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South Australian Council of Social Service

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Mr Craig Oakeshott
Wholesale Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email to AERInquiry@aer.gov.au

13 May 2015

Dear Mr Oakeshott,

Re: ElectraNet - Application for early implementation of the network capability component of the STPIS

Thank you for the opportunity to make a submission to this consultation. As the peak body for the community services sector in South Australia, SACOSS has a long–standing interest in the delivery of essential services. Our research shows that the cost of basic necessities like energy and water impacts greatly and disproportionately on vulnerable and disadvantaged people. Our advocacy is informed by our members; organisations and individuals who witness these impacts in our community.

It is our understanding that ElectraNet is proposing around $10m pa in capital expenditure for the next three years on a number of small projects under the Network Capability Incentive[1]. These will be the final 3 years of ElectraNet's current regulatory period (2013-18). SACOSS provided a submission to ElectraNet during its consultation seeking feedback from stakeholders prior to ElectraNet's submission of the proposed action plan to the AER. We note that this submission has been acknowledged by ElectraNet in their NCIPAP Consultation Summary (available from the AER project page) and that ElectraNet has made changes to its proposal that are consistent with some of our comments. This SACOSS submission to the AER on the action plan repeats many of the statements made to ElectraNet during their consultation.

SACOSS also understands that the AEMC's final decision on a Rule Change proposal by ElectraNet to be able to access the scheme prior to its next revenue reset in 2018, was to approve the request[2] and that the AER's submission to the Rule Change proposal was also supportive[3].

The AEMC's final decision to implement the rule change was based on:

> " … the potential to result in improvements to the volume of generated electricity that can be dispatched across the transmission network, without constraint due to capacity limitations. Such an outcome has the potential to lead to more efficient pricing in the wholesale electricity market."

SACOSS is increasingly concerned about the decline in demand for wholesale electricity and whether or not such continued expenditure is indeed prudent. The distinction between efficiency and prudency appears to have been lost in the process to date.

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[1] www.aer.gov.au/node/31390
[2] SACOSS notes the AEMC paid particular attention to altering revenue determinations within regulatory control periods (AEMC Draft Rule Determination ERC0173, http://www.aemc.gov.au/Rule-Changes/Early-application-of-STPIS-components-to-transmiss, p. 11) but has decided that this specific application by ElectraNet is allowable.
[3] www.aer.gov.au/node/27494

The following charts are based on information provided by ElectraNet to the AER in response to Regulatory Information Notices (RIN responses) and wholesale market data published by AEMO and indicate not only an overall lack of demand growth but the early years of what looks like a steady decline in volume for the Transmission Network's largest customer: the Distribution Network.

