







2018-22
POWERLINK QUEENSLAND REVENUE PROPOSAL OVERVIEW








Powerlink QUEENSLAND®

Delivering better value

Overview of Powerlink's 2018-22 Revenue Proposal

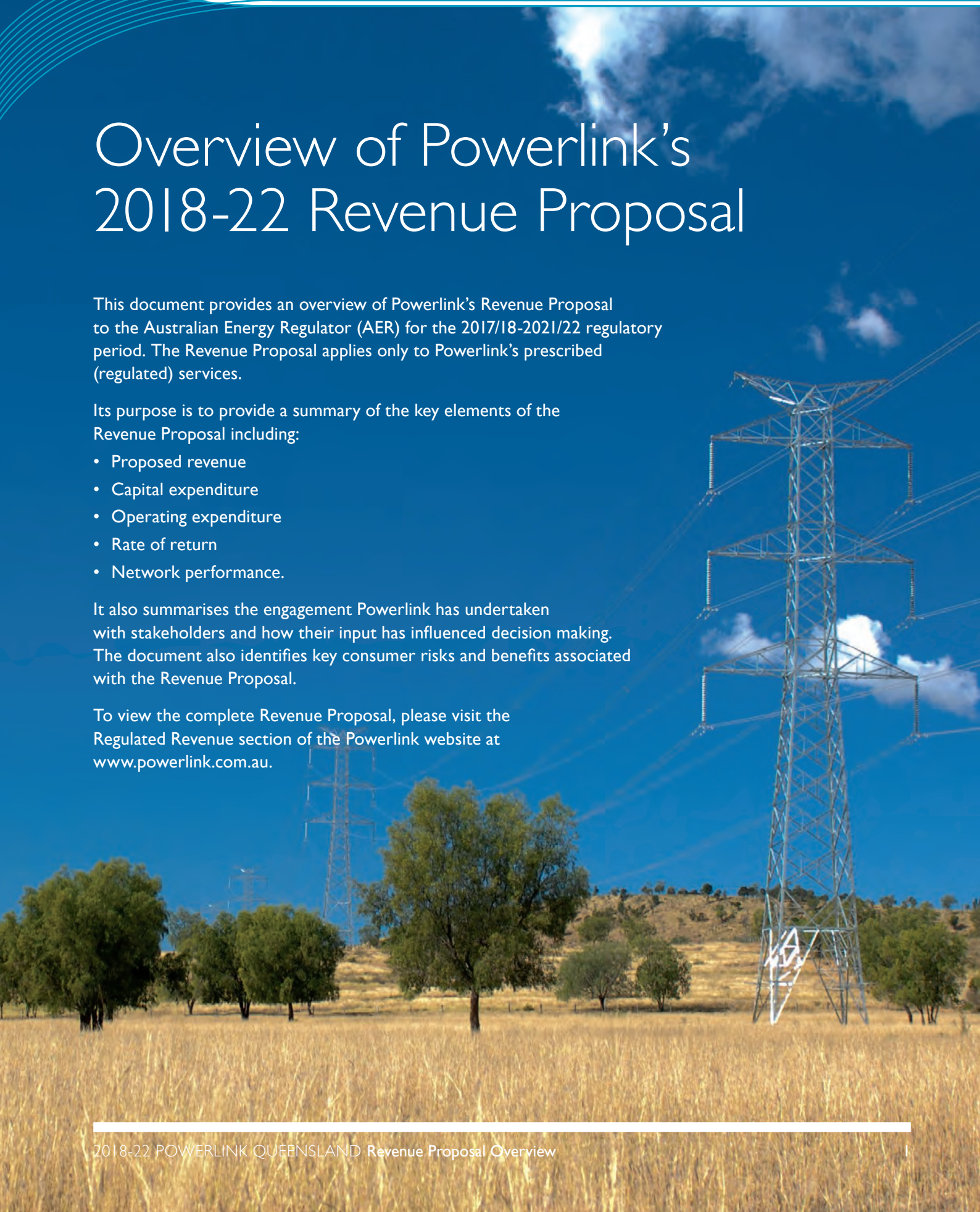
This document provides an overview of Powerlink's Revenue Proposal to the Australian Energy Regulator (AER) for the 2017/18-2021/22 regulatory period. The Revenue Proposal applies only to Powerlink's prescribed (regulated) services.

Its purpose is to provide a summary of the key elements of the Revenue Proposal including:

- Proposed revenue
- Capital expenditure
- Operating expenditure
- Rate of return
- Network performance.

