

AUSTRALIAN ENERGY REGULATOR

MINUTES

Minutes of the AER's public forum on Powerlink's transmission revenue proposal— 1 July 2012 to 30 June 2017

Location: Mecure Hotel, 58-87 North Quay, Brisbane

Date: Tuesday 26 July 2011 (9.30 am to 11.30 am)

Forum Chair: Warwick Anderson, General Manager, Network Regulation, Australian Energy Regulator

Attendees: the meeting commenced with 48 registered attendees and 3 AER staff. The attendance list is available at www.aer.gov.au.

Summary of forum

A summary of the discussions that occurred at the forum is under each agenda item.

1. Opening remarks by the Chair

Warwick Anderson (Chair) opened the forum.

- Intro and outline of agenda for today and procedural issues of the forum
- The purpose of today is for Powerlink to explain its revenue proposal to the public to facilitate the preparation of the public submissions to the AER.
- Outline of assessment process. The process commenced with Powerlink submitting its revenue proposal to the AER. The AER sought public submissions on the revenue proposal which close on 12 August. The AER is required to publish its draft decision by 30 November. The AER will hold a pre-determination conference in mid December to explain its draft decision. Powerlink may then submit a revised proposal by mid January 2012. Submissions on the AER's draft decision and Powerlink's revised proposal are due by mid February 2012. The AER is required to publish a final decision by 30 April 2012.

2. Presentation by Powerlink

The Chair invited Merryn York (Chief Executive Officer) and Stewart Bell (Manager Revenue Reset) to present Powerlink's revenue proposal to the forum. Powerlink's slides can be found at www.aer.gov.au.

Merryn York

- Outline of key drivers, challenges, stakeholder consultation and impact on prices

- Key drivers:
 - Demand growth
 - While maintaining reliability of supply
 - Relating to resource growth
 - Transmission supporting lower emissions NEM
 - Replacing aged assets
 - Challenges include long and stringy network, high demand growth compared to other states, planning for the resources boom combined with economic outlook

Stewart Bell

- Outline of revenue proposal

Current regulatory period performance

- Current regulatory period's capital expenditure profile:
 - commenced with higher than forecast spend for the first two years
 - followed by an underspend in the third and fourth year due to the effect of the global financial crisis (GFC)
 - with a higher than forecast estimated spend for the final year
- The higher than forecast estimated spend for the final year is largely driven by the coal seam gas market developments in the Surat Basin
- Current regulatory period's operating expenditure profile is tracking close to AER opex allowance
- Current regulatory period incentive scheme performance results include
 - a small negative under the efficiency benefit sharing scheme
 - Powerlink exceeding targets set under the Service target performance incentive scheme

Forecast for next regulatory period

- Forecast capital expenditure continues to be driven by increase in demand forecasts
- Powerlink notes that temperatures in Queensland over the past 4 years have been milder than average and therefore is mindful in its planning process that a return to a 'traditional' Queensland summer may occur in the next regulatory period

- Powerlink continues to replace aging assets to maintain reliability
- Powerlink's forecast capex also includes planned augmentations relating to the establishment of the 500kV network
- Comparison of current and forecast capital expenditure results show an increase in capital expenditure for the next regulatory period
- Forecast operating expenditure is estimated to increase, due to increased labour costs, network growth and new legislative requirements
- Powerlink has the lowest ratio for Opex / RAB in the NEM at 2008/09, based on AER published data¹
- Powerlink notes the majority of Weighted Average Cost of Capital (WACC) parameters are locked in for transmission network service providers, as a result of the AER's WACC Review decision
- WACC increased post GFC
- Debt margin of 4.34% compared to current 1.14%²
- Derived WACC of 10.3% compared to current 8.76%
- Revenue requirement using building block approach results in an X factor of -8.06%
- Average transmission price path from 2012/13 to 2016/17 results in 0.6% per annum increase in typical electricity bill

3. Question and comments on Powerlink presentation

Vivienne Pham (Powercor): Asked how the contingent project regime operated.

Merryn York (Powerlink): Provided an explanation of the contingent project regime in the transmission regulatory framework.

Brian Wilson (QR National): Brian Wilson explained that he had read Powerlink's revenue proposal and noted it was quite complex. He also noted that he had difficulty in seeing how QR National's demand was reflected in Powerlink's capital expenditure forecast.

