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Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

By email: TransGrid2018@aer.gov.au

Dear Mr Roberts

TransGrid – Regulatory Determination – Revenue Allowance - 2018-2023

This submission is in relation to the proposed maximum revenue allowance for TransGrid for the 5-year regulatory period that starts on 1 July 2018. The City welcomes the opportunity to comment on the Australian Energy Regulator's draft determination (September 2017) and on TransGrid's revised revenue proposal (December 2017).

The City acknowledges the critical role of TransGrid in transmitting bulk electricity across NSW and in particular delivering bulk electricity to the City of Sydney area. The City plays a vitally important role in the economy of the state and the nation, generating a substantial and growing share of the nation's GDP. The electricity transmission infrastructure serving the City must be properly maintained, replaced and augmented to provide security of supply at a cost consumers can afford.

The City also acknowledges the role of the Australian Energy Regulator to provide a comprehensive and rigorous review of TransGrid's initial (draft) revenue proposal.

Of particular interest to the City of Sydney, is the ongoing assessment by TransGrid of the best way to secure future bulk supply of electricity to Central Sydney. ("Powering Sydney's Future"). Variations in the actual timing and scope of transmission works associated with Powering Sydney's Future could have a substantial impact on TransGrid's expenditure and revenue over the next five years and the costs to be passed on to consumers.

Forecasting future electricity consumption and hence getting this timing right is challenging given recent sustained increases in wholesale energy prices, along with progress on demand management and local power generation, all of which tend to drive down demand for transmission services. At the heart of the issue is the optimal trade-off between security of supply, costs and flexibility.

In relation to Powering Sydney's Future, the City welcomes the constructive way in which TransGrid and the regulator have collaborated since AER's draft determination to address key concerns raised by stakeholders like the Consumer Challenge Panel and the City. These concerns include:

- Flexibility of investment should be incorporated where this is feasible and economic, given that the scale and shape of energy demands in the future is uncertain;

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- The life of existing assets should be extended where this is feasible and economic. TransGrid should be properly compensated when it adopts such an approach.
- Networks and system operators should anticipate a bigger role for demand management in future and incentives for demand management should be greater.

Regarding the last point, recent initiatives by Ausgrid (demand management for replacement project) and AEMO (strategic summer reserve) are most encouraging.

The City commends TransGrid for responding to stakeholder concerns in its final project assessment report for Powering Sydney's Future (November 2017). This report identifies a new and better option for the rollout of Power Sydney's Future, namely a staged approach involving installation of one feeder now and allowing for its duplication in the future. This approach deals with uncertainty about future load growth and its timing; mitigates the risk to security of supply associated with the present aged infrastructure; is a cost effective solution for consumers; and will still maintain incentives to undertake demand management initiatives.

Other matters still need consideration and the City would like to mention two of them here, even though they cannot be fully addressed through the current process. First, the growing role of locally generated and consumed power is not being adequately recognised in electricity forecasts. The City recognises that the historic pattern of supply was oriented towards large-scale centralised power plants, but the City does not believe that relying solely on large centralised plants is the most efficient or most prudent way in which to manage electricity supply in the future.

Second, it is not reasonable that consumers of locally generated power should continue to contribute to the cost of transmission networks when supply of such power makes no use of transmission networks. The City considers that it to be both desirable and efficient for TransGrid and Ausgrid to modify their tariff structures in the future to remove embedded transmission charges from network tariffs for transport of electricity solely within distribution networks.

In the short term, the tariff-setting processes that follow the current revenue determination may be one way to address this issue. However, in the City's view, there is still a case for regulatory change to achieve better value for electricity consumers.

In conclusion, the City appreciates the opportunity to comment on the AER's draft revenue determination. The revised TransGrid revenue proposal shows the benefit of scrutiny by the regulator and comment on the original proposal from interested parties. The City supports TransGrid's revised revenue proposal generally and the revised proposal for staged development of new supply infrastructure into the City's Centre in particular (Powering Sydney's Future (November 2017)).

Should the AER wish to discuss this further, please contact Chris Barrett on 02 9265 9004 or cbarrett@cityofsydney.nsw.gov.au.

Yours sincerely



Kim Woodbury
Acting Chief Executive Officer