Expenditure Forecast Assessment Guidelines Working Group meeting No. 7

Summary of meeting - 19 March 2013

Category assessment – connections and customer driven works

Held at the AER's Melbourne offices

On 19 March 2013, the AER, as part of its Better Regulation package, hosted a working group meeting on the development of the Expenditure forecast assessment guidelines (the Guidelines). The meeting was chaired by AER Assistant Director, Esmond Smith. A full attendee list can be found in Attachment A.

This summary outlines the key topics and themes of the meeting, including views expressed at the meeting, without ascribing particular comments to any one individual or organisation. The outline broadly follows that of the agenda.

1   Introductions

In this workshop, AER staff sought feedback from stakeholders on the information it could require to assess forecasts of both volumes and cost associated with connections and customer driven works. This workshop was for Transmission network service providers (TNSPs).

The focus of the meeting was on three things: the category definitions of different types/scale of connection; the key cost drivers that could or should be picked up through sub category classifications (e.g. voltage); and the estimation of project costs and cost associated with key elements of projects (e.g. transformers). AER staff indicated the intention is to collect standardised and sufficiently disaggregated data to facilitate effective benchmarking across NSPs.

AER staff indicated that the likely focus of changes from this review (for transmission) would be on developing better cost estimates and better regulatory recording out turn project (and input element) costs. This is due to the lumpy and highly unique nature of many transmission projects.

AER staff indicated that comments of participants will be taken into consideration as the category work progresses and category definitions and future data requirements are further developed.

2   *Major issues for discussion and feedback from forum*

AER staff and meeting participants discussed a range of issues, including:

- the scope of the prescribed services and the relevance of this to information to be requested from TNSPs

- what categorisations they considered relevant to driving costs

- what input unit costs could be supplied to the AER, as well as the limits and risks associated with the use and public reporting of this information.

General comments on the categories presented by AER staff for discussion

AER staff proposed the following categories and sub categories for discussion and then asked for comment from participants regarding their validity, completeness and whether preferred categories existed:

- Connection type (input/generation versus output/consumption)

- New or replacement

- Underground or overhead

- Voltage level and/or network level

- Connection versus other works (potentially connection and extension, and connection and augmentation with or without extension)

- Expected maximum demand

TNSP representatives were asked to also consider each of these categories in the context of what they currently do in relation to forecasting internal costs and performing internal benchmarking, as well as preparing quotes for works.

Connection Type

Conceptually customer type does not drive much in terms of cost. Rather, key cost drivers are voltage and load (relative to current capacity) and required reliability.

The vast majority of connection work is connecting to DNSPs (around 90%).

New or replacement

Participants considered that costs associated with new versus replacement works could typically vary. This is due to certain works often not being required in replacement works (for example earth works and base substation construction might not be required).

Underground or overhead

Participants agreed that this had a material impact on costs.

Voltage Level and/or network level

Participants generally agreed voltage level is an important cost driver. The view was also expressed that it is likely network level is simply a substitute for voltage level.

Connection versus other works

AER staff indicated that they wanted to be able to estimate the costs associated with different types/scope of work and connections versus connection plus extension and/or augmentation was a way of breaking the scope up. AER staff indicated that ideally you would classify the work by primary driver (and associated costs) and then pick up additional work (and associated costs) coming from the broader joint planning process.

Participants indicated that a starting point could be the RIT-T which does allocate cost by primary driver.

Participants indicated that splitting up costs between given activity categories could be difficult. This was because different categories of works are coordinated and completed together to generate efficiencies (e.g. teams will go out to an area and do multiple projects) and it would be difficult to split out the costs associated with each activity.

Participants indicated that the distinction between connection and other augmentation works is unlikely to be material in terms of cost. That is, similar assets are likely to have similar cost regardless of whether they are used for connection or within the shared network.

Expected maximum demand

Participants agreed that meeting a specific maximum demand and the associated MVA rating was a key driver of costs.

Omitted Categories

Participants considered the following issues also have a material impact on connection costs:

- Location - remoteness or difficulty in travelling to certain sites

- Terrain - geotechnical issues (substrate type)

- MVA rating and line rating - important for substation costs

Comments on estimation, recording and reporting of unit cost estimates

Following the discussion of works categories, AER staff discussed estimation of unit costs and the recording of key input costs on projects. AER staff indicated this was to allow the regulator to better assess capital expenditure proposal costs. The collection of cost data would also be used to develop and refine 'price books' containing the costs for standard elements used in projects.

Comments of participants included the following:

- key assets that drive cost are principally contained in the Grid Australia submission on the AER's expenditure assessment issues paper and include: substations; switch bays; transformers; reactive plant; secondary systems; transmission lines; transmission cables; and communications and IT.

- Much of the equipment is standard across different projects.

- Recording unit costs may be difficult as most work is contracted out on a supply and install basis at various levels of aggregation and the price will reflect variances in contractor pricing allocation and the level of aggregation relevant to each project. Therefore, equipment costs may not be separately recorded from installation, transport and other costs.

- TNSPs often do not do much of their own internal benchmarking. However, TNSPs do have internal price estimation manuals based on past costs and sometimes will use external parties to come up with estimates (for cross checking purposes).

- Releasing any costing data at a highly disaggregated level was not generally supported by TNSPs. This was due to concerns around genuine differences in costs between businesses and the possibility the data would be used ignoring these differences (i.e. out of context).

- The AER should consider the estimation/use of statistical distributions/ranges around unit input costs rather than a single value.

- TNSPs have more reliable cost estimates around new projects.

3   *Other matters raised by participants*

TNSPs opposed the collection of any data in relation to non-regulated services. They considered this outside the AER's area of responsibility. It was commented that the AER should apply the definitions of prescribed, negotiated and non-regulated services as found in the rules and also discussed in the Grid Australia guidelines.

Attachment A: Attendee list

Melbourne office

Name	Organisation
Bill Jackson	ElectraNet
Andrew Kingsmill	TransGrid
Michael Seddon	Transend Networks
Katie Yates	SP AusNet
Jenny Harris	Powerlink
Lawrence Irlam	AER
Paul Dunn	AER
Esmond Smith	AER
Matthew Simpson	AER
Israel del Mundo	AER
Max Hooper	AER
Anthony Hynes	AER