Merryn York (Powerlink): In developing its demand forecasts Powerlink met with its direct connect customers (of which QR National are one) to discuss what the direct connect customers expected demand is likely to be going forward. Those demand forecasts are taken into account when Powerlink is developing its overall demand forecasts.

Roman Domanski (Energy Users Association of Australia (EUAA)): Powerlink in its presentation referred to a graph sourced from the EUAA that showed indicative retail electricity pricing scenarios and the contribution of transmission to retail prices. The EUAA

¹ TNSP Performance Report, February 2011.

² Note: this was incorrectly identified on Powerlink's slides as 1.41%

wanted to clarify that the graph was slightly out of date and did not account for the carbon tax impact and was a national outlook and not specific to Queensland. The EUAA further noted that a graph specific to Queensland would likely result in a slightly higher percentage increases under all scenarios.

Roger Church (Queensland Council of Social Services): Sought clarification on how recent mild summers are impacting on Powerlink's forecast demand.

Stewart Bell (Powerlink): Powerlink's demand forecasts are based on historical data weather corrected, and forecasts based on expected temperatures given the actual trends for the past 30 years.

Darryl Patching (Netbalance): Netbalance interested in whether Powerlink's revenue proposal has taken into consideration potential climate change impacts into its forecast modelling.

Stewart Bell (Powerlink): Powerlink has not factored into its demand forecast modelling any climate change impacts.

Merryn York (Powerlink): Powerlink is looking into and has been taking account of the effects climate change impacts are having on its network in relation to asset management for issues like asset degradation due to weather.

Roman Domanski (EUAA): EUAA notes a significant increase in the forecast capital expenditure for the final year (2011/12) of the current regulatory period and asked Powerlink to clarify what is driving this increase.

Stewart Bell (Powerlink): The increase primarily relates to the increased demand as a result of the coal seam gas developments and expenditure on line replacement in north Queensland which has been delayed due to cyclones and floods.

Louise Thorp (Edge Energy Services): Edge Energy Services notes that only approximately 300MW of the 3000 MW of projected demand for the coal seam gas projects is included in Powerlink's demand forecast. Edge Energy Services sought clarification on why this was the case.

Merryn York (Powerlink): Powerlink based its demand forecast on committed projects. For example, where a signed connection agreement is in place, or is close to being in place.

4. Presentation by Energy Users Association of Australia

Roman Domanski

Opening Commentary

Acknowledged the effort by Powerlink regarding engagement with the EUAA. Noted that Powerlink had distinguished itself from other TNSPs in this regard and, that the EUAA had found this engagement to be useful and constructive. Roman considers Powerlink to be an efficiently run and well-managed organisation. Roman also gave credit to Gordon Jardine for his contributions to Powerlink in this regard.

Pricing impacts

- Transmission prices to rise in real terms by 11% in 2012/13 and 24% by 2016/17
- Transmission is around 10% of the bill for most consumers
- Electricity prices are already escalating rapidly in QLD independently of the proposed price increases by Powerlink

Capex

- Forecast capex of \$3.4bn – an increase of 17% over the current period (\$2010)
- Forecast to overspend 2011/12 capex allowance by 69% in real terms (\$2010) – overspend will be rolled into the asset base
- Concerned about the 2011/12 overspend and the roll-forward provisions in the Rules.

Opex

- Forecast opex of \$977m (\$2010) – a 30% increase over actual opex in current period
- Concerned about this increase.

Revenue requirement

- Smoothed revenue requirement of \$5.9bn (\$nom) over the period – increase of 78% (\$nom) from the current period

Benchmarking

- Benchmarking of capex and opex is essential and is required under the Rules
- Should be done by an independent body such as the AER – EUAA strongly urges the AER to implement its own benchmarking

Cost of capital

- The proposed debt risk premium of 4.34% is excessive – it includes year 5 in the fair value calculation
- Excluding year 5 would result in a debt risk premium of 3%

Current Rules

- The AER Chairman has noted a number of ‘shortcomings’ in the Rules. The EUAA would like to see the rules adjusted

Response from Warwick Anderson

Potential AER Rule changes - noted that some of the issues raised by the EUAA were beyond the scope of Powerlink's regulatory review and that any Rule changes proposed by the AER would take place in the context of the AEMC process.

Benchmarking – noted that the AER does have regard to benchmarking, but that it is only one of a number of factors the AER must have regard to in assessing a Revenue Proposal.

Stewart Bell - noted that some of the numbers in the EUAA presentation were different to Powerlink's and offered to work with the EUAA to clarify the numbers quoted.