

25 February 2013

Mr Warwick Anderson  
General Manager  
Network Regulation Branch  
Australian Energy Regulator  
PO Box 3131  
Canberra ACT 2601

Dear Mr Anderson

### ACT Part 1 Framework and approach paper—Dual Function Assets

ActewAGL Distribution has received directly from TransGrid a copy of TransGrid's proposed late submission, dated 15 February 2013, on the *Notice of AER proposed determination on pricing of ActewAGL's dual function assets*. We have been advised that, despite submissions having closed on 21 September 2012, the AER is considering accepting and publishing TransGrid's submission. ActewAGL Distribution therefore wishes to take the opportunity to address matters raised in the submission.

ActewAGL Distribution objects to TransGrid's suggestion in the submission that ActewAGL is seeking to use the Dual Function Asset (DFA) provision of the National Electricity Rules (NER) to unjustifiably pass off costs related to distribution activities. In the opening paragraphs of the submission, TransGrid incorrectly characterises ActewAGL Distribution's actions as "seeking to classify certain assets as Dual Function Assets (DFAs) so as to recover the assets' costs via transmission pricing" and again on the second page refers to assets "which TransGrid believes are not related to transmission services ... for which ActewAGL has proposed DFA classification".

To correct the record here, the NER **deem** as *dual function assets*:

any part of a *network* owned, operated or controlled by a *Distribution Network Service Provider* which operates between 66 kV and 220 kV and which operates in parallel, and provides support, to the higher voltage *transmission network*<sup>1</sup>

The situation is therefore that, on completion of the second supply point to the ACT, ActewAGL Distribution's sub-transmission network was deemed as dual function assets under this Rule. No application by ActewAGL Distribution or determination by the AER is required for this purpose. However ActewAGL Distribution has, as required by the NER, reported the dual function assets to the AER and answered the AER's queries on them.

An effectively identical description to that above is included in the NER definition of *transmission network*, and a person who owns, controls or operates a transmission network is defined under the NER as a *transmission network service provider* (TNSP). As a consequence, ActewAGL Distribution is now registered as a TNSP since this is an unqualified requirement of the NER. TransGrid's supposition on page 2 of the submission that "ActewAGL is currently applying for [TNSP] status in order to receive the payments for loss compensation during this limited period [of temporary supply to Cooma], and to claim the associated metering installation costs (bringing them to a standard suitable for a

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<sup>1</sup> NER 6.24.2(a)

transmission network)" is therefore incorrect. In the case of metering, whether there is an operational requirement for upgrade is currently under review, and there will be no expenditure without it being subject to the usual evaluation processes.

TransGrid also states on page 1 of the submission that if the AER determines that ActewAGL Distribution's dual function assets are to be regulated such that their costs are recovered in transmission charges "NSW electricity customers will be unfairly charged for assets which they do not use or receive benefits from". ActewAGL Distribution notes that this argument has two major flaws. The first is that the NEM is organised on a regional, not jurisdictional, basis. The Australian Capital Territory (ACT) is within the New South Wales (NSW) region of the NEM—customers living in both the ACT and NSW are NSW electricity customers for the purposes of the NEM. The second is that no customer anywhere in the NSW region could receive direct benefit from all parts of the transmission network. ActewAGL Distribution customers, for example, pay through transmission charges for all TransGrid transmission assets, as well as dual function assets in the Sydney area from which they receive no direct benefit. The purpose of the dual function asset provisions in the NER is to ensure that significant parts of distribution networks that perform a transmission function of "operat[ing] in parallel, and provid[ing] support" to transmission are funded by all transmission network users.

The role of the AER on receipt of the required advice from a service provider on its dual function assets is to determine "whether the value of a Distribution Network Service Provider's dual function assets which provide transmission standard control services comprise such a material proportion of [the DNSP's] regulatory asset base that [costs for those assets should be recovered through transmission pricing]".<sup>2</sup> It is arguable that the AER is not specifically required, as suggested by TransGrid, to decide whether the any dual function assets will or will not be *primarily* used to provide transmission services.

On page 3 of the submission, TransGrid ventures its views on the purpose of elements of ActewAGL's Distribution's dual function assets. Based on its analysis, TransGrid claims that only \$12 million worth of assets in total provide transmission services. TransGrid arrives at this figure by identifying assets built as a requirement of completing the second supply point to the ACT. However the nature of these assets and their operational role is no different from that of the remainder of ActewAGL's 132 kV network (the dual function assets) in the new network configuration. The fact that these assets have been created as part of the second point of supply project is not a relevant consideration.

TransGrid concedes the role of three of the four asset groups identified in providing transmission services. However, in focussing on the role of temporary 'sole supply source' to Cooma and region undertaken by the dual function assets, the TransGrid submission gives insufficient emphasis to the ongoing benefit of network support provided by ActewAGL Distribution's transmission network to customers in other parts of NSW. In running in parallel to the TransGrid network, the ActewAGL dual function assets provide the required N-1 reliability to the Cooma sub-station on continuing basis. Both TransGrid and Essential Energy (the distribution network service provider for the Cooma region) have recognised the value of this contribution. During the development stages of the second point of supply project, ActewAGL gave consideration to the future mode of operation for the ActewAGL 132 kV system, including the possibility of *splitting* the system. TransGrid's unequivocal position was that the ActewAGL system must operate in parallel with the 330 kV otherwise the N-1 reliability requirement would not be met. The dual function asset provisions of the NER envisage this "in support of" contribution being recovered in transmission charges, rather than being funded by ACT customers alone.

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<sup>2</sup> NER 6.25(b)

ActewAGL acknowledges that the remaining asset group listed by TransGrid, the upgrade of the ActewAGL Gilmore to Theodore 132kV line (total forecast cost \$10.5 million), is to be undertaken primarily to provide capacity such that the entire ACT distribution network could be supplied if required from the Williamsdale point of supply. But, in doing so, the upgrade also increases the ability of the dual function assets to provide a support function. It is noted also that the value of this pending augmentation was not included in the estimated 6.3 per cent of ActewAGL's regulatory asset base as at 1 July 2012 on which the AER based its preliminary view of materiality of the dual function assets.

Finally, on pages 4 and 5 of the submission TransGrid quotes ActewAGL's earlier response to the AER on the relevant issue of the impact on ACT distribution network users of the cost of its dual function assets being included in transmission charges that "recovering the cost of DFA from NSW/ACT transmission network users would have a significant impact on the cost of electricity supply for [ACT distribution consumers] but a trivially minor impact [NSW region transmission customers]". This is a demonstrably true statement given the relative sizes of the two groups, but not one intended to convey the intent ascribed to ActewAGL by TransGrid that the incidence of gains and losses justified the outcome. The statement merely described the impact of the intended outcome of the Rules.

In summary, ActewAGL Distribution considers that TransGrid has failed to mount a valid argument in opposition to the costs of dual function assets in the ACT distribution network being recovered in transmission charges.

Should the AER have further queries on this submission, they should be directed to Mr Chris Bell, Manager Regulatory Affairs on 02 6248 3180.

Yours sincerely



David Graham  
Director Regulatory Affairs and Pricing