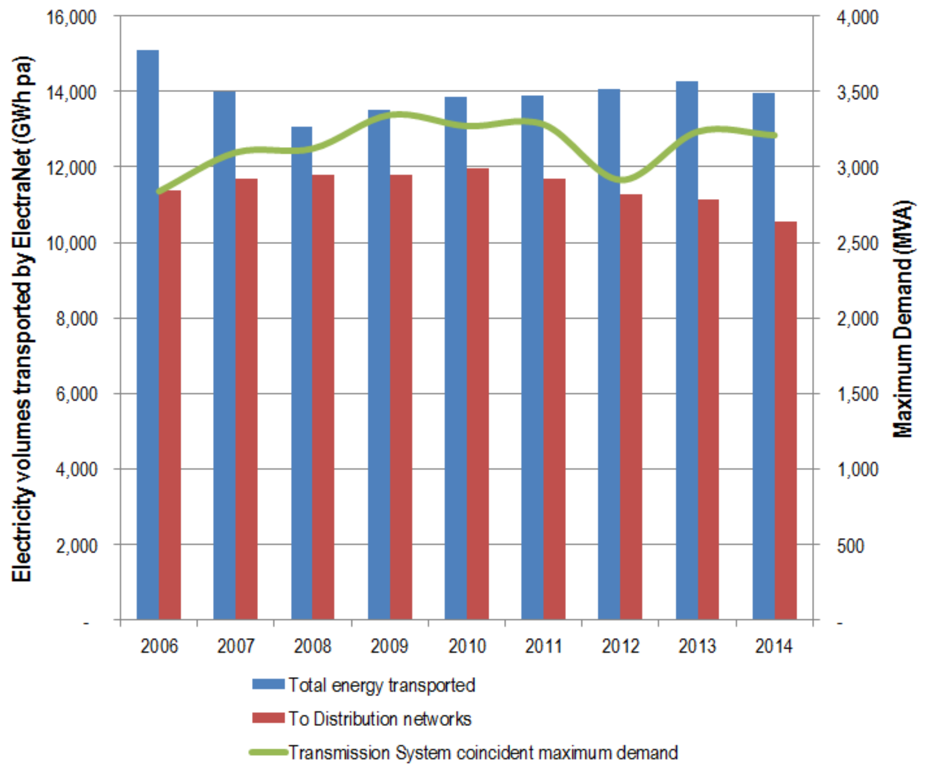

Figure 1: ElectraNet Electricity volumes and maximum demand – regulatory years to June 2014. Source: AER[4]

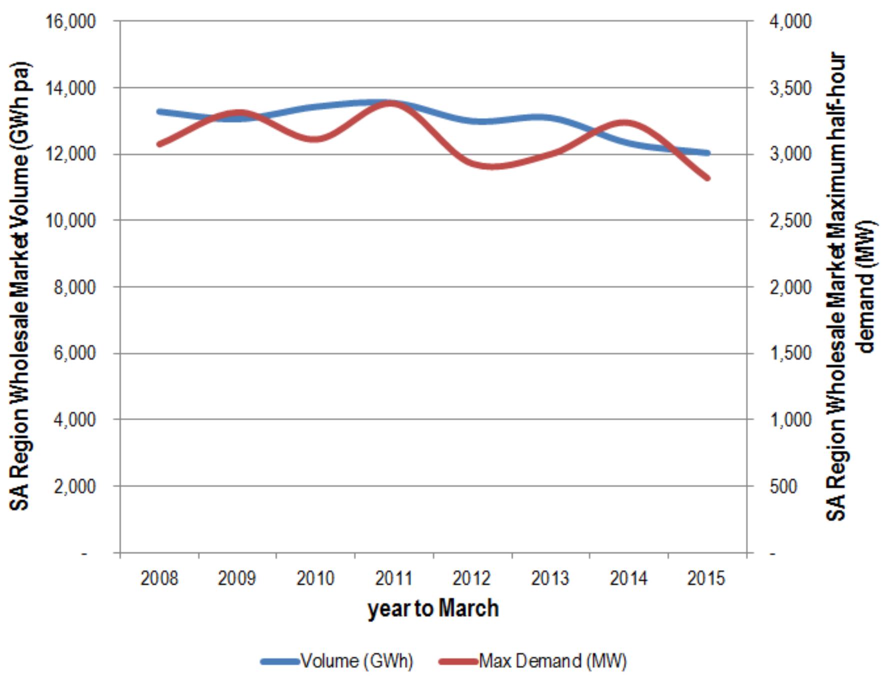

Figure 2: SA Wholesale Electricity Market volumes and maximum demand – annualised as 12m to March in each year from 2008 to 2015. Source: SACOSS analysis of AEMO market data[5] via NEMReview[6]

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[4] www.aer.gov.au/node/24859

[5] Electricity price and demand data is published here: www.aemo.com.au/Electricity/Data/Price-and-Demand

SACOSS represents household consumers. The residential and small business electricity market is in the process of re-conceiving its relationship to 'the grid' and the Transmission Network in particular. This can be seen in the declining volumes delivered to the Distribution Network by the Transmission Network in Figure 1. This has a number of drivers including a recent period of rapid price rises and the high penetration of solar power systems in SA.