It also summarises the engagement Powerlink has undertaken with stakeholders and how their input has influenced decision making. The document also identifies key consumer risks and benefits associated with the Revenue Proposal.

To view the complete Revenue Proposal, please visit the Regulated Revenue section of the Powerlink website at www.powerlink.com.au.



Revenue Proposal snapshot

The price of electricity is a key issue for all Queenslanders. Powerlink's Revenue Proposal delivers better value to consumers and customers through increased efficiency to lower costs, while maintaining reliable transmission services.

Consumers will benefit in the first year of the regulatory period with our Revenue Proposal set to deliver an annual saving of between $22 and $37[1] for the average Queensland residential household electricity bill.

Electricity Prices

28% drop in indicative transmission price in the first year of the 2018-22 regulatory period

Between **$22 and $37** savings for the average Queensland residential household annual electricity bill

Maximum Allowed Revenue

14% lower in the 2018-22 regulatory period compared to the 2013-17 regulatory period

25% lower regulated revenue in the first year of the 2018-22 regulatory period

Forecast Operating Expenditure

7% lower compared to actual operating expenditure in the 2013-17 regulatory period

Forecast Capital Expenditure

31% lower compared to actual capital expenditure in the 2013-17 regulatory period

Rate of Return

8.61% in 2013-17 regulatory period

6.04% estimate for start of 2018-22 regulatory period

Revenue and electricity price figures presented in this Revenue Proposal snapshot are nominal

[1] Based on AEMC report 2015 Residential Electricity Price Trends – annual usage of between 2,500kWh and 5,173kWh

About Powerlink

Powerlink Queensland is a Government Owned Corporation that owns, develops, operates and maintains the electricity transmission network in Queensland.

With electricity being a key enabler of the economy and supporter of our lifestyles, we have an important responsibility to deliver electricity to almost four million Queenslanders.

Powerlink also transports electricity to large industrial customers such as rail companies, mines and mineral processing facilities that are directly connected to the transmission network.

Powerlink's transmission network runs approximately 1,700km from Cairns down to New South Wales.

9%

The cost of Powerlink's high voltage electricity grid represents around 9%[2] of the total delivered cost of electricity for the typical Queensland residential electricity consumer.

Electricity supply chain components	Proportion of electricity bill
Power generators	21%
High voltage transmission	9%
Electricity distribution	39%
Electricity retailers	21%
Green schemes and solar	10%

[2] Electricity supply chain cost components based on a 2014/15 typical Queensland consumer electricity bill.

Powerlink's approach to delivering better value

Powerlink recognises that access to affordable and reliable electricity is a key enabler of the economy and supports our modern lifestyles.

Powerlink is focused on doing its part in the overall electricity supply chain to deliver better value to consumers and customers.

To do this Powerlink is embedding a change in mindset to lower costs to consumers. With the change in the external environment to a flat outlook for demand for electricity transmission services, Powerlink is seeking alternative practices which minimise investment while still maintaining the reliable supply consumers and customers have come to expect.

Through considering reinvestment options more holistically, Powerlink is also aiming to achieve flexibility in the way in which the transmission network can operate so that renewable generation can deliver electricity supply to loads, including large scale renewables connected to the transmission network, without the need for additional regulated investment.

The aim is to use new approaches to drive lower costs while still achieving reliability of supply outcomes.

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Pricing and revenue

Pricing

For the average Queensland residential electricity consumer, Powerlink's Revenue Proposal is expected to deliver a 28% reduction in the indicative transmission price in the first year of the next regulatory period (2017/18).

On the basis of typical tariffs and consumption, this will reduce the average residential electricity bill by 2.6%, which represents an estimated saving of between $22 and $37.

Indicative transmission prices over the balance of the regulatory period out to 2021/22 are expected to remain within CPI growth on average.

