



Obj. Ref. A4783196

22 October, 2021

Dr Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Kris,

SUBMISSION ON AER's DRAFT BETTER RESETS HANDBOOK

Powerlink Queensland (Powerlink) welcomes the opportunity to provide input on the Australian Energy Regulator's (AER's) Draft Better Resets Handbook (the Handbook).

Powerlink has an established track record of placing consumers at the centre of our business and we strongly support steps to drive more consumer-centric Revenue Proposals. We have adopted an approach whereby engagement with our customers and other stakeholders is an integral part of normal business operations.

Throughout our 2023-27 Revenue Proposal process, we engaged meaningfully and deeply with our customers, stakeholders and the AER. We are pleased to see many parallels between the Handbook and our current revenue determination process. This included:

- the co-design process we undertook with our customers and stakeholders to develop our engagement approach for our 2023-27 Revenue Proposal and alignment of engagement with the International Association of Public Participation (IAP2) framework;
- publication of a Draft Revenue Proposal for consultation some four months before we lodged our formal Revenue Proposal;
- early engagement with the AER on our key positions and seeking AER input on our models before lodgement; and
- a Statement on Engagement from our Customer Panel as part of our Revenue Proposal.

In our discussions with the AER and customers in the lead up to lodgement of our 2023-27 Revenue Proposal (January 2021), we understood that the AER would undertake a "lighter-touch"(or targeted) approach to its review of our proposal. Such an approach was to

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recognise the significant level of engagement we undertook in the previous 12-18 months in particular (including with the AER and its Consumer Challenge Panel representatives), the customer support we received and the reasonable and realistic nature of the overall Revenue Proposal package being put forward.

We acknowledge the AER Board's genuine appetite to encourage more consumer-focussed Revenue Proposals and to improve the efficiency of the regulatory determination process. This has also been demonstrated by several of the AER's teams throughout our current determination process.

Our submission has focussed on four key aspects of the Handbook. In particular, Powerlink considers the AER should:

- provide greater clarity on the concept of the Independent Consumer Report to ensure this element is efficient for customers and be more active with its own involvement pre-lodgement;
- re-assess the prescriptive nature of its evidence requirements for a targeted review;
- consider whether the targeted review represents a material difference in its Revenue Proposal review approach; and
- integrate further consideration of the overall Revenue Proposal package into its review process.

These matters are discussed in more detail in the attached document.

If you have any questions regarding this submission or would like to meet with Powerlink to discuss this matter further, please contact Jennifer Harris.

Yours sincerely,



Jacqueline Bridge
EXECUTIVE GENERAL MANAGER, ENERGY FUTURES

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Engagement elements of the Better Resets process

Under the Handbook, the relevant network service provider (NSP) must submit an Independent Consumer Report with its Revenue Proposal if it seeks to access the AER's targeted review stream. This report is intended to help the AER assess the quality of the engagement process and provide a consumer view of the effectiveness of the engagement prior to formal lodgement of a Revenue Proposal with the AER.

Powerlink agrees in principle with this concept, demonstrated by the fact we encouraged our Customer Panel to provide a Statement on Engagement that we lodged with our Revenue Proposal. The Statement provided a clear indication of the Customer Panel's views on our engagement process, without needing to be a burdensome document.

The AER's framing of the Independent Consumer Report appears to indicate it should be prepared by a party outside the NSP's Customer Panel (or equivalent body). This also implies that a brief statement, submission or evaluation direct from a Customer Panel may not be sufficient to meet the AER's expectations.

We consider that our customers, including our existing, business-as-usual Customer Panel, are better placed to determine the effectiveness of engagement. In our case, we have invested significant time, energy and effort to bring our customers along the Powerlink business journey over a number of years, both during and outside a revenue determination process. We are also conscious that a report as described in the AER's Handbook, may not be a feasible or practical outcome given the affiliation challenges, effort required and time constraints on customers.

For these reasons, we encourage the AER to revise its Better Resets process to ensure sufficient flexibility in the way customers can provide their views to inform a Revenue Proposal.

AER Engagement

We also note that AER staff feedback during pre-lodgement engagement is limited in technical areas to whether the proposal appears to deviate from, or is substantially inconsistent with, the expectations set out in the AER's Handbook¹. While we recognise such feedback would be useful, it is also helpful for the NSP to understand where and why the AER may have other issues, questions or initial thoughts on technical (or other) aspects of our proposal as it is being developed. This would enable the NSP to adjust, add or clarify such matters in its Revenue Proposal and should help improve the efficiency of the review process post-lodgement.

Evidence requirements of a targeted review

The AER has outlined its expectations of an NSP's capital expenditure (section 5.2) and operating expenditure (section 6.2) approach. If these expectations are met, a targeted review would be applied.

We are concerned that the expectations set out by the AER are highly prescriptive and focus heavily on inputs and forecasting approaches, rather than outputs. In particular, we are concerned with the following evidentiary requirements to qualify for a targeted review of capital expenditure:

- key recurrent and non-recurrent projects and programs must include a quantitative cost benefit analysis assessing all feasible options, including non-network options; and
- electricity businesses should also submit compliant Regulatory Investment Tests for eligible capital expenditure projects in regulatory proposals.

This level of prescriptiveness could discourage NSPs from seeking efficiencies and improvements to forecasting methodologies, which Powerlink applied in its 2023-27 (current) and 2018-22 (previous) Revenue Proposals.

¹ Draft Better Resets Handbook, Australian Energy Regulator, September 2021, p9.

It is also unreasonable and costly to expect that a network business would be able to complete a full analysis of all feasible options including non-network options (which would require going to market), and submit Regulatory Investment Tests for eligible capital expenditure projects, at the time of a Revenue Proposal. Some of these projects may not be undertaken until some 5-7 years in the future.

As we have indicated to the AER previously, it is more efficient for the business to leverage off strategies, plans and processes developed and applied in the normal course of business to underpin its forecasts.

Powerlink considers the AER should re-assess the prescriptiveness of its expectations and ensure that alternative methodologies to forecast expenditure, inputs or approaches, which may provide more efficient and effective outcomes do not automatically result in an NSP's proposal being ineligible for a targeted review.

Targeted review scope

The AER has set out a targeted review scope for capital expenditure (section 5.2.6) and operating expenditure (section 6.2.7). In both instances, it is unclear how the AER's targeted review is materially different to its current approach (e.g. to focus on expenditure that drives the forecast, has strategic significance or has been identified by consumers as an issue).

We encourage the AER to further clarify what constitutes a targeted review and how such a review differs from its typical/standard approach at this time. This is a particular question we asked of some AER staff in the context of our current revenue determination process.

Consideration of the overall Revenue Proposal package

The Handbook focuses heavily on the key individual elements of a Revenue Proposal. We acknowledge that this aligns with the requirements of the National Electricity Rules, which focus on the prudence and efficiency of individual elements. However, the Handbook provides an opportunity for the AER to be more explicit and place greater focus on its consideration of the overall Revenue Proposal as a package. It may be helpful to NSPs and customers if the AER clarified how that would factor into a targeted review process, rather than a prescriptive focus on inputs or forecasting methodologies.