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2008PC0030 folio 3
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PC2005/0034

18 February 2008

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RE: ELECTRANET REVENUE CAP – DRAFT DECISION

Dear Mike,

Thank you for the opportunity to contribute to the AER's consideration of the issues in relation to the determination of ElectraNet's Revenue Cap for the next five years.

The Planning Council's comments cover a number of areas of both the AER's initial draft determination and ElectraNet's Revised Revenue Proposal.

In preparing these comments, the Planning Council identified an area of uncertainty with respect to the scope of the consultation and the AER's ability to take account of third party submissions as part of the propose-respond model set out in the *Rules*. The Planning Council understands that those parts of ElectraNet's proposal that were accepted by the AER in its draft determination are now viewed as fixed. While this practice obviously simplifies the process between the AER and the TNSP, the Planning Council is unsure whether third parties who wish to comment on the broader context of the AER's draft decision are able to do so with any expectation that the AER is able to take their comments into consideration.

That basic concern aside, the Planning Council offers its comments on the following aspects of the AER's draft determination:

TIMING CHANGES AS A RESULT OF CHANGES TO THE *ELECTRICITY TRANSMISSION CODE*

The Planning Council supports the changes to capital timing proposed by the AER and supported by ElectraNet to help to smooth the capital program facing ElectraNet over the five year reset period.

While the changes to the *Electricity Transmission Code* are supported by economic justification, the exact timing of the introduction of an increased level of reliability should be considered as moderately flexible.

The only proviso to this is the Planning Council's clear statements that any deferral of these projects should not result in the connection points in question falling below the reliability levels that they currently enjoy.

STRATEGIC LAND ACQUISITION

The Planning Council supports the early acquisition of land associated with future transmission projects, particularly where a delay in acquisition may result in the land in question being completely unavailable when it is required (as opposed to just more expensive).

As such, we support the two criteria identified by ElectraNet to assist it in assessing where such land purchases may be made. We do not, at this stage intend to, nor are we in a position to, assess the application of that criteria to the list of proposed easements.

CONTINGENT PROJECTS

The Planning Council fully supports the inclusion of the range of contingent projects proposed by ElectraNet. Each of the triggers identified have been assessed by the Planning Council and we agree that each would require action to be taken, and expenditure made, above that sought for the prescribed services.

It is also our view that the likelihood of any of these projects being required is unknown and that they therefore are best dealt with as contingent projects.

The uncertainty associated with each project extends further though than just the probability of the trigger occurring. The nature of the change in demand on the network, and the subsequent action required, will depend upon exactly what event does occur, for example the exact location, nature and size of any demand increase in the case of a number of the projects. The efficient response to the trigger and the lowest cost solution, network or non-network, cannot, therefore, be determined at this time.

The Planning Council understands that these views are consistent with those of the AER and ElectraNet and neither ElectraNet nor the AER have sought to determine whether the particular expenditure under each contingent project is accurate other than to determine it is likely to exceed the threshold. However, the Planning Council notes that there is little or no experience in applying the provisions in the *Rules* for contingent projects and is therefore concerned to ensure that they are applied in such a manner as to:

- provide clear trigger points;
- require assessment and demonstration that the proposed response to the trigger is efficient; and
- ensure any expenditure claimed is additional to that which would have needed to be spent on a business as usual basis.

Clarity of Trigger Points

The trigger points for a number of contingent projects appear to be difficult to measure other than on an historical basis which would be too late. The "Eyre Peninsula Reinforcement" project for example proposes the following trigger:

> "An increase in demand in the lower Eyre Peninsula region exceeding the published 2013-14 aggregated demand forecast for the region by 15 MW"

The Planning Council is concerned that this trigger could, on face value, only be determined after the demand increase had occurred. We consider that this should be redrafted on a prospective basis to reflect a change of 15 MW in the forecast load based on evidence of new load connections from ETSA Utilities or from connection agreements entered into by ElectraNet.

This comment applies to the Riverland, Yorke Peninsula, South East, Bungama, Southern suburbs and Playford contingent projects. A number of other demand driven projects are triggered by the DNSP (ETSA Utilities) which would appear to provide appropriate foresight.

Driver for Efficient Investment

When a trigger event occurs, the Planning Council considers that the obligation is on ElectraNet to consider the emerging situation in the context of its longer term plans and determine a number of candidate solutions. Those potential solutions then need to be rigorously assessed and the project determined which provides the most efficient, long term solution. In the example of the Eyre Peninsula reinforcement, we would expect that a local generation and/or demand side solution would be tested against a range of network solutions ranging from minor upgrades through line duplication to broader new network solutions.

The decision cannot be made now as the trigger event is unknown in extent and nature as well as in timing. We expect, however, that the regulatory process will require that the appropriate work is done and the most efficient solution identified. Projects of the order of $150 million are very large in a South Australian context.