The following table provides an estimate of how the transmission component of the typical residential and business electricity bill will be impacted by the Revenue Proposal:

		Current Regulatory Period		Next Regulatory Period
		2015/16	2016/17	2017/18
Average annual residential electricity bill* (based on annual usage range of 2,500kWh and 5,173 kWh)	Transmission Component	$77 - $129	$80 - $134	$58 - $97 (-28%)
Average annual business electricity bill* (based on annual usage range of 10,000kWh and 20,000 kWh)	Transmission Component	$270 - $470	$280 - $488	$203 - $353 (-28%)

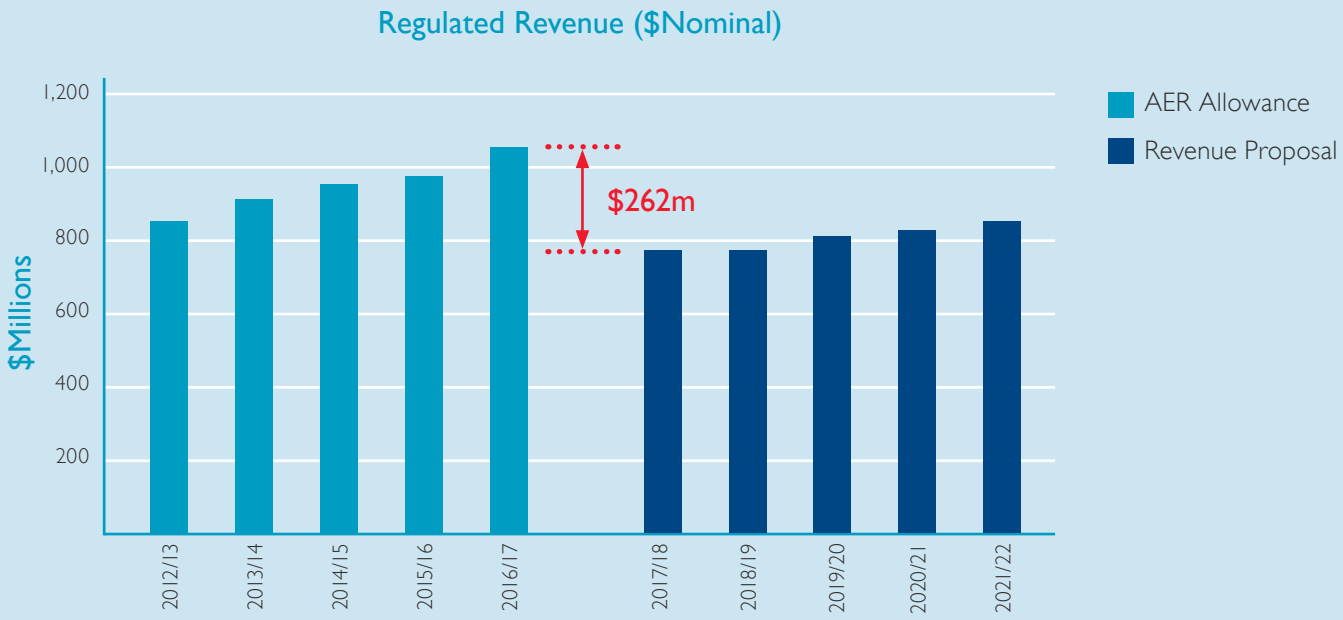
*The transmission component represents around 9% of the total delivered cost of electricity for the typical Queensland residence and business

Revenue

Powerlink has proposed a Maximum Allowed Revenue (MAR) of $4.017 billion for the 2018-22 regulatory period.

This reflects a $262 million or 25% reduction in annual revenue in the first year of the 2018-22 regulatory period and a $640 million or 14% reduction in MAR for the 2018-22 regulatory period compared to the MAR determined by the AER for the current regulatory period.

The changes Powerlink has made to its operations, including in response to the external environment, has resulted in a significant reduction in the revenue required to efficiently invest, operate and maintain Powerlink's network, delivering better value in its prescribed transmission services.



Rate of Return

Powerlink has adopted and applied the AER's Rate of Return Guideline in the Revenue Proposal.

In conjunction with changes in the external environment, this has resulted in an indicative rate of return of 6.04% for the start of the 2018-22 regulatory period (the rate of return is then adjusted annually). This is a substantial reduction from the current rate of 8.61%.

