Government of South Australia
Department of the Premier and Cabinet

In reply please quote D17055575

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

Dear Mr Roberts

The Energy and Technical Regulation Division (Division) of the Department of the Premier and Cabinet thank you for the opportunity to comment and provide the following submission on the Australian Energy Regulator's (AER) draft decision on the Murraylink electricity transmission revenue proposal for 1 July 2018 – 30 June 2023 regulatory period.

The Division supports the AER's draft decision to reduce Murraylink's revenue allowance to $84.6 million (nominal) over the regulatory period.

The Division acknowledges the major capex project of the replacement of Murraylink's control systems and supports the revised forecast of expenditure ($22.7 million) proposed by the AER subject to the undertaking of a Regulatory Investment Test for Transmission (RIT-T). The RIT-T is required for the project to ensure details of the project and transparently provided to stakeholders so expenditure is economically and efficiently spent in the long-term interests of consumers. The Murraylink interconnector provides the additional complementary capacity that is valuable to South Australia's overall mix of power supply.

We agree that that the AER's revised trigger for proposed contingent project reflects the nature of the project encompassing the activities identified by the parties involved and responsible for the adjacent transmission networks in Victoria and New South Wales. These include ElectraNet's Energy Transformation RIT-T, Transgrid's relevant contingent projects, and AusNet Services and AEMO's work on potential constraints issues arising from renewables developments in the Victorian region.

The Division notes Murraylink's revised proposal to include 'other operating' capital expenditure of $245,000 to be borne by consumer for conducting the revenue determination process and consumer engagement in the forthcoming regulatory period.

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The Division opposes any cost transfers to consumers from businesses undertaking engagement with customers as part of normal revenue determination and underlying operations of a network service provider. Those costs for genuine consumer engagement are borne by the businesses in order to support the regulatory process outcomes that align with consumers long term interests.

Finally, the Division notes that Murraylink's revised proposal estimates the rate of return at 6.4 per cent based on variations to the AER's Guideline's market risk premium and equity beta. The Division observes the AER's 26 October 2017 draft decision of ElectraNet's revenue proposal confirmed a rate of return of 5.7 per cent (nominal vanilla) for the first year of the 2018-23 regulatory control period. Based on this recent decision, it remains appropriate that the AER's indicative rate of 5.7 percent for 2018-19 in the Murraylink draft decision be retained.

Thank you for the opportunity to make a submission. Please contact me if you require further clarification on (08) 8204 1724.

Yours sincerely

Vince Duffy
Executive Director Energy and Technical Regulation

18/12/2017