Ref. A4754626

8 September 2021

Mr Justin Oliver
Board Member
Australian Energy Regulator
Level 25, 32 Turbot Street
Brisbane QLD 4000

cc: Warwick Anderson, General Manager Pricing
Sebastian Roberts, General Manager Expenditure
Slavko Jovanoski, Director

Dear Mr ~~Oliver~~ Justin

Review of Powerlink's approach to network asset reinvestments

I refer to recent discussions that have taken place between members of our respective organisations, including our discussion on Friday 20 August 2021, regarding the Australian Energy Regulator's (AER's) preliminary view of Powerlink's forecast capital expenditure for the 2023-27 regulatory period. Through these discussions I understand the AER has identified some aspects of Powerlink's current approach to network asset reinvestment that it considers could potentially result in inefficient expenditure, including potential impacts on the trade-offs between capital and operating expenditure and consumer prices. I understand that the AER has specific concerns regarding:

- the scope of works for some reinvestment, including the transmission lines capital expenditure; and
- Powerlink's use of the Repex Model, as the AER does not consider this is well suited to use in forecasting transmission capex, and prefers the use of bottom-up forecasts for transmission capital expenditure rather than a modelled approach.

As you are aware, we developed our Revenue Proposal as an overall package that balances both capital and operating expenditure elements in an environment of little or no growth in maximum demand and energy throughput. This included a 3% reduction in capital expenditure (following a 35% reduction in the prior corresponding period) and no real growth in operating expenditure.

In developing our Revenue Proposal, we recognised that affordability remains a key concern to the community and we are committed to continue to do what we can to ensure our services are affordable and deliver value to our Queensland customers. Consistent with this commitment, we will undertake and publish the outcomes of a review of our

33 Harold Street ,Virginia
PO Box 1193, Virginia, Queensland 4014, Australia
Telephone: (07) 3860 2111 Facsimile: (07) 3860 2100
Website: www.powerlink.com.au

approach to network asset reinvestment in 2022/23, to ensure it continues to support the provision of safe, secure, reliable and cost-effective electricity transmission services

Scope

While the details of the scope of this review have yet to be worked through, we would seek to adopt improvements that would deliver further value to our customers as soon as practicable over the remainder of the 2023–27 period and to integrate these as part of business as usual

Our intention is to work with our customers and other stakeholders, including the AER, at the 'Involve' level of the International Association for Public Participation (IAP2) spectrum We want to ensure that the concerns and aspirations of customers and stakeholders are understood and directly reflected in the alternatives that are developed through the review

We expect the scope of the review to address both prudency and efficiency aspects of network asset reinvestments In this regard, the methodologies presented in the AER's non-binding Industry Practice Application Note for Asset Replacement Planning, together with the insights we have gained through the current AER review of our capital expenditure forecast, will be valuable input With this in mind, some specific matters that we consider will be relevant to the review include

- the role of deterministic criteria in an economic assessment framework,
- maintenance of social licence to operate over the asset life,
- treatment of uncertainty, in both costs and benefits,
- predictability and repeatability of the framework,
- management of input quantity limits (e g skilled workers) in assessing prudency, including the appropriate investment timing and inclusion of compliance elements within project scopes,
- the extent to which an economic risk based framework informs network asset reinvestment decisions including the identification of the efficient scope of works for reinvestment projects and of bundling works to achieve efficient delivery, and
- trade-offs between the ongoing costs of improved asset management systems and the available benefits that may result

Our review will also consider the balance between capital and operating expenditure and have regard to what is reasonably required to deliver such works in the Queensland operating environment

Incentives

To the extent that our review may otherwise result in windfall gains or losses under the AER's Capital Expenditure Sharing Scheme (CESS) and/or Efficiency Benefit Sharing Scheme (EBSS), we will hold further discussions with our customers and stakeholders including the AER as part of that review to ensure Powerlink is appropriately incentivised and electricity consumers are protected We are committed to passing on windfall savings that result from the reinvestment review to our customers

We see this as consistent with our approach to similar circumstances in the past where we have voluntarily returned revenue associated with the capital expenditure allowance for a refit of our office accommodation when the decision was made to defer the expenditure into the next regulatory period

Please do not hesitate to contact me if you would like to discuss this further

Yours sincerely,

[redacted]

Paul Simshauser
CHIEF EXECUTIVE

Enquiries Matthew Myers, Manager Revenue Reset
[redacted]