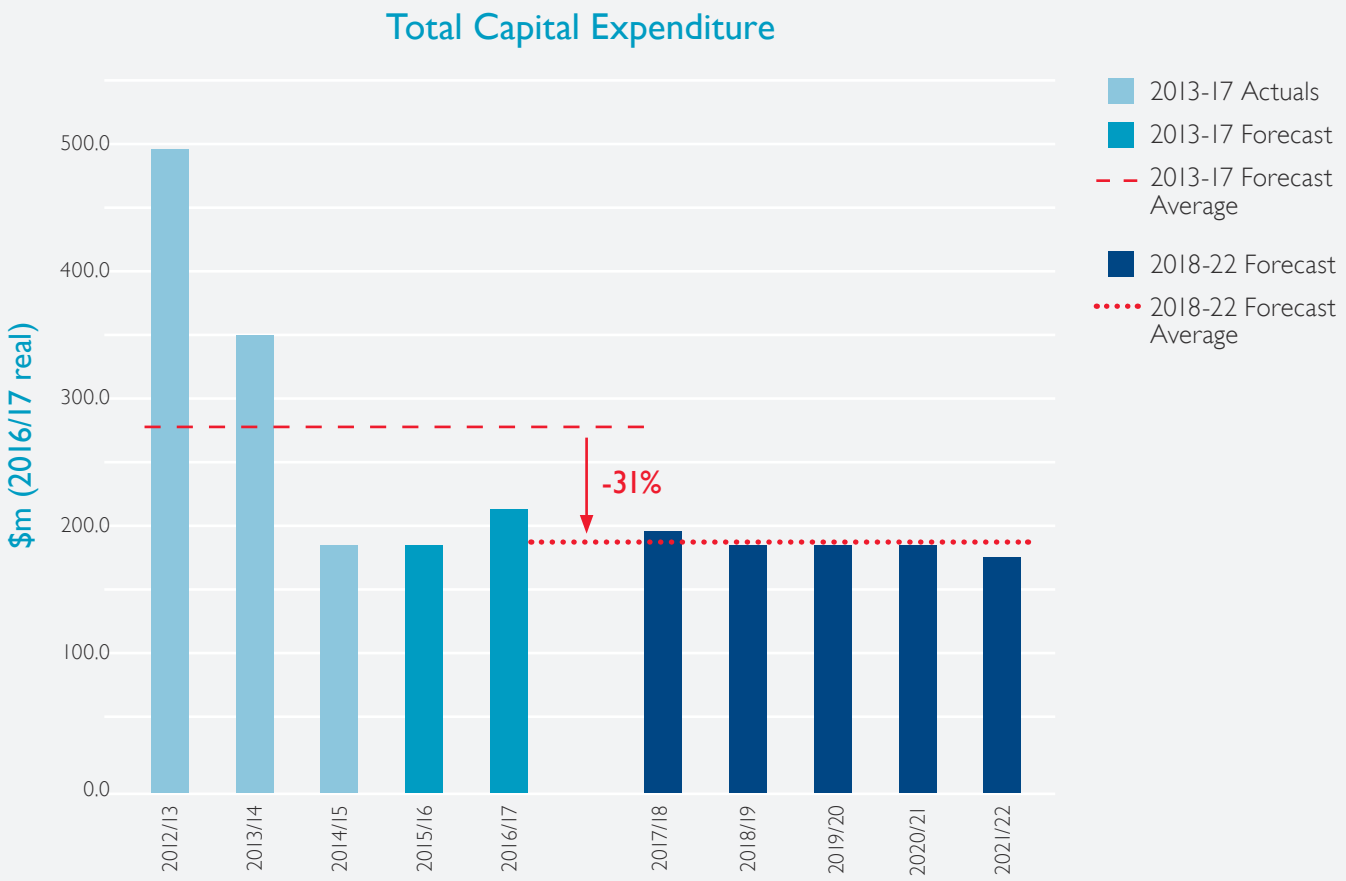
The rate of return is a key building block in determining Powerlink's Maximum Allowed Revenue.

Capital expenditure

Powerlink's forecast capital expenditure requirements are significantly less in the 2018-22 regulatory period with almost no load driven (network growth) capital expenditure.

