

**Powerlink Queensland**  
**Submission to the Queensland Productivity Commission**  
**Electricity Pricing Draft Report**  
**MARCH 2016**



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# 1 INTRODUCTION

Powerlink appreciates the opportunity to make a submission in response to the Queensland Productivity Commission’s (QPC) Draft Report, released 3 February 2016. While the report covers a broad range of matters related to electricity pricing and improving outcomes for consumers, this submission is focussed on sections of the report and/or recommendations that are of more direct relevance to Powerlink.

# 2 ELECTRICITY PRICES

Powerlink understands the importance of placing downward pressure on electricity prices. In its original submission to the QPC in November 2015, Powerlink provided some draft information about its Revenue Proposal and the potential flow-through to electricity prices. In January 2016, Powerlink finalised and submitted its Revenue Proposal to the Australian Energy Regulator (AER) and outlined the positive impact of the Revenue Proposal for consumers, as shown in **Figure 1** below. Powerlink’s Revenue Proposal delivers better value to consumers and customers through increased efficiency to lower costs, while maintaining reliable transmission services.



**Figure 1:** Revenue Proposal snapshot. **Source:** Powerlink Revenue Proposal Overview Document.

**Note:** The \$23 to \$39 annual saving is based on the Australian Energy Market Commission (AEMC) Report 2015 Residential Electricity Price Trends – annual usage of between 2,500kWh and 5,173kWh.

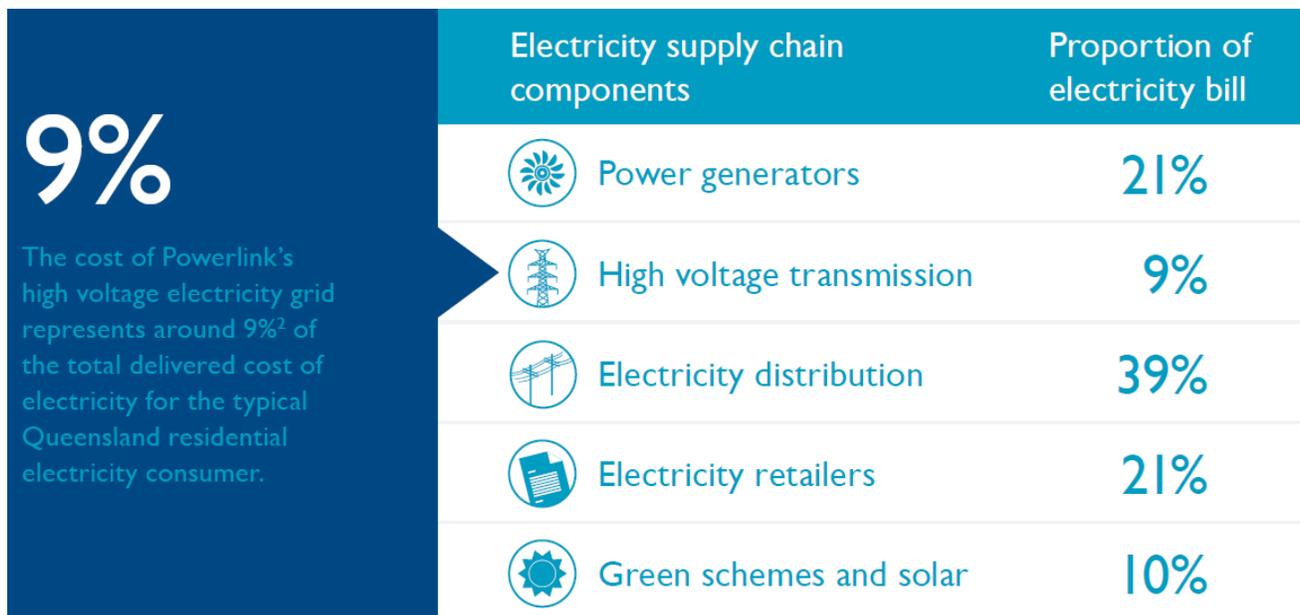
## 2.1 Grouping transmission and distribution

Powerlink notes that in the majority of the QPC report, transmission (Powerlink) and distribution (Energex and Ergon Energy) are grouped together as ‘electricity networks’.

Although in some circumstances it may be appropriate to group the transmission and distribution businesses, it is also important to note the differences between these two elements of the supply chain.

