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Mr Warwick Anderson
General Manager-Network Regulation
Australian Energy Regulator
Via email: AERInquiry@aer.gov.au

20 February 2012

Submission to the AER draft determination & Powerlink revised revenue reset application for 2012 to 2017

A brief explanation of PAGE

Powerlines Action Group Eumundi Inc. (PAGE) is a community based group who are keen to see efficient, reliable and community endorsed power provision within Queensland. PAGE advocates a Least Cost Planning approach to infrastructure investment. This avoids unnecessary expenditure on poorly utilised infrastructure and that alternatives to network augmentation are encouraged and supported and encouraged by the AER, Queensland Government and their agencies such as Powerlink in their planning and consultation processes.

PAGE was created to represent the people and landholders affected by the Powerlink Woolooga to Cooroy 275kV transmission line and Eerwah Vale substation project ("the Project") and are a key stakeholder on the future energy needs of the Sunshine Coast. The objectives of the group are to ensure that the concerns of the local community are effectively represented, their views communicated and the lowest cost and lowest impact solutions are developed to meet the energy needs of the region.

The Purpose of this document

The purpose of this document is to bring a number of issues to the AER's attention in respect of the Powerlink Revised Revenue Reset Application 2012-2017 (RRRA) and the AER's draft determination. We seek to provide constructive input and comment on Powerlink's application as PAGE believes the basis on which Powerlink have prepared their submission is flawed in respect of a number of key points.

The following information details misleading, inconsistency and lack of transparency, included in the revised revenue reset application submitted by Powerlink. Whilst we believe this document is self-explanatory, we are of course available to provide further information if so required.

PAGE concludes that the AER needs to subject the revised Powerlink proposal to a significant amount of detailed analysis and challenge due to poorly justified requests and ambit claims being made in their proposal.

If you have any questions please do not hesitate to contact PAGE.

Yours sincerely,

Graham Smith
P.A.G.E.

The Powerlink Revenue Reset Application 2012-17

General lack of information

There are many instances of redacted information available for public submission throughout the Powerlink original proposal and the revised proposal. As a government owned monopoly provider of infrastructure there would be few if any occasions when information should not be made available. The frequency and extent of redacted information appears excessive and the AER should review in detail the reasons for non-publication and provide a statement that it is satisfied that all redactions are valid and will not have seriously caused the review processes to be adversely impacted by this continued lack of transparency from Powerlink.

Peak Demand

Powerlink have continually over-estimated the peak demand to justify their projects such as the Woolooga-Eerwah Vale now terminated project. This has been continued in the revised revenue reset application. PAGE commends the AER on the detailed analysis and highlighting of the consistent over-estimation and flaws inherent in the Powerlink processes, which have seen and significant over investment in the network over the last 10 years. In the interests of the efficient delivery of monopoly supply services PAGE is urging the AER to stand firm on this issue and insist on realistic projections being utilised which are aligned with actual peak demand experienced over time. Any smart forecasting process always compares back to actual results and adjusts the forecasting methodology accordingly. It has been clearly demonstrated that Powerlink does not adhere to this common sense approach.

The AER noted in the draft decision that "The AER is concerned about Powerlink's recent history of consistently over-forecasting demand. The discussion in previous sections suggests Powerlink's methods and processes introduce an upward bias to its demand forecasts, including the forecasts for the next regulatory control period. The AER thus does not consider Powerlink's demand forecasts for the next regulatory control period reflect a realistic expectation of demand. Capex forecasts are developed to meet a particular demand forecast. Therefore, excessive demand forecasts also suggest excessive capex forecasts. This implies customers would pay more for a secure reliable supply of electricity than is otherwise necessary. Such an approach is not consistent with the national electricity objectives (NEO)."

PAGE concurs with the AER's assessment and would further note that this is not just occurring at the macro forecasting level but has occurred on a project by project basis. PAGE in our initial submission stated Powerlink's demand forecasting process is not robust or consistent in its application. PAGE also stated Powerlink's APRs continually exaggerated peak demand growth in order to justify projects such as the Woolooga–Eerwah Vale, which has since been terminated.

Price Increases and the Energy Delivered

As raised in a number of submissions to the original proposal, PAGE is concerned by the portrayal of the proposed price increases by both Powerlink and the AER. This issue was also raised in the presentation by the AER in Brisbane in December 2011. The price increases are very dependent upon the energy delivered by Powerlink. Both the AER and Powerlink have overstated the forecast energy delivered, resulting in the much publicised '0.8% average' annual increase. This provides a very misleading picture. The AER has assumed an increase of over 3% per annum increase in energy delivered – it cannot be clearly understood where this growth rate has been sourced from and appears to be inconsistent with the information contained in the rest of the draft determination. We can only conclude that this is an error and as such needs to be corrected in the public domain.

Energy delivered across the NEM is decreasing and has been for several years. The impact of the global financial crisis, the significant increases in electricity prices (60% since 2007), the introduction of a carbon tax and increased awareness of demand management initiatives all point to a sustained emphasis by households and business to reduce their energy consumption. A range of energy delivered assumptions can be assessed and PAGE along with the evidence from within the NEM and as presented by the AER, assess that more modest or no growth in energy delivered to be more realistic in the current circumstances, and based on a minus 1% growth to a 2 % growth range is more appropriate.

