



Moston Neck
Director
Australian Energy Regulator
Level 17, Casselden
2 Lonsdale Street
Melbourne VIC 3000

Friday, 27 October 2017

Re: Framework and Approach Paper for Directlink

Dear Mr Neck

Directlink is a privately funded electricity transmission asset operated by the Directlink Joint Venture. This request is submitted by Energy Infrastructure Investments Pty Limited on behalf of the Directlink Joint Venture.

I am writing under 6a.10.1A(c)(1) to request that the AER amends or replaces the AER's framework and approach paper that currently applies to Directlink.

The Directlink regulatory control period ends on 30 June 2020. This request is more than 32 months in advance of that date as required by the National Electricity Rules.

Directlink has two reasons for making this request:

1. AER's expenditure forecast guideline is not suitable to forecasting Directlink's operating expenditure
2. Update the version of Service Target Performance Incentive Scheme used

Expenditure forecast assessment guidelines

The current framework and approach paper proposes that the AER apply the expenditure assessment guideline to Directlink.

There is a significant shortcoming of the current expenditure assessment guideline when it is applied to small transmission lines like Directlink which have relatively few assets in comparison to other Transmission Network Service Providers

The guideline preferences the use of a base step trend approach to the determination of forecast operating expenditure under section 4. This approach assumes that operating expenditure is reasonably stable over time with trends rather than changes.

The nature of Directlink means that this approach may not work effectively for assessing forecast operating expenditure. While there is a base level of operating expenditure made

up of activities that occur each year or multiple times each year, the contract with APA for operation of the transmission line and smaller volumes of some significant activities mean that Directlink's total operating expenditure varies with the execution of its long term maintenance schedule.

The maintenance schedule comprises a range of predictable activities that must be undertaken on a periodic basis that will occur only once or twice during the regulatory control period. Given the size of Directlink's overall operating expenditure approximately \$3-5m per annum the variance in the maintenance schedule affects the total value of operating expenditure.

The framework and approach paper needs to recognise that it is the other approaches, such as separate forecasts or project assessments, outlined in the expenditure forecast assessment guideline that may be more relevant for Directlink than the AER's preferred base step trend approach.

It is EII's view that the framework and approach paper needs to be updated to reflect that, while the guideline is still applicable, the preference expressed in that document for a base step trend approach may not be as suitable for Directlink as it may be for other networks.

Service Target Performance Incentive Scheme

The current version of the Framework and Approach paper sets out the AER's proposal to use version 4 of the Service Target Performance Incentive Scheme. In September 2015 the AER revised the Service Target Performance incentive scheme to version 5.

If you have any queries in relation to this matter please contact Mark Allen, Manager Regulatory on 02 9275 0010.

Yours sincerely



Ross Gersbach
Director
EII