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9 August 2001

Mr. Michael Rawstron,
General Manager
Regulatory Affairs - Electricity
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

BY FACSIMILE

Dear Mr Rawstron,

Re: ElectraNet SA Transmission Network Revenue Cap Application

The Australian Competition and Consumer Commission (ACCC), in accordance with its responsibilities under the National Electricity Code (Code), is currently conducting an inquiry into the appropriate revenue cap to apply to the non-contestable elements of ElectraNet SA's transmission network. As part of this inquiry, the ACCC engaged Meritec to conduct a review of the proposed \$409 million capital expenditure program over the regulatory period (2003-2007/08) and is now seeking public comment on the Meritec Report¹. This letter is TransÉnergie Australia Pty Ltd's (TransÉnergie's) submission to that consultation.

TransÉnergie supports, with some qualifications, the findings set out in section 3.7.1 of the Meritec Report in relation to the two major capital expenditure projects proposed by ElectraNet for augmentation to the Robertstown/Monash/Berri network. The reasons for this position are set out in detail below:

Monash-Robertstown 275 kV and Monash 275/132 kV substation
(ElectraNet Project Report No 1.36)

ElectraNet is seeking to include \$44.7 million in its capital expenditure program in order to augment capacity to supply the Riverland area. This is predicated on the evidence of ongoing load growth in the Riverland and a number of reviews undertaken by the Electricity Supply Industry Planning Council (ESIPC) to evaluate options to ensure the operation of the Riverland system can meet the performance standards required under the SA Transmission and National Electricity Codes. The ESIPC has carried out two consultations on the adequacy of Riverland supply and confirmed that major limitations do exist and there could be a very real possibility of

¹ *ElectraNet SA Capital Expenditure Review*, prepared for Australian Competition and Consumer Commission, Meritec Pty Limited, July 2002.

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*'large scale load shedding and other major power system disturbances which are likely to spread beyond the confines of the Riverland.'*²

TransÉnergie's objections to this project being rolled into the ElectraNet asset base are not based on disagreement as to the need for increased support for the Riverland, but on the fact that the necessary support can be provided by the Murraylink interconnection (through a network support agreement) in combination with the existing network.

The ESIPC has confirmed that Murraylink has sufficient power transfer capability to resolve the limitations until approximately 2007/08 and has therefore recommended that *'a Riverland support facility is required to operate in conjunction with Murraylink in order to fully meet requirements.'*³ TransÉnergie has repeatedly affirmed its preparedness to enter into a network support agreement that would entail Murraylink to support the Riverland and thereby securing the Riverland's supply requirements.⁴

To date, TransÉnergie has not been able reach such an agreement with ElectraNet (as the local TNSP) the necessary counter-party to such an agreement. TransÉnergie perceives that ElectraNet has an incentive not to reach agreement with Murraylink to provide the appropriate network support for the Riverland if it can convince the ACCC to approve the development of its own assets.

I note that Meritec's review of ElectraNet's proposed capital expenditure program recommends the \$9.8 million substation component of this project should be deferred until 2007/08 based on the use of Murraylink to support the network. The 2007/08 timeline is derived from Meritec's own analysis undertaken on behalf of the ESIPC during the Riverland Augmentation Reviews.⁵ However, it is possible to demonstrate that efficient use of Murraylink can continue to supply the Riverland well beyond 2007/08.

The initial finding that Murraylink will be unable to adequately supply the Riverland beyond 2007/08 is predicated on its inability to enhance the network's capacity to meet voltage requirements after this time. However, TransÉnergie is aware of 2 important factors that indicate that Murraylink, in combination with a network support agreement and relatively low cost capital expenditure can adequately supply the Riverland well beyond 2007/08.

In the first instance, TransÉnergie has previously advised ESIPC that unacceptable voltages should not necessarily require the construction of new transmission lines. Rather, the preferred

² *'Riverland Augmentation Final Technical Report'*, Electricity Supply Industry Planning Council, December 2001.

³ *Ibid.*, page 1.

⁴ Various TransÉnergie submissions and letters between TransÉnergie, ESIPC, ElectraNet and the SAIIR can be provided to the Commission on a confidential basis if required.