The current provisions under the *Rules* with respect to contingent projects are relatively new and untested. In making the current determination for prescribed projects, the AER and its advisers have sought to ensure that the amounts allowed reasonably reflect efficient costs as required by the *Rules*. The Planning Council notes the AER's guidelines for contingent projects seeks to apply this principle to expenditure on contingent projects. The Planning Council recommends that the AER review the wording of its determination with respect to contingent projects and especially to the drafting of trigger events to ensure the provisions work to support this approach.

The current *Rules* require the evaluation and consultation of all "large" transmission projects under the Regulatory Test. The current definition of a large transmission project fits well with the threshold provisions for contingent projects. As such, the AER's guidelines generally expect that a full Regulatory Test will have been undertaken on a proposed contingent project and that the decision as to preferred investment will have been documented through that process. The Planning Council notes that the Electricity Transmission Network Owners Forum has proposed a change to the thresholds under the Regulatory Test and that the ERIG review could lead to further changes. We therefore consider that the AER should not rely solely upon the Regulatory Test having been undertaken for all contingent projects and should consider more explicit project evaluation requirements.

Scope of Works Relevant to Contingent Projects

In a few cases, it is probable that an efficient response to a trigger event might involve bringing forward some work that would have been required anyway on a "business as usual" basis or that might be required for other contingent projects.

The Planning Council suggests that the determination should seek to circumscribe each contingent project to the additional capital and operating expense required as a result of the trigger event over and above that which would have been required anyway. This would allow the AER to take account of capex or opex that was allocated for shorter term solutions that will be subsumed into the larger contingent project. This is essential to maintain the discipline of the ex-ante revenue cap approach to regulation.

ASSESSMENT OF THE SCOPE OF PROPOSED PROJECTS

In its earlier submission, the Planning Council reviewed each of ElectraNet's proposed capex projects against the Planning Council's own assessment of the requirements of the network over the next five to ten years. In doing so, the Planning Council found that each projected network inadequacy, had a corresponding solution proposed by ElectraNet.

However, apart from a few strategic projects, the Planning Council made no assessment of the ElectraNet solutions in terms of them being the most efficient of optimal solution available.

Similarly, the Planning Council notes that the AER's consultants, appear to have reviewed the proposed scopes of work to test whether the costing of each scope was within reasonable tolerance limits.

While both of these pieces of work are important in assessing the overall capex, the Planning Council would welcome the AER's assurances that it or its consultants also considered whether the project definitions and scopes provided by ElectraNet represented an overall efficient program of capital works.

Replacement of Assets Providing Transitional Services

The Planning Council notes that ElectraNet proposes the addition of $43.5m to its capex forecast on the basis of its interpretation of the treatment of what it refers to as "Transitional Services" in section 4.4 of its revised revenue proposal.

The Planning Council accepts that there will be some issues in relation to threshold levels associated with minor upgrades to plant that has historically been part of the regulated asset base, but, under the new rules, would qualify as negotiated assets.

However, as a basic principle, the Planning Council would be concerned to see all assets that are currently prescribed being deemed to remain prescribed irrespective of the level of investment carried out to maintain or, as in this case, replace, the assets.

The assets in this category appear to be solely for the use of a single customer and hence assets that should be defined as providing exit services. Under section 6.10.1 of ElectraNet's proposed pricing methodology, the pricing of these services should recover the regulated cost of these assets.

The Planning Council is of the view that contestability should be introduced into the provision of these services where possible and that the customer should be able to make appropriate commercial decisions as to whether the assets should be replaced in the same form or some modified form and to whether the assets should be owned by the transmission network service provider, themselves or some other party.

The Planning Council accepts that there are some potential issues raised by the transition to a negotiated services framework but argue that the ownership of connection assets have been mixed since market start and their provision generally viewed as contestable. While there are some issues, it seems unconscionable that $43.5 million should be spent on behalf of customers without their involvement in that decision. Importantly, economic efficiency is unlikely to be delivered if the value of the assets to the user, the level of service they receive and the future business plans of the customer are not taken into account. The customer's connection point must, of course, be safe in compliance with electrical safety laws in the State and the customer's connection and connected equipment must meet *NER* technical standards and not jeopardise the security of the system with appropriate protection schemes in place. Given that, if the customer chooses to accept the risk of lower reliability, that should be their commercial choice. If the customer wishes to have the assets upgraded, they should negotiate the nature and cost of that upgrade with the connecting TNSP or another party. There would appear to be no reason why they could not negotiate an outcome that would be equivalent to the regulated outcome if that was accepted as the preferred outcome.

As single customer connection assets, any capital expenditure undertaken on these items will be borne by the connected customer and, as such, it seems an abrogation of a customers rights to simply leave it to the TNSP to assess and build connection assets without reference to the customer in question.

As such, the Planning Council would prefer to see those assets treated as negotiated assets as per ElectraNet's original submission.

The Planning Council would welcome the opportunity to expand on any of the items addressed in the above submission or any other matters that the AER feel would benefit from further consideration or discussion.

Yours sincerely,

David Swift
CHIEF EXECUTIVE