In particular, Powerlink notes that the QPC does not separate transmission and distribution when it comes to representing electricity prices. There is a significant difference between the proportion of the electricity bill associated with transmission (approximately 9%) comparative to distribution (approximately 39%) and Powerlink suggests it would be appropriate to ensure that, in this respect, the network businesses are not grouped together.

**Figure 2** below demonstrates the differences in the contribution to the bill based on a 2014/15 typical Queensland consumer electricity bill.



**Figure 2:** Powerlink contribution to household electricity prices. **Source:** Powerlink Revenue Proposal Overview.

### 3 RECOMMENDATIONS

No.	Theme	Draft recommendation	Powerlink feedback
15	Network	To ensure that the national regulatory frameworks effectively respond to the development of new technologies and business models, the Government should work proactively with the COAG Energy Council on reforms in this area.	The Commission recognised that a number of national and state policy reviews have been undertaken in recent years. This included the COAG Energy Council’s strategic assessment of the adequacy of the current regulatory framework to adapt to potential future market circumstances and cater to developments in technology and business models.
16	Network	Distribution businesses should continue to minimise or defer network capital expenditure by pursuing both tariff and non-tariff demand management programs (including discounts or rebates) for customers who shift their load to off-peak periods or are subject to interruptability of supply.	Consistent with Draft Recommendation 15, Powerlink considers that the Queensland Government is, and should continue, to work proactively with the COAG Energy Council on reforms in this area. Ongoing input from industry and other stakeholders will provide an important and rich source of information that can be incorporated into these processes.
51	Tariff reform	The Queensland Government should address the impacts of tariff reform for vulnerable customers by ensuring concessions are well-targeted.	The Commission made a number of recommendations in the area of tariff reform. These include the establishment of a working group to identify vulnerable customers and develop new tools to improve customer understanding of the costs and benefits of demand tariffs.
53	Tariff reform	<p>The Queensland Government should establish a working group involving distribution and retail businesses and relevant customer representatives to:</p> <ul style="list-style-type: none"> <li>• develop new tools to help customers understand the costs and benefits of demand tariffs;</li> <li>• identify customers vulnerable to the impacts of tariff reform;</li> <li>• investigate the requirement for support.</li> </ul>	While transmission service providers do not directly supply consumers (or small end-users) of electricity, Powerlink considers it would be useful to better understand end-user perspectives to help inform its own decision-making. As a result, Powerlink would be keen to participate in any such working group.

## 4 ACIL ALLEN FORECASTING

### 4.1 Demand, energy, battery storage, solar PV and electric vehicle forecasts

Powerlink notes the ACIL Allen modelling on demand and energy growth and the uptake of technologies including solar PV, battery storage and electric vehicles. Although Powerlink has no substantive issues with the projections by ACIL Allen, which are broadly consistent with Powerlink's Transmission Annual Planning Report 2015 forecast, it does recognise there are some differences in forecasting assumptions.

Demand and energy forecasting has been particularly difficult in recent years, driven by uncertainty in economic conditions and also the rapid pace of changes in consumer behaviour and emerging technology. For this reason, Powerlink has adopted a practice of mid-year demand and energy forecasts.

Powerlink recognises that demand and energy forecasting is a key component in achieving the balance between network prices and reliability of supply. Powerlink provided detailed information about its forecasting methodology in section 2.5 of its submission to the QPC Electricity Pricing Issues Paper.

