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Mr Warwick Anderson  
General Manager-Network Regulation  
Australian Energy Regulator  
GPO Box 3131  
CANBERRA ACT 2601

Reference: 46839

Dear Mr Anderson

The South Australian Government would like to take this opportunity to comment on ElectraNet's revenue proposal for the 1 July 2013 to 30 June 2018 regulatory period.

The Government expects that in undertaking its review of ElectraNet's revenue proposal, the Australian Energy Regulator (AER) will have regard to the National Electricity Market objective, which is to promote efficient investment in, and efficient use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.

In the current climate of increasing electricity prices, in making its assessment, the AER must ensure all expenditure is fully justified while being mindful of the financial impact its decision will have on South Australian consumers. It is important that the AER scrutinise projects identified as negotiated services which should be funded by the proponents rather than the costs being levelled across all consumers.

In determining its capital expenditure forecast, ElectraNet relies upon the electricity demand forecasts provided by the Australian Energy Market Operator (AEMO), SA Power Networks (formally ETSA Utilities) and ElectraNet's direct connect customers. ElectraNet uses AEMO's annual state-wide diversified demand forecasts forecast to plan main grid augmentations, as well as grid reactive requirements.

ElectraNet states, based on AEMO's 2011 South Australian Supply and Demand Outlook, that annual growth in the diversified connection point maximum demand is forecast at around 2.7 percent across the 2011/12 – 2020/21 period,. AEMO's 2012 National Electricity Forecasting Report forecasts a 1.0% annual growth in maximum demand (10% probability of exceedance) over the 10 year period outlook. This is lower than the 2011 forecasts. It is noted that ElectraNet indicates in its 2012 Annual Planning Report that despite slowing growth reflected in the AEMO state-wide demand forecasts, localised peak demand is continuing to grow over the outlook period at the majority of connection points (according to the SA Power Networks connection point forecasts).

It is important to reconcile the state-wide demand forecast with the connection point forecasts developed by SA Power Networks (and the direct connect customers) to ensure that network planning is done on a consistent basis with expected state-wide peak demand levels. The AER and AEMO must undertake this reconciliation to provide further confidence in the connection point forecasts used by ElectraNet, so as to substantiate the correlation between AEMO's top down econometric forecasts and ElectraNet's bottom up connection point forecasts.

Confirmation of the reconciliation of ElectraNet's connection point demand forecasts will ensure that the forecasts are reasonable, therefore providing an appropriate basis to determine, with confidence, the forward capital expenditure requirements.

The South Australian Government notes that AEMO has undertaken a review of network augmentations, supporting projects where the assessment confirmed that a need existed, that the timing was appropriate and the option being proposed appeared reasonable. The review did not consider cost estimates and operational expenditure, and accordingly the AER should provide particular attention to these elements of the revenue proposal.

In accordance with the *Electricity Act 1996*, I am responsible as the Minister for Mineral Resources and Energy to fix the level of electricity industry licence fees from time to time, including transmission licence fees. I intend to reduce the annual transmission licence fee by 32% for the regulatory period, which should be reflected in the revenue determination to ensure customers benefit from the reduction.

Should you have any questions in relation to this submission, please contact Rebecca Knights, Director, Energy Markets and Programs Division of the Resources and Energy Group, Department for Manufacturing, Innovation, Trade, Resources and Energy on (08) 8204 1715.

Yours sincerely



**Hon Tom Koutsantonis MP**  
Minister for Mineral Resources and Energy

27<sup>th</sup> September 2012