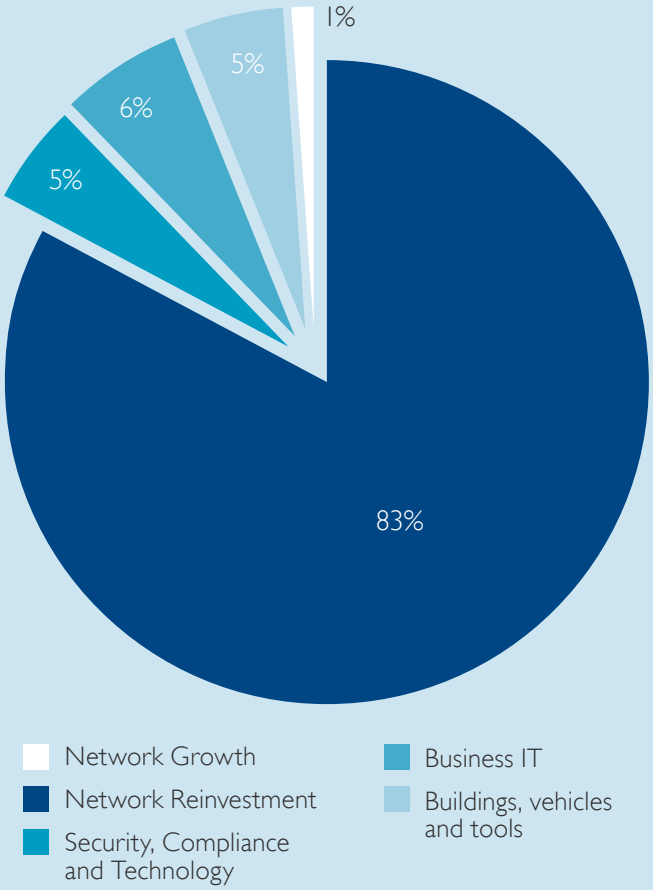
The forecast total capital expenditure for the 2018-22 regulatory period is $957.1 million. This is $426.8 million or 31% lower than actual expenditure in the 2013-17 regulatory period.

This reduction is being driven by the flat electricity demand outlook for the next 10 years and Powerlink applying different thinking in its approach to reinvestment to deliver better value to consumers and customers.



The majority (83%) of Powerlink's forecast capital expenditure is reinvestment in the existing network.

A breakdown of Powerlink's capital expenditure is contained in the graph below:



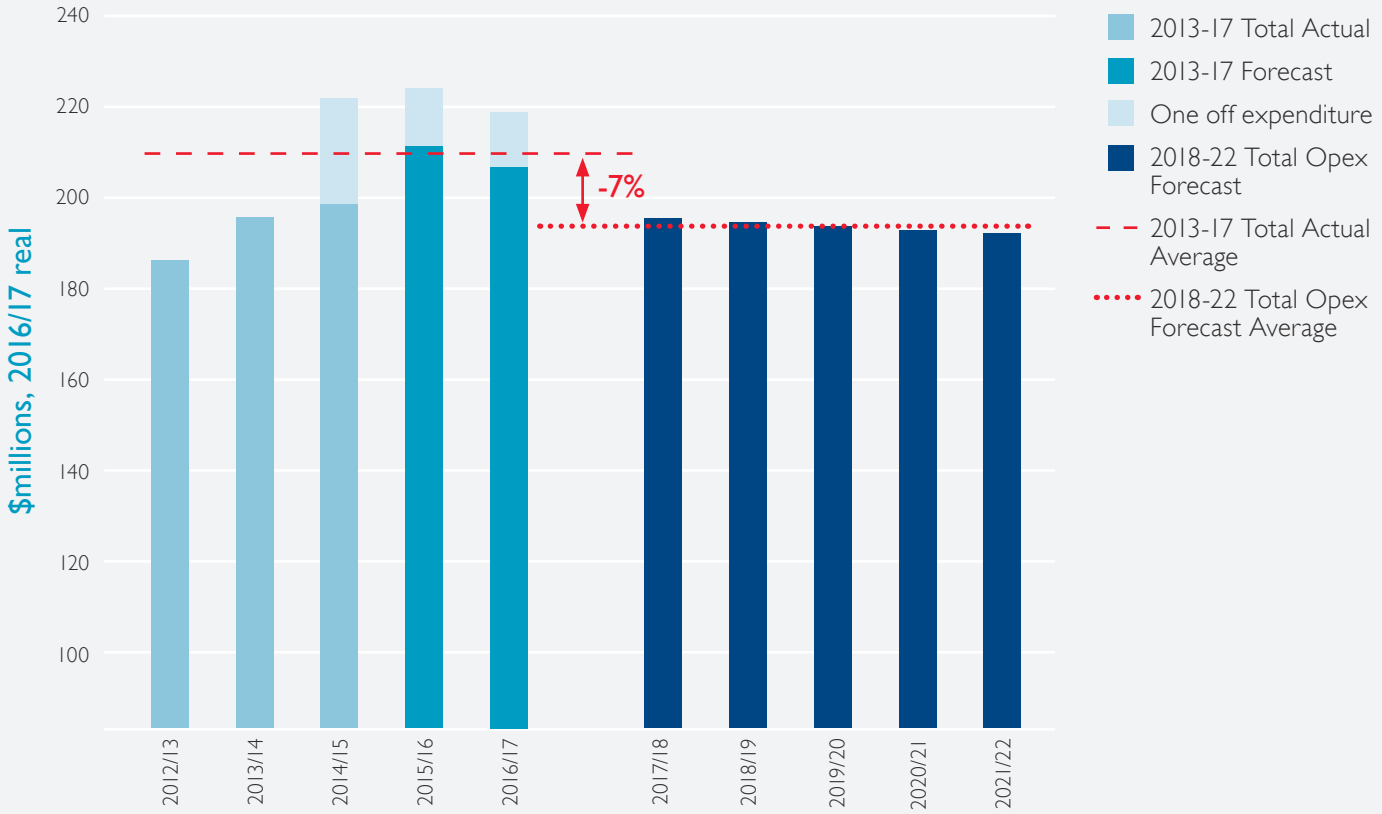
Operating expenditure

Powerlink continues to improve its operating efficiency through enhanced work practices and streamlined organisational structure and business processes.

This is reflected in the operating expenditure forecast for the 2018-22 regulatory period of $976.7 million. This is $70 million or 7% lower compared to actual operating expenditure in the current regulatory period.

This level of operating expenditure reflects Powerlink's focus on generating efficiencies, while allowing for the safe and reliable operation and maintenance of the network.

Total Operating Expenditure



Network performance

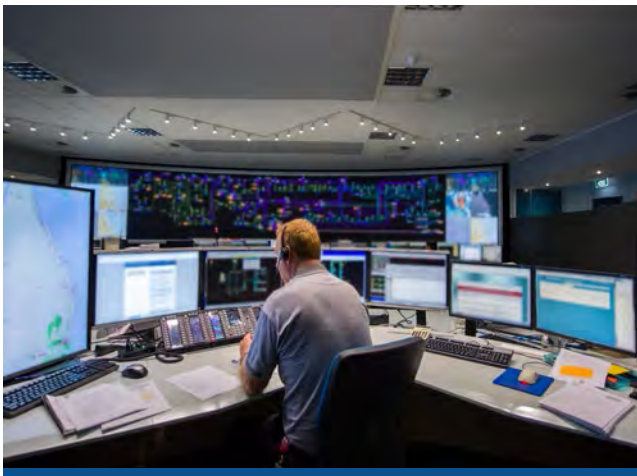
Part of Powerlink's revenue allowance for the 2018-22 regulatory period will be linked to how well it performs under the AER's Service Target Performance Incentive Scheme (STPIS).

The scheme is designed to incentivise electricity transmission network service providers to maintain a high level of service performance for the benefit of National Electricity Market (NEM) participants and electricity consumers.

Powerlink commenced its participation in the scheme in 2007 and over that time has performed strongly under the STPIS by closely managing performance of its network in terms of reliability and availability while continuing to minimise the impact of transmission congestion.

From the start of the 2018-22 regulatory period, Powerlink will be subject to a new version of the STPIS which includes new and restructured performance measures and targets.

Powerlink's proposed STPIS arrangements will provide further incentive for Powerlink to seek and deliver improvements in its network performance.



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Stakeholder engagement

Powerlink is committed to providing consumers and directly connected customers with a greater say in the decisions that impact on the cost of electricity.

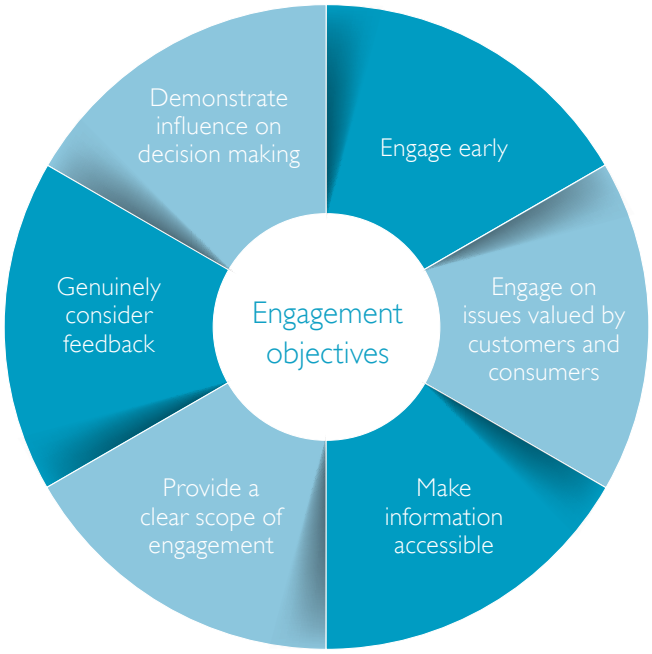
Powerlink's engagement framework involves stakeholders in decision making as part of 'business as usual' operations.

