2023-27
POWERLINK QUEENSLAND REVENUE PROPOSAL

Appendix 6.03 – PUBLIC

Operating Expenditure Step Changes Approach

1. Purpose

This appendix outlines the approach Powerlink has taken to identify and assess potential operating expenditure step changes for the 2023-27 regulatory period. This is a supporting appendix only and provides further information in relation to Chapter 6 Forecast Operating Expenditure of our Revenue Proposal.

While we have not sought any step changes in operating expenditure in our 2023-27 Revenue Proposal, within period we are likely to incur additional costs associated with at least some of these regulatory obligations. These are also costs we will need to manage within our regulatory operating expenditure allowance.

Our target of no real growth in operating expenditure for the next regulatory period is supported by the combination of real productivity growth of 0.5% per annum, which is above the industry average of 0.3% per annum, and no proposed step changes. These elements are proposed and should be considered in combination, as a package.

1.1 Approach to step changes

We have set a target of no real growth in operating expenditure for the 2023-27 regulatory period. To achieve this target, we have decided not to pursue any operating expenditure step changes in our 2023-27 Revenue Proposal.

Throughout our assessment of potential step changes, we have had regard to customer feedback about affordability, the reasonableness of uncertain step changes being funded up-front through the regulatory allowance and our overarching requirement to continue to operate the network in a prudent and efficient manner, while meeting all our regulatory obligations.

Our decision not to pursue any step changes followed a review and evaluation of potential step changes and engagement on potential step changes with our customers, the Australian Energy Regulator's (AER's) Consumer Challenge Panel (CCP) and the AER.

We initially identified 27 potential operating expenditure step changes as part of our Revenue Proposal development (see Table 1.1). We applied the following criteria to undertake an internal assessment of each of the potential step changes:

- if the cost (or saving) had already been realised in the base year;
- if the cost was material[1], or could be absorbed;
- the likelihood of the cost being realised; and
- if the cost was associated with a new legislative or regulatory obligation.

Our initial evaluation of the potential 27 step changes against the above criteria gradually reduced the step changes to be assessed in further detail to six. We engaged with customers, stakeholders, the AER's CCP and the AER on several occasions throughout this process:

- February 2020 – initial engagement with our Revenue Proposal Reference Group (RPRG)[2];
- August 2020 – engagement as part of our Preliminary Positions and Forecasts Paper (PPFP); and

[1] We applied an initial materiality threshold of a potential $1m p.a. increase to guide whether a step change should be assessed further.
[2] The RPRG is a sub-set of our broader Customer Panel.

- September 2020 – engagement as part of our draft Revenue Proposal.

As part of this engagement we received feedback on, and had regard to, the reasonableness of funding uncertain step changes up-front through the regulatory allowance, affordability considerations and the need to balance these with our overarching requirement to continue to operate the network in a prudent and efficient manner.

As a result of our evaluation and consideration of feedback from customers, we proposed no step changes in our draft Revenue Proposal in September 2020 and have maintained this approach for our Revenue Proposal. This also aligns with our broader no real growth in operating expenditure target.

We have included detail in our Revenue Proposal (refer Chapter 6 Forecast Operating Expenditure) about the six potential step changes that we assessed further and for which we have chosen not to pursue a regulatory expenditure allowance. Table 1.1 outlines these and all other step changes considered.

Table 1.1: Potential step changes identified

Name	Description
Assessed further and discussed in the Revenue Proposal	
Cyber security	Increased costs to appropriately mitigate the risk of cyber security attack on Powerlink as a critical infrastructure provider, and maintain appropriate cyber security readiness under the 2018 Australian Energy Sector Cyber Security Framework (AESCSF).
Transmission Ring-Fencing	Increased compliance costs following the AER's review of the Transmission network Service Provider Ring-Fencing guideline. The AER has delayed this review due to COVID-19, therefore impacts/costs are not known in order for this to be included as a step change within the Revenue Proposal.
Nature Conservation Act (NCA) fees	Potential new fees for co-location of assets within national parks. The timing of this new obligation is uncertain and may not arise before the AER's Final Decision in April 2022.
Generator Technical Performance Standards (GTPS)	Increased costs, above those already incurred in the 2018-22 regulatory period, related to provision of operational advice on system-related matters due to the *National Electricity Amendment (Managing Power System Fault Levels) Rule 2017*.
Corporations Law - Whistle Blower Protections	Additional administrative and compliance costs related to new whistle-blower legislation.
Modern Slavery	New administrative compliance costs related to the *Modern Slavery Act 2018*.
Not assessed further or pursued	
Asynchronous Generation – Network Access	Additional staff and engagement for planned and unplanned network outages due to increased asynchronous generation.
Ethical Supplier Threshold Mandate	Additional compliance costs to ensure that businesses providing services to Governments or Government Owned Corporations (GOCs) uphold their social, economic and environmental commitments made in tenders and contracts or as required by policies or laws.
IT licences	Potential trade-off applicable between capital and operating expenditure related to expense treatment of cloud-based IT services.

Name	Description
Five Minute Settlement rules	Requirement for new metering systems to enable configuration of meters from 30 minutes to five minutes.
Reduction in information requests related to inconsistent development	New regime under the *Planning Act 2016* to allow Powerlink to make an information request of local government in relation to inconsistent development.
Insulator replacement works	Potential increase in delivery of insulator replacement works that warrants a step change.
Aerial Laser Surveys	New technology has enabled more accurate measurement of electrical clearances which may result in increased costs or requirements to meet the *Electrical Safety Act 2002* and *Work Health and Safety Act 2011*.
Environmental Protection – waste authority, classification and levy implementation	Additional waste disposal costs due to changes in the classification of regulated waste, requirements to transport regulated waste by vehicles, and a new waste disposal levy.
Transport of Dangerous Goods	Additional compliance costs associated with a new regime for the transport of dangerous goods by road.
Human Rights Compensation	New legal and administrative costs to comply with the *Human Rights Act 2019*.
Poisons	Potential increase to compliance and training costs for staff/contractors using poisons, pesticides or fumigants due to a new framework for regulating the use of poisons.
Workplace Health and Safety Codes of Practice	Potential increase to compliance costs to meet Workplace Health and Safety obligations.
Professional Engineers	New procedures for professional engineers including prescribed qualifications and competencies for particular areas of engineering.
Electrical Safety Competency Assessments	New requirement for electrical workers to comply with competency assessments, if directed.
Insolvency Law – Safe Haven	Reforms affecting Powerlink contract provisions, triggered if a contracted party is declared insolvent, which may lead to inability to recover costs from a supplier.
Native Title Compensation	Potential Native Title compensation payable to native title claimants under certain circumstances.
Building Industry Fairness	Additional administrative and compliance costs related to regulation for security of payment for subcontractors.
Building Queensland obligations	Additional costs associated with business cases to be developed under the *Building Queensland Act 2015* for major (>$50m) capital projects.
Ministerial Designation Process	Change to processes under the *Planning Act 2016* which may increase internal administration costs for Ministerial Designation on augmentation projects.
Vegetation Management	Additional obligations and potential costs related to changes to codes of practice for vegetation clearing and regional ecosystem conservation.
Regulated Investment Test for Transmission (RIT-T) costs	Additional costs related to undertaking RIT-Ts for replacement capital projects, as a result of the 2018 RIT-T Application Guidelines.