AER on this issue separate to our revenue determination process.

Efficiency Benefit Sharing Scheme (EBSS)

In the Preliminary F&A Paper, the AER states:

> *"We will only apply the EBSS in the 2027–32 regulatory control period if we expect we will use a revealed cost forecasting approach to forecast opex for the 2032–37 regulatory control period. We will not apply the EBSS if it is likely we will not use a revealed cost forecasting approach to forecast opex for the 2032–37 regulatory control period."*

The meaning of this and whether the AER intend to apply the EBSS to Powerlink's 2027-32 regulatory period was not clear to Powerlink. The AER has subsequently explained the intent of this statement by email on 2 May 2025. The AER's preference is to rely on revealed costs to forecast opex. However, where they consider the opex to be materially inefficient they will make an adjustment to base opex, and hence are no longer relying on revealed costs, so may not apply the EBSS. Powerlink has consistently applied revealed cost forecasting for operating expenditure when preparing previous Revenue Proposals. We do not anticipate a significant change to Powerlink's approach.

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[1] Australian Energy Regulator, *Expenditure forecast assessment guideline for electricity transmission*, 16 October 2024
[2] Australian Energy Regulator, *Electricity transmission network service provider service target performance incentive scheme, version 6*, 16 April 2025
[3] Australian Energy Regulator, *Electricity Transmission Network Service Providers Service Target Performance Incentive Scheme Final Amendments Explanatory Statement*, April 2025, p13
[4] Ibid, p14

In addition, in our letter to the AER in October 2024[5], we encouraged the AER to have regard to the circumstances for any material overspend in opex and exercise its discretion on whether to apply a net negative carryover from one regulatory period to the next. This was based on Powerlink's view that any incentive scheme envisaged by the Rules was not intended to either reward a TNSP for windfall gains outside its control, nor penalise a TNSP for material costs arising from events outside its control.

Notwithstanding these comments, while we acknowledge the AER's proposed application of the current version of the EBSS to Powerlink in the 2027-32 regulatory period, we remain of the view that the AER must have regard to the broader operating environment when forming a view on net carryovers.

Capital Expenditure Sharing Scheme (CESS)

Powerlink supports the AER's intent to apply the updated CESS to Powerlink in the 2027-32 regulatory period, following the outcome of the current Capital Expenditure Guideline Review 2025, expected to be finalised by September 2025. However, as we stated in our submission to the AER's Consultation Paper for that review:

- Powerlink is strongly of the view that the AER should adjust the CESS penalty for actionable ISP projects where the expenditure is efficient <u>and to extend this to all prescribed capital expenditure</u>.

- We also recommend that the AER exercise its discretion on this matter in assessing expenditure in current regulatory periods. Such an approach would be consistent with a broader requirement in the National Electricity Rules (Rules)[6] upon which the CESS was established.

<u>Rationale</u>
Clause 6A.6.5A(e) of the Rules states that (<u>emphasis</u> added):

> *"In deciding:*
> *(1) whether to apply a capital expenditure sharing scheme to a Transmission Network Service Provider for a regulatory control period; and*
> *(2) the nature and details of any capital expenditure sharing scheme that is to apply to a Transmission Network Service Provider for a regulatory control period,*
> *<u>the AER must</u>:*
> *(3) make that decision in a manner that contributes to the achievement of the capital expenditure incentive objective; and*
> *(4) <u>take into account</u>:*
> *(i) both the capital expenditure sharing scheme principles, and the matters referred to in paragraph (d), as they apply to the Transmission Network Service Provider; and*
> *(ii) <u>the circumstances of the Transmission Network Service Provider</u>."*

The expenditure forecasts that we include in our Revenue Proposal are typically prepared well in advance of the start of the relevant regulatory period and require an assessment of network needs that may extend well beyond that regulatory period. In doing so, we have regard to all reasonable inputs, assumptions, policies and external factors available to us at the time.

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[5] Powerlink, Letter to AER on Framework and Approach, 30 October 2024
[6] National Electricity Rules, version 227, clause 6A.6.5A, accessed 30 April 2025

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However, over the course of the regulatory period, many operating environment factors may change that could impact the need for, as well as the timing and cost of investments. While we accept that some of these factors may be within our control, other external factors such as geopolitical events, which have resulted in supply chain challenges and inflationary pressures, are clearly outside our control.

Powerlink considers that significant changes to operating environment factors have directly, and indirectly, contributed to the expected overspend in capital expenditure within the current 2022-27 regulatory period. Events such as the long-tailed global supply disruption following COVID, Russia's invasion and war in Ukraine, and global targets for emissions reductions driving unprecedented demand for materials, equipment and specialised labour could not have been reasonably foreseen at the time of lodging our Revenue Proposal in January 2021, or our Revised Revenue Proposal in December 2021. All of these factors are outside Powerlink's control and relate to the circumstances of Powerlink in the current regulatory period.

The Rules require that the AER takes into account the circumstances of the TNSP in deciding the nature and details of any capital expenditure sharing scheme. As we have illustrated by the specific examples above, Powerlink remains of the view that the circumstances of a TNSP may only be reasonably assessed in light of the prevailing operating environment factors. We also consider that there are parallels between the AER's amendments to the MIC of the STPIS having regard to factors outside the control of TNSPs[7], and net carryovers under the CESS in this regulatory period in particular.

Consequently, it is Powerlink's strong view that the Rules require that the AER must apply discretion in determining any net negative carryover amounts from the current regulatory period into the 2027-32 regulatory period. Our view is that this requirement applies irrespective of the version of the CESS Guidelines in force at the time.

Therefore, Powerlink urges the AER to articulate in its Final F&A Paper, or directly in correspondence to Powerlink, how it will take into account the matters in clause 6A.6.5A(e)(4)(ii) of the Rules, in particular, when applying the CESS net carryover amounts from the current regulatory period to our 2027-32 regulatory period.

If you would like to discuss any matters raised in this letter, please contact Roger Smith.

Yours sincerely,

[redacted]

Jacqui Bridge
EXECUTIVE GENERAL MANAGER ENERGY FUTURES

Enquiries: Roger Smith, Director Revenue Reset
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[7] Australian Energy Regulator, Final Decision – Review of Incentive Schemes, April 2023, p.25