
**Powerlink 2022-27 Revenue Determination Process
Framework and Approach (F&A) Initiation**

CCP23 response to Powerlink F&A Initiation

Consumer Challenge Panel (CCP) Sub-Panel CCP23

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Overview

A letter to the AER from Powerlink dated 31 October 2019 initiates the regulatory process for the revenue determination for the Queensland electricity transmission business, Powerlink, for the period 2022-27.¹

The AER has appointed Consumer Challenge Panel (CCP) sub-panel CCP23 to advise the AER on this regulatory proposal, and in particular whether the proposal is in the long-term interests of consumers.²

The initiation letter from Powerlink raises five matters that are germane to the Framework and Approach (F&A) for the forthcoming regulatory period, and in some instances require amendment to the F&A that was applied for the current regulatory period. These issues are:

1. The application of the Service Target Performance Incentive Scheme (STPIS);
2. The application of the Demand Management Incentive Scheme (DMIS) and/or Demand Management Innovation Allowance (DMIA);
3. A capital expenditure forecasting method summarised as the “Hybrid+” model;
4. Various reviews and rule changes; and
5. The potential application of regulatory sandbox arrangements.

The following brief comments provide the initial thoughts of CCP23 on these matters.

1. Service Target Performance Incentive Scheme (STPIS)

In its letter, Powerlink states that it is interested in exploring two elements of the current scheme to include a Market Impact Component and a Service Component.

CCP23 is supportive of the exploration of these proposed enhancements with consumers, with our ultimate views being strongly guided by consumer perspective. We are also aware that AusNet Services through its Customer Forum has proposed a small-scale incentive scheme as per the National Electricity Rules, which is being referred to as the Customer Service Incentive Scheme (CSIS). CCP has welcomed the decision to explore the merits of applying the CSIS to the AusNet Services electricity distribution proposal for the period 2021-26. We see direct parallels in process and intent between the AusNet Services Customer Forum and the Powerlink proposals. We also accept the principle that service priorities and preferences of consumers will change over time, and incentives for continuous improvement for service to customers will also need to change over time.

¹ The letter refers to the period 2023-27. However, the forthcoming period is actually for five years from 1 July 2022.

² Further information on the role of the CCP can be found on the AER website at <https://www.aer.gov.au/about-us/consumer-challenge-panel>

2. Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance (DMIA)

The Australian Energy Market Commission (AEMC) has been considering a rule change proposal to apply these schemes to provide incentives for demand management innovation to transmission network service providers, as they currently only apply to distribution service providers.³ The CCP has actively promoted the intent of the DMIS and the DMIA as pertinent to contemporary views about the potential merits of demand management as offering cost-effective alternatives to network expansion in some instances. We also understand that consumers, in general, are keen to see a greater application of demand management approaches by network businesses.

The AEMC's final determination on the rule change to apply DMIS/DMIA to transmission businesses was released on 5th December 2019, after the Powerlink F&A initiation letter had been sent.

The AEMC's final decision is summarised as "The Commission's final rule determination is to make a more preferable final rule to apply the DMIA, and not the DMIS, to transmission network service providers." Consequently, we anticipate that the final F&A for Powerlink will be adjusted to apply this rule change, with DMIA applying for Powerlink, but not DMIS.

3. Capex forecasting methodology

There have been some initial discussions between Powerlink and CCP23 about the Hybrid+ model, which uses a mix of top-down and bottom-up forecasting methodologies. We understand that Powerlink's initial thinking is that bottom-up forecasting will be applied to about 60% of proposed capital expenditure.

CCP23 is open to trialling this approach with the proviso being that the methodology ultimately applies a 'reasonableness test' to forecasts, from a bill-paying customer's point of view. We are aware that bottom-up approaches alone can seem reasonable, element by element, but in aggregate can be unacceptable to consumers. Consequently, an ultimate test that reflects the reasonableness of final aggregated forecasts is important.

4. Reviews and rule changes

Powerlink correctly notes that there is "a range of current and potential future key energy reforms" likely to impact on transmission networks. We agree.

The Coordination of Generation and Transmission Investment (COGATI) reforms along with the next iteration of the Integrated Service Plan (ISP) from AEMO, transmission ring fencing guidelines, and potentially the ESB's consideration of market frameworks beyond 2025 could all impact on the Powerlink regulatory proposal. We regard it as sensible that the F&A recognises the potential impacts of uncertainty in current energy markets and avoids trying

³ For more information see <https://www.aemc.gov.au/rule-changes/demand-management-incentive-scheme-and-innovation-allowance-tnsps>

to be too prescriptive too early. We welcome Powerlink's willingness to 'name' the uncertainties that all participant in energy markets currently confront.

5. Regulatory Sandbox

The AEMC describes a regulatory sandbox as "a framework within which participants can trial innovative concepts in the market under relaxed regulatory requirements at a smaller scale, on a time-limited basis and with appropriate safeguards in place."⁴

CCP supports processes that bring consumers, regulators, energy businesses and other stakeholders together to share ideas about key directions, and to be prepared to get some things 'wrong' in seeking innovative solutions to complex problems in uncertain times. Consequently, we are supportive of attempts to apply 'regulatory sandbox' methodologies.

CCP23 is looking forward to actively observing Powerlink and its interaction with customers in the development of its regulatory proposal for 2022-27. The early engagement has been very constructive.

⁴ For more information see <https://www.aemc.gov.au/market-reviews-advice/electricity-network-economic-regulatory-framework-review-2019>