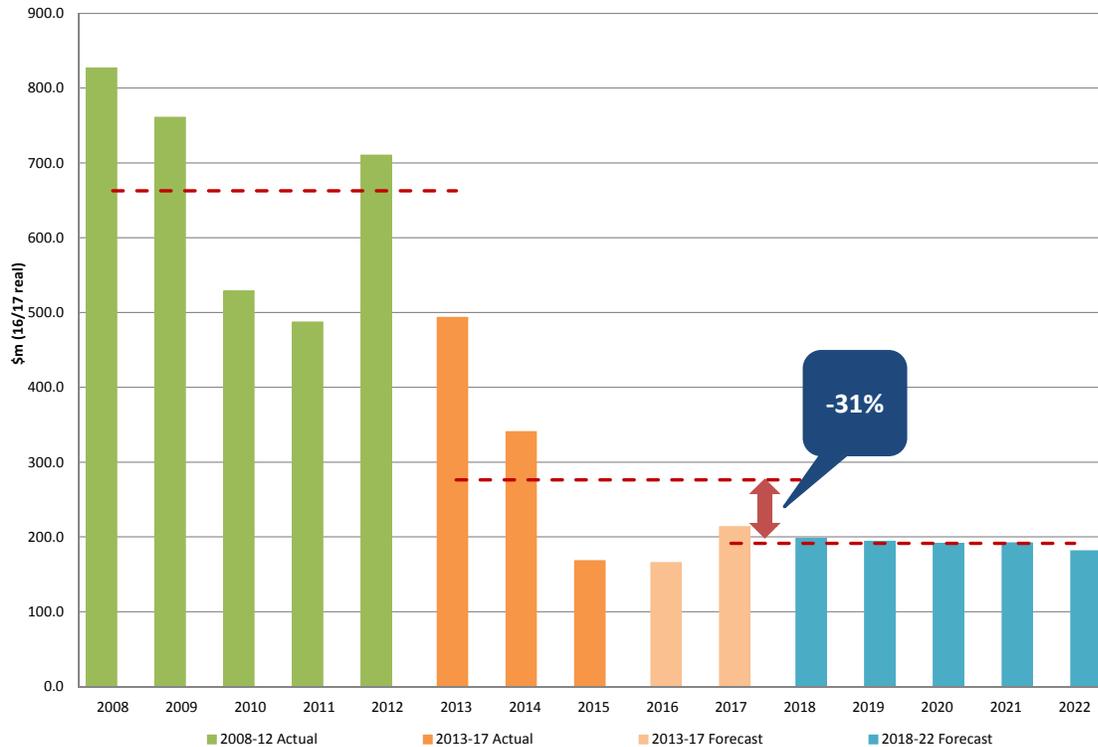
Powerlink will consider ACIL Allen's forecasting assumptions along with other input into its own forecasting methodology as part of its Transmission Annual Planning Report process.

### 4.2 Capital and operational expenditure forecasts

The Draft Report contains modelled projections from ACIL Allen of capital and operating expenditure out to 2035. Powerlink notes that while ACIL's operating expenditure projections are reasonably consistent with its own forecasts out to 2022, ACIL Allen's capital expenditure requirements are higher than Powerlink's prescribed services forecasts over the 2018-22 regulatory period and for several years beyond that.

#### *Capital expenditure*

In January 2016, Powerlink lodged its Revenue Proposal for its 2018-22 regulatory period. **Figure 3** on the following page shows Powerlink's total annual capital expenditure profile since 2007/08, including the proposed capital expenditure forecast for the 2018-22 regulatory period.



**Figure 3:** Actual and forecast total capital expenditure (\$m, 2016/17). **Source:** Powerlink Revenue Proposal Figure 2.

Powerlink’s forecast total capital expenditure for the 2018-22 regulatory period is \$957.1m. This is a reduction of 31% compared to actual/estimated expenditure in the current 2013-17 regulatory period. The primary driver of the reduction in capital expenditure has been the reduction in demand growth, with virtually no load driven investment forecast in the next regulatory period.

The reduction has also had an impact on non-load driven capital expenditure and Powerlink is applying different thinking in its approach to reinvestment to deliver better value to consumers and customers. This has provided the opportunity for greater use of alternative options, such as network support or network reconfiguration, to manage asset condition and risk at a lower overall cost.

