



Mr Sebastian Roberts  
General Manager  
Australian Energy Regulator  
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Dear Mr Roberts

The Energy and Technical Regulation Division (Division) of the Department of the Premier and Cabinet provides the following submission on the Australian Energy Regulator's (AER) draft decision on ElectraNet's electricity transmission revenue proposal for 1 July 2018 – 30 June 2023, which was submitted in March.

The Division supports the AER's draft decision which accepts most aspects of ElectraNet's proposal, including reductions in the capital and operating expenditure forecasts.

This real reduction in capital expenditure and operating expenditure (opex) from levels in the current period also leads to a reduction in the value of the regulatory asset base. The AER's draft decision will provide a relief in consumers energy bills with the transmission component of the average annual residential electricity bill in 2018–19 to decrease by about \$22 from the current 2017–18 level, equating to 0.9 per cent decrease in the annual bill.

The Division notes that the contingent projects may have the potential for further expenditure subject to their demonstrated needs. Of note are the Eyre Peninsula electricity supply, South Australian Energy Transformation, and Main Grid System Strength Support contingent projects. The imperatives for these projects are implicit on meeting the Regulatory Investment Test for Transmission (RIT-T) requirements to identify the most efficient regulated investment in transmission infrastructure if built, is in the long-term interests of consumers.

The AER's draft decision amended triggers to require the AER to be satisfied the RIT-T is completed as specified in the NER and to address concerns around network businesses having a strong incentive to select network options over alternative solutions. The Division therefore notes as the contingent projects progress through the RIT-T process the assessment of the credible options must be fully explored and assumptions are able to be fully realised, noting that the costs are being paid for by all South Australian consumers through transmission network charges.

The Division notes that ElectraNet's revised proposal (December 2017) is seeking further refinements to the AER's triggers for the above contingent projects based on possible changes to develop an evaluation framework to enable development of potential priority projects under the Australia Energy Market Operator's (AEMO) Integrated System Plan, currently out for consultation. Whilst the Division values consideration of coordinated network system planning, the pathway for the decision-making assessment process should benefit from further consultation and consideration by all market participants. Therefore, it would be premature and inconsistent with the current assessment process to introduce expectations of trigger alternatives in ElectraNet's contingent projects.

Further, the Division is concerned that ElectraNet's revised proposal seeks to undermine the potential electricity bill savings to consumers through introducing step-change cost increases to operational expenditures, in particular for New Obligations (around \$12.5 million) arising primarily from Australian Energy Market Commission rule changes / reviews. The AER should not accept those costs.

In ElectraNet's update to the AER in October it pre-empted such cost increases, but considered that they would not expect to have a material impact on overall revenue and price outcomes for customers. The Division observes that ElectraNet's revised revenue proposal reduces the savings for an average annual residential customer to around \$20 in 2018–19.

Appropriately, it is the AER's task to determine whether total forecast opex reasonably reflect the opex criteria. As the Division understands, the AER adopts a 'top-down' assessment approach that forecasts total opex at an aggregate level, not by assessing individual projects or categories against the opex criteria to derive a total opex forecast from the 'bottom up' as ElectraNet have undertaken to identify the specific matters making up the step-change. Specialist resource requirements deployed within an organisation are within the control of the business and in the current environment of technological changes it should be considered as part of the technological/innovation efficiency frontier options as efficient business-as usual practices.

The Division considers that the base opex, escalated by the rate of change as estimated by the AER is sufficient for the resource requirements as they have been identified by ElectraNet. Should any actual additional service delivery costs be required, separate mechanisms under the National Electricity Rules allow the network service operator to seek if required, such pass-through provisions, provided they meet the necessary thresholds.

Should you require any further information on any element of the attached submission, please contact me on (08) 8204 1724.

Yours sincerely



Vince Duffy  
Executive Director Energy and Technical Regulation

8 January 2018