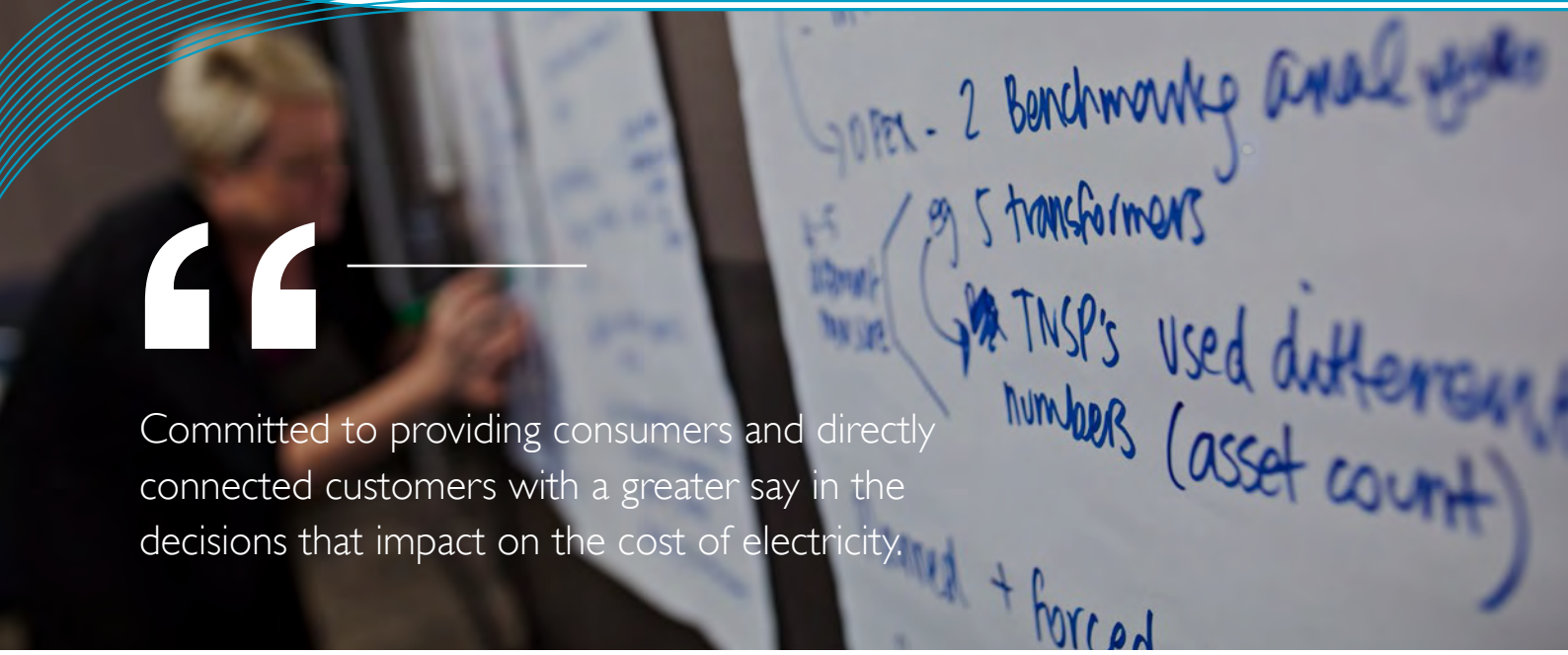
Engagement on the Revenue Proposal was done through 'business as usual' activities, rather than as a series of 'one-off' engagement events.

Engagement objectives

The key objective was to engage with customers and consumers at a time when they could be meaningfully involved and appropriately influence decision making, leading to better and more informed outcomes.

Key engagement objectives included:





Committed to providing consumers and directly connected customers with a greater say in the decisions that impact on the cost of electricity.

Who did we engage with?

Powerlink's engagement focused on the following key stakeholder groups:

- Consumer advocates
- Directly connected customers
- Regulators and government
- Industry

How did we engage?

Powerlink focused primarily on face-to-face engagement with stakeholders to allow meaningful discussions on often complex issues. Our customers and consumers wanted us to talk in their language and 'tell it like it is'.