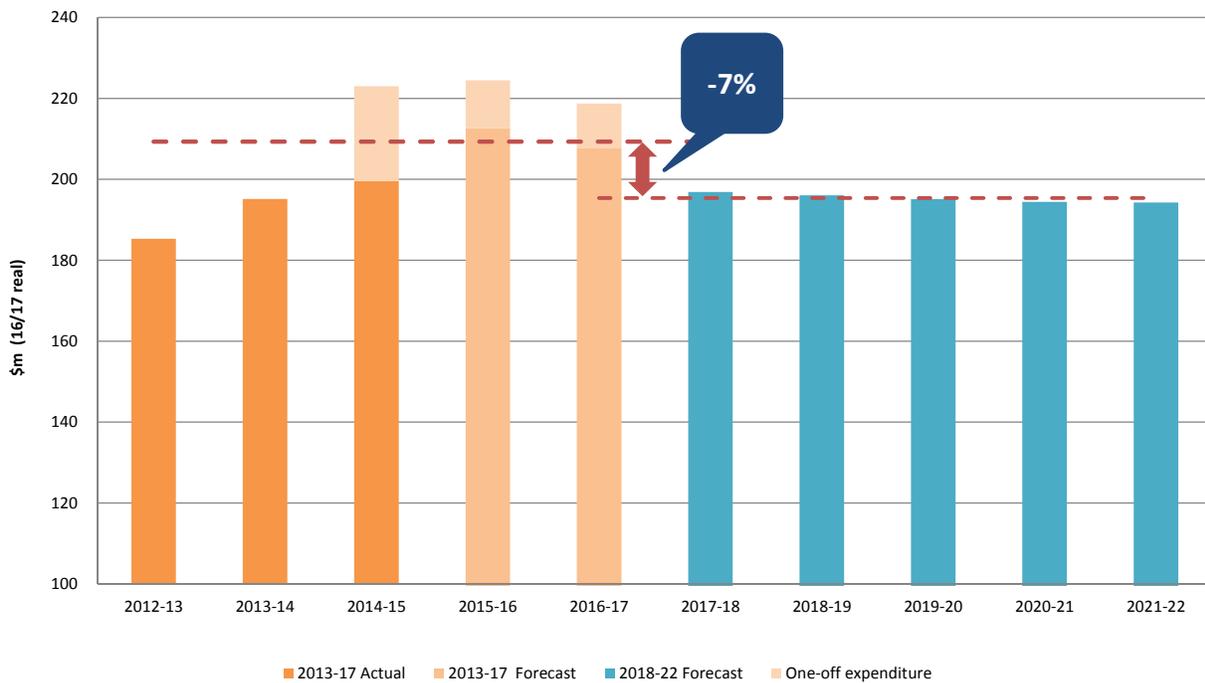
Powerlink’s forecast capital expenditure in its Revenue Proposal is approximately \$200m lower than the ACIL Allen forecast over the same period. Powerlink also notes the increase in capital expenditure forecast by ACIL Allen after 2022.

ACIL’s capital expenditure forecast may be slightly high given Powerlink’s latest view of opportunities to potentially replace end-of-life assets with a different capacity or configuration, which were refined as part of finalising its Revenue Proposal.

### Operating expenditure

Powerlink’s forecast total operating expenditure for the 2018-22 regulatory period is \$976.7m. This is a reduction of 7% compared to actual total operating expenditure in the current regulatory period. Powerlink’s operating expenditure forecast methodology applies trend, category and independent benchmarking analysis and is closely aligned with the AER’s ‘base-step-trend’ methodology. This methodology confirms Powerlink’s efficiency and focuses on setting targets for productivity growth that result in real annual reductions in total operating expenditure in each year of the 2018-22 regulatory period.

**Figure 4** below illustrates the change between Powerlink’s forecast and actual total operating expenditure in the current regulatory period.



**Figure 4:** Actual and forecast total operating expenditure (\$m, 2016/17). **Source:** Powerlink Revenue Proposal Figure 3.

Powerlink’s forecast operating expenditure in its Revenue Proposal is consistent with the ACIL Allen forecast over the same period.

## 5 BENCHMARKING

Section 4.1.1 of the QPC Draft Report contains a number of comments in relation to the AER's benchmarking performance, particularly with regard to Powerlink's performance comparative to other Transmission Network Service Providers (TNSPs).

Powerlink included a significant amount of information within its November 2015 submission to the QPC regarding its view on benchmarking (refer to Section 2.9 and Appendix A of Powerlink's November 2015 submission). Powerlink's views do not appear to be represented in the QPC's Draft Report.

The information outlined in Powerlink's November 2015 submission included concerns that there are a number of areas where the data prepared by each of the TNSPs is not like-for-like as TNSPs have interpreted the AER's Regulatory Information Notice (RIN) requirements differently. These issues have been raised in several submissions to the AER in relation to its 2014 and draft 2015 Benchmarking Reports for Transmission.

Powerlink suggests that the QPC include comment within its Final Report to note that:

- Powerlink has been working with the AER to encourage greater consistency of data inputs and consequently benchmarking inputs.
- Submissions have been made to the AER on the need to take into account relevant operating and environment factors in the analysis of benchmarking results in its reports, to recognise that each TNSP is subject to different conditions that drive differences in expenditure.
- Powerlink considers that its benchmarked performance is comparable to its peers when operating environment factors are taken into account.
- Powerlink also recognises that its performance can still be improved, and its aim is to deliver an increased level of productivity and cost reduction in its forecast capital and operating expenditure that responds to the concerns of its customers and consumers about electricity prices and the challenges posed by the external environment.



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