In this context, SACOSS is very concerned that this additional expenditure of $10m and consequential entitlement by ElectraNet to an additional 1.5% of Maximum Allowed Revenue (MAR) is being justified on the basis of removing constraints in the wholesale market. SACOSS would argue that these constraints are instead being steadily eroded by declining demand and that a prudent approach to investment would not see any additional expenditure until the next revenue reset when these issues can be assessed in totality.

SACOSS has reviewed the Proposed ElectraNet Network Capability Incentive Parameter Action Plan and is of the view that the benefits to consumers have not been robustly demonstrated – and certainly not for the time-frame in question, the remainder of the regulatory period. In our view, given the process undertaken to ensure early access to the scheme, the action plan needs to demonstrate why the projects need to be implemented *prior* to the next regulatory reset (when a more complete assessment of expenditure can be undertaken).

In our previous comments on the Heywood Interconnector upgrade, we noted that many of the benefits did not appear until well into the future and that this reduced confidence that the benefits would actually accrue to consumers. We note that the Heywood Interconnector Upgrade is scheduled for completion in July 2016.

ElectraNet's Action Plan outlines the approach taken to selecting projects and that Projects considered but not proposed included those, "…with an uncertain likelihood that the capability will be required before the end of the current regulatory period, which therefore have lower economic benefits at this time." (page 8 of 26). In our view, some of the remaining projects would also meet this criteria. The following table from ElectraNet's Action Plan shows the 'median case' paybacks for the projects.

Table 3-2: Estimated benefits from Transmission line uprating projects ($m nominal)[11]

Project	Completion date	Estimated Cost ($m)	Estimated benefits ($m pa)	Payback period
Upper South East uprating	2015-16	**2.30**	> 2.6	< 1 year
Riverland uprating	2016-17	**4.43**	> 2.4	< 2 years
Robertstown – Waterloo East uprating	2017-18	**1.33**	~ 0.3	~ 5 years
Lower South East uprating	2015-16	**1.83**	~ 0.32	~ 5.7 years

Project 1 and 4 are not required until after the commissioning of the upgrade of the Heywood Interconnector and so would have a maximum of two years to deliver. It is inconceivable that Project 4, with a possible payback of around 5-6 years needs to be advanced now – in the middle of a regulatory period – when it has a maximum 2 years to offer a capability needed by the market.

[6] More information is available here: http://v6.nem-review.info/what/index.aspx

The Planning Studies included in the project list were not part of the earlier consultation and it is similarly inconceivable that it is necessary to open up a regulatory determination to add $130,000 in studies which, in face value, appear to be precisely core business for an Electricity Transmission business.

In our view, the long paybacks or intangible benefits of the majority of these projects is evidence that the NCC in fact **does not need to be applied before the next Regulatory Period**. What has been presented appears to be the best effort at accessing what is perceived as an entitlement to additional funding. SACOSS does not support this as being in the best interest of consumers.

We note that since the last revenue reset, ElectraNet has added the Heywood Interconnector Upgrade (approx. $45m in capex and $2m pa in opex)[7] as a contingent project, has received $7m in STPIS payments for the 2014 calendar year[8] and is now pursuing another $10m. .

Summary

Overall, SACOSS does not accept that any of the projects have been demonstrated as needing to be addressed prior to the next revenue reset. In our view, the long paybacks or intangible benefits of the majority of these projects is evidence that the NCC in fact **does not need to be applied before the next Regulatory Period**. At this time, all projects can be assessed in totality for prudency and efficiency. SACOSS believes that if these projects are so clearly in the consumer interest then they should be prioritised to be performed from within the existing expenditure allowances as with any other ElectraNet core business prioritisation process.

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

Ross Womersley
Executive Director

[7] AER final decision ElectraNet – Heywood Interconnector Upgrade Contingent Project http://www.aer.gov.au/node/23187

[8] http://www.aer.gov.au/node/31492