Activities which are part of Powerlink's engagement framework include:

- Powerlink Customer and Consumer Panel
- Demand and Energy Forecasting Forum
- Powerlink Transmission Network Forum
- Area Plan Forums
- Stakeholder briefings
- Website and webinar.

As part of Powerlink's transparent engagement approach, members of the AER's Consumer Challenge Panel - sub-panel 4 (CCP4), were invited and attended many engagement activities as observers.

What did we engage on and how did it influence our Revenue Proposal?

Powerlink was committed to genuinely considering feedback received and demonstrating to stakeholders how their input influenced our Revenue Proposal.

The following table shows a selection of the key issues discussed, feedback received and how it influenced the development of the Revenue Proposal. A complete table is included in Chapter 3 of our Revenue Proposal.

Topic	Feedback received	How Powerlink used the feedback
Capital Expenditure Forecasting Methodology	Modelling needs to be robust to ensure an efficient rate of reinvestment and unit costs.	Introduced geographical zones into the model. Excluded assets from model where there may not be an enduring need. Obtained third party benchmarking of unit costs.
Operating Expenditure Forecasting Methodology	Should undertake a 'deep dive' to identify operational efficiencies. Use benchmarking and/or external review to gain a better understanding of efficient base year. Demonstrate that Powerlink has considered alternative efficient base years.	Assessed efficiencies at an individual line item level. Engaged independent consultant to review efficient base year. Have undertaken long term opex modelling to understand trends at total operating expenditure and category levels.
Demand and Energy Forecasting Methodologies	Should gain a better understanding of new technologies.	Assessed the impacts of battery storage and energy efficiency as part of the demand and energy forecasting model for the first time.
Rate of Return Approach	Need to engage early on potential rate of return outcome to assist customers in their decision making.	Communicated upfront that the AER's Rate of Return Guideline approach would be applied. Conveyed early indicative rate of return estimate in engagement forums and meetings.
Transmission Pricing	Support to stay with a 50/50 locational to non-locational revenue split.	Will continue to use 50/50 split.
Network Planning	Take a longer term view with regards to network resilience and strategic value of easements.	Decided to retain assets in Greater Brisbane area to maintain flexibility and lowest costs in the short to medium term.
Engagement Approach	High electricity prices is the main consumer issue. Preference for face-to-face engagement.	Engagement focused on areas that have greatest impact on electricity prices. Majority of engagement was done via face-to-face discussion.

Key risks and benefits

Powerlink has identified the following key risks and benefits to consumers associated with its Revenue Proposal:

Risks

Higher electricity prices	Upward movement in cost of debt may increase Powerlink's rate of return and therefore electricity prices over the regulatory period.
Balancing cost and reliability	Change in balance between cost and reliability could impact on reinvestment decisions with potential to invest more capital expenditure than forecast.
Network utilisation impact on longer-term price	The use of regulatory depreciation may lead to the possibility of the return of capital increasing at a time when utilisation of the network may be decreasing. This may impact on electricity prices in the longer term (10 to 15 years).
Conservative demand forecasts	If demand for electricity is greater than current forecasts, Powerlink may need to invest more capital expenditure than forecast.

Benefits

Reduction in electricity prices	Proposed revenue allowance will reduce Queensland electricity prices.
Operating a safe network	Proposed expenditure allowances will allow Powerlink to continue to operate its network in a safe manner.
Operating a reliable network	Proposed expenditure allowances and strengthened network performance targets (STPIS) will deliver better value while providing a reliable supply of electricity.
Delivering business efficiency	Performance targets, expenditure incentive schemes (for both capital and operating expenditure) and benchmarking will drive further efficiency across the business.
Stronger relationships with customers and consumers	Engagement framework will allow Powerlink to continue to better understand customer and consumer needs and provide opportunities to influence decision making.
Stakeholder involvement in network planning	Greater involvement of stakeholders in long term network planning will better align investment decisions with stakeholder requirements.

Next steps

The next steps in Powerlink's Transmission Determination process are:

Date	Action
February to May 2016*	AER reviews Powerlink's Revenue Proposal and invites public submissions. Public forum is held.
September 2016*	AER releases its Draft Determination.
December 2016*	Powerlink submits Revised Revenue Proposal.
30 April 2017	AER releases its Final Determination.
1 July 2017	Start of new regulatory period.

*indicative dates

Further information

A full copy of the Revenue Proposal is available on the Regulated Revenue section of Powerlink's website at www.powerlink.com.au.

Contact us

You can contact us in the following ways:

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