⁵ *'Technical Review of Submissions to the ESIPC on the Riverland Augmentation'*, Meritec Pty Limited, September 2001.

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solution should be to adopt VENCORP's approach of simply calling for 'Ancillary Service Contracts'. This approach will deliver SA consumers a lower cost solution able to provide voltage support to the Riverland region from the summer of 2007/08, and will defer the need for the new transmission line and the substation upgrade for at least several years.

The ESIPC has accepted this position:

*"The Planning Council also accepts that reactive compensation may supplement and prolong the life of a power system's assets."*⁶

*"... Murraylink supplemented by a Riverland support facility is adequate for Riverland requirements until year 2007-08. At this time, the 132 kV lines cannot provide adequate voltage performance under the contingency of a Murraylink outage as both lines become heavily loaded and are close to their thermal limits. Nevertheless, the scope exists to provide some additional Riverland static capacitors thus extending the life of the 132 kV lines past year 2007/08 enabling adequate Riverland performance under network N-1 contingencies."*⁷

Therefore, TransÉnergie firmly believes that the installation of shunt capacitors must be given proper consideration to defer the construction of the new transmission line and substation works. Initial estimates indicate a deferral of only 1 year is worth approximately \$2.9 million, which I understand is considerably more than the cost, for example, of a 100 MVar shunt capacitor. Furthermore, if a new transmission line is required in later years, it is not unreasonable to assume that the shunt capacitors can be easily disconnected by ElectraNet and moved to other locations elsewhere in its 132 kV network.

The second factor is based on new load forecasts contained in ESIPC's own recent *2002 Annual Planning Review*. The load forecasts for the Riverland region have been adjusted downwards since Meritec's analysis for the original Riverland review, which formed the basis of the need for Riverland augmentation after 2007/08. The impact of these downward adjustments is that Murraylink, in conjunction with the existing transmission lines, is sufficient to meet all Riverland loads until at least 2009/10. (In effect, the load levels that previously occurred in 2007/08 do not now occur until after the summer of 2009/10). Given these more up-to-date forecasts and that the peak load occurs in the summer, it can be concluded that additional supply is not expected to be required until the summer of 2010/11 – that is, three years later than previously estimated by the ESIPC.

6 'Riverland Augmentation Issues Summary', ESIPC, December 2001, page.8

7 "Riverland Augmentation Final Technical Report", ESIPC, December 2001, page 17-18.

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In summary, TransÉnergie firmly believes that the combination of lower Riverland demand forecasts and the use of shunt capacitors for enhanced reactive support, means that the need for the assets proposed by ElectraNet can be deferred for at least five years from 2007/08 to 2012/13 (3years due to the lower load forecasts and 2 years due to use of shunt capacitors).

TransÉnergie considers that the cost to ElectraNet of any network support agreement with Murraylink Transmission Company (MTC) will form a legitimate cost for inclusion in the revenue cap determination. However, this cost should be reflected as an ongoing operating cost and not as capital expenditure as there will be no new ElectraNet assets.

Monash to SA Border Component of SNI
(ElectraNet Project Report No 1.52)

For the reasons stated in its review, TransÉnergie fully supports the conclusion of Meritec in relation to this project.

TransGrid is the proponent of SNI and the party who should eventually seek funding for the project should it proceed on a regulated basis. Irrespective of any arrangements that TransGrid and ElectraNet may have reached between themselves, it is highly concerning and imprudent for ElectraNet to seek funding for components of SNI.

TransÉnergie also believes it would be inconsistent for the ACCC to approve such a project for inclusion in ElectraNet's regulated asset base given its previous comments and findings disallowing TransGrid's projected expenditure on SNI on the basis of uncertainty about whether it would proceed. In this respect, TransÉnergie believes the ACCC should also note that ElectraNet has only assigned a 0.45 probability of the project proceeding.

TransÉnergie is happy to discuss any of the matters in this submission in more detail. In this regard, please contact Scott Klose on (07) 3229 2156.

Regards,

Dr. A. Cook
Managing Director