Government
of South Australia

Department for
Energy and Mining

Our Ref: DEMC22/01382

Mr Warwick Anderson
General Manager Network Expenditure
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601
Via email: ElectraNet2023@aer.gov.au

Dear Mr ~~Anderson~~ Warwick

The Energy and Technical Regulation Division (Division) of the Department for Energy and Mining (DEM) appreciates the opportunity to provide the following submission on the Australian Energy Regulator's (AER) draft decision on ElectraNet's electricity transmission revenue proposal for 1 July 2023 to 30 June 2028 and ElectraNet's subsequent revised revenue proposal.

The Division notes that changing economic and market conditions have contributed to the AER draft decision increasing total revenue by 9.7 per cent compared to the current period and $282 million more than ElectraNet's initial proposal. These challenging market conditions are also directly impacting consumers through increases to costs of living. It is therefore critical that the AER ensure that consumers pay no more than necessary for safe and reliable energy.

Capex and contingent projects

In the context of easing future costs for households, the Division welcomes the AER's draft decision to accept the forecast decrease of 51 per cent in capital expenditure from that expected to have been incurred by the end of the current period. The Division notes that the current increase in the Regulated Asset Base, compounded by the higher rate of return, is the main reason for the indicative increase of $25 (1.4 per cent) in 2023-24 for the average annual electricity bill for a residential customer in South Australia ($62 for small business customers).

Regarding ElectraNet's initial set of proposed contingent projects, the Division supports the AER not approving the Interconnector Upgrade ($100 - $150 million) contingent project for the 2023-28 period. The Division notes that projects of this nature may be added throughout the 2023–28 period, particularly if defined by the Australian Energy Market Operator (AEMO) as necessary to action its Integrated System Plan.

Energy and Technical Regulation Division

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Step change components of operating expenditure

Reflecting the Division's submission on ElectraNet's initial proposal, we support the AER's assessment not to accept ElectraNet's proposed level of "step change" operational expenditure (insurance, cyber security, cloud migration and rule changes). In particular, the Division notes that the AER did not approve the $3.9 million proposed by ElectraNet in its initial proposal for "recent rule changes". In its revised proposal ElectraNet again seeks $21.4 million of costs under the descriptor of "Rule Change" even though these elements seem unrelated to rule changes. Together with an apparent tendency to denote excessive proposed costs as step-changes, such an unhelpful presentation approach by ElectraNet is not supported by the Division.

Furthermore, the Division is particularly concerned that ElectraNet's revised proposal seeks to further add to consumer electricity bills through introducing operational expenditure of $17.6 million arising from "capability uplift".

Consistent with the AER's expenditure forecast assessment guideline, the Division considers that accounting for changes in real prices, output growth and productivity should adequately compensate for the capability uplift requirements outlined by ElectraNet in its revised proposal.

In assessing ElectraNet's revised proposal, the AER should ensure that any step-change element of costs be restricted to efficient costs not captured in base opex or the rate of change. At the very least the Division cautions against the double counting of costs accounted for by the trend calculated by the AER for the forecast regulatory control period with the step change 'capability uplift' costs identified by ElectraNet.

Finally, the Division considers that the estimated $1.5 million proposed as an opex step-change for future REZ design reports should instead be more reasonably regarded as business-as-usual transmission planning expenditure or covered by the rate of change forecast.

Capital Expenditure Sharing Scheme (CESS)

The Division notes that the CESS is designed to reward transmission businesses when capital expenditure is efficiently deployed, with consumers benefiting from future lower network charges.

The Division notes that ElectraNet overspent capex for the 2018-23 period and considers that it should not receive a benefit, directly or indirectly, from the delay of Project EnergyConnect that has resulted in the deferral of $60.2 million of capital expenditure to the 2024-28 period.

Consequently, the Division does not support ElectraNet's position of removing the CESS capital expenditure deferral adjustment outlined in its revised proposal which would lead to a

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further $6.1 million to be borne by consumers. Instead of reprioritising capital expenditure projects and reporting an underspend, the Department would have preferred that ElectraNet

focus on completing Project EnergyConnect to more promptly realise the benefits to consumers of lower prices and improved energy security,

If you have any further queries, please contact Mr Andrew Schultz on 8429 4848.

Yours sincerely

EXECUTIVE DIRECTOR, Energy and Technical Regulation

24 / 1 / 2023