



OFFICE OF THE CHIEF EXECUTIVE

Our Ref: A3342923

30 March 2020

Mr Sebastian Roberts
General Manager – Transmission and Gas
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

cc: Slavko Jovanoski, Director

Dear Sebastian,

**Powerlink 2023-27 Revenue Determination Process
Preliminary Framework and Approach Paper**

Powerlink makes this submission in response to the Australian Energy Regulator's (AER's) Preliminary Framework and Approach (F&A) Paper. Powerlink's submission is in relation to:

- its request for the AER to review the Service Target Performance Incentive Scheme (STPIS);
- the expected treatment of the outcomes of key reforms and/or consultations that are either underway or proposed to impact electricity transmission network service providers (TNSPs) in Powerlink's next regulatory period;
- application of regulatory sandbox arrangements proposed by the Australian Energy Market Commission (AEMC)¹; and
- the uncertainty and impacts of COVID-19.

Powerlink recognises that the purpose of this paper is for the AER to set out its proposed approach to Powerlink's 2023-27 regulatory period. The F&A relates to the application of the STPIS, Efficiency Benefit Sharing Scheme (EBSS) and Capital Expenditure Sharing Scheme (CESS), the Expenditure Forecast Assessment Guidelines, Demand Management Innovation Allowance Mechanism and whether depreciation is based on forecast or actual capex for the purposes of updating the Regulatory Asset Base (RAB). 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.

Overall, with the exception of the STPIS, Powerlink agrees with the AER's approach to all of the matters set out in the Preliminary F&A Paper.

¹ [Market Reviews – Regulatory Sandboxes](#)

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STPIS

The AER's Preliminary F&A Paper proposes to apply the current version (V5) of the Service Target Performance Incentive Scheme (STPIS) to Powerlink. Powerlink understands that this position reflects the AER's view that it must apply the current version of the scheme for F&A purposes and address any proposals to undertake a review of the scheme outside the F&A process.

In its F&A Initiation Letter² and subsequent correspondence, Powerlink requested the AER to undertake a review of the STPIS. The primary driver for this was to ensure that the market impact targets applied in the 2023-27 regulatory period appropriately captured significant impacts to the network experienced in recent years associated with the integration of inverter connected technology. Powerlink's request was supported by all the other transmission network service providers through Energy Networks Australia (ENA). These requests were supported by additional data and analysis sent to the AER on 31 January 2020.

Powerlink also discussed the need for a review of STPIS with customer representatives through its Revenue Proposal Reference Group (RPRG) and provided data to support that approach³. The Powerlink RPRG has indicated their support of a review, though recognising that the conduct of a review will occur outside of the F&A process.

The AER has advised that Powerlink and ENA's requests to undertake a review of the STPIS are being considered. Powerlink understands that, should the AER decide to conduct a review of the scheme prior to the timeframe for lodging Powerlink's 2023-27 Revenue Proposal (i.e. by January 2021), the outcome of that review will apply to Powerlink's next regulatory period. To help provide transparency to all stakeholders, Powerlink would encourage the AER to clarify this position in its Final F&A Paper, which is due for publication in July.

Reviews, Rule changes and Regulatory Sandbox Arrangements

In its F&A Initiation Letter Powerlink raised two other key matters. Powerlink noted that a range of current and potential future key energy reforms might impact TNSPs within Powerlink's next regulatory period. Among others, this may include the Coordination of Generation and Transmission Investment (COGATI) reforms, implementation of Transmission Ring-Fencing Guideline Review and Integrated System Plan (ISP) Rule Changes.

Powerlink also flagged its interest in seeking to include regulatory sandbox arrangements, as proposed by the AEMC, in its 2023-27 Revenue Proposal to apply in its next regulatory period.

² [Powerlink – Letter to AER on Framework and Approach – October 2019](#)

³ [Powerlink – Revenue Proposal Reference Group 31 January 2020 Meeting – Presentation](#)

Initial discussions through Powerlink's RPRG indicate customer support to apply regulatory sandbox arrangements in targeted circumstances, for example to explore the potential for contingent replacement expenditure projects.

COVID-19

The impacts of COVID-19 on Powerlink, its customers and the broader economy, may be significant. This issue is evolving rapidly and the extent of these impacts is uncertain at this point.

Powerlink will work with the AER and customers to develop an approach to assess and address the impacts of COVID-19 within the regulatory framework. The intent of this is to ensure Powerlink's Revenue Proposal is in the long-term interests of consumers and to isolate the impacts of the COVID-19 response and management as far as possible.

Again, while Powerlink recognises that the AER's F&A Paper is intended to address the specific matters identified above, it would be useful for the AER to recognise and provide initial feedback on its appetite to explore Powerlink's proposals in relation to Rule changes, reviews and regulatory sandbox arrangements and COVID-19.

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

Yours sincerely,



Kevin Kehl
Interim Chief Executive

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