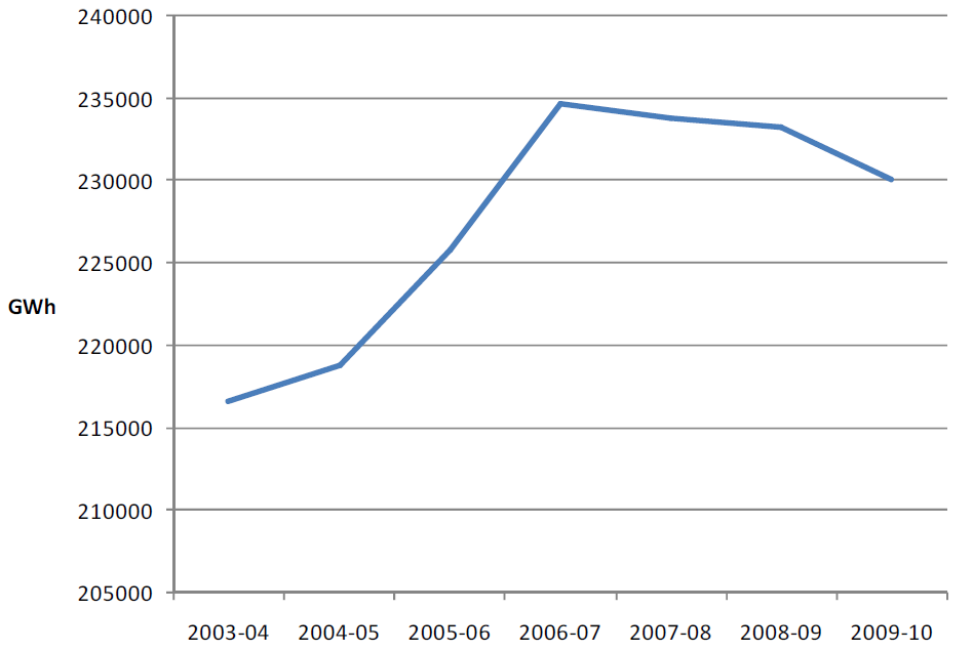
The AER in the draft determination note that the energy delivered (MWhrs) by Powerlink's network is actually reducing rather than increasing at around 5.5% per annum as proposed by Powerlink.

PAGE strongly objects to the misleading presentation of what actually results in some large % increases in costs per MWhrs. The following analysis shows a range of more reasonable energy delivered forecasts from a reduction of 1% to an increase of 2%. This gives a range of price increases across the period from 51.2% (minus 1% growth pa over the period) to 30.2% (2% growth pa over the period) vs. the AER percentage of only 4% per the AER over the period. This results in an increase in average consumer electricity bills of an additional $84.67 (minus 1% growth pa over the period) to $49.99 (2% growth pa over the period).

There is clearly a significant discrepancy in the presentation of the figures by both Powerlink and the AER. The details shown below using the AER's 3.1% growth (and using Powerlink's revised starting point for energy delivered and Powerlink's revised revenue claim for 2011/12) show an increase of $38.73 over the 5 year period – this corresponds to a 23.4% increase in transmission costs over the reset period to be incurred by the consumer.

This seems to be contrary to the other information provided within the Draft Decision relating to energy delivered through the NEM and the experience of other transmission entities as shown below in the graph:

Figure 2.9 Electricity distributed by TNSPs in the NEM (GWh)



Source: AER

The following tables show the different ranges of energy delivered hours with the revised Powerlink Revenue Claim and the impact on prices per MWhr and consumer price impacts:

Powerlink Revised Revenue Base

Minus One Percent Growth

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
Revenue $m	815	840	912.9	992	1,078.10	1,171.60	
GWhrs deliv	47431	46957	46487	46022	45562	45106	
$ / MWhr	**17.18**	**17.89**	**19.64**	**21.55**	**23.66**	**25.97**	Period Inc
Pecent Increase		**4.11%**	**9.78%**	**9.76%**	**9.78%**	**9.77%**	**51.16%**
Average Bill	**$1,655**						
Forecast Consumer Price Rise Attributable to Powerlink over 5 years							**$84.67**

Zero Growth

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
Revenue $m	815	840	912.9	992	1,078.10	1,171.60	
GWhrs deliv	47431	47431	47431	47431	47431	47431	
$ / MWhr	**17.18**	**17.71**	**19.25**	**20.91**	**22.73**	**24.70**	
Pecent Increase		**3.07%**	**8.68%**	**8.66%**	**8.68%**	**8.67%**	**43.75%**
Average Bill	**$1,655**						
Forecast Consumer Price Rise Attributable to Powerlink over 5 years							**$72.41**

One Percent Growth

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
Revenue $m	815	840	912.9	992	1,078.10	1,171.60	
GWhrs deliv	47431	47905	48384	48868	49357	49850	
$ / MWhr	**17.18**	**17.53**	**18.87**	**20.30**	**21.84**	**23.50**	
Pecent Increase		**2.05%**	**7.60%**	**7.59%**	**7.60%**	**7.60%**	**36.78%**
Average Bill	**$1,655**						
Forecast Consumer Price Rise Attributable to Powerlink over 5 years							**$60.87**

Two Percent Growth

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
Revenue $m	815	840	912.9	992	1,078.10	1,171.60	
GWhrs deliv	47431	48380	49347	50334	51341	52368	
$ / MWhr	**17.18**	**17.36**	**18.50**	**19.71**	**21.00**	**22.37**	
Pecent Increase		**1.05%**	**6.55%**	**6.53%**	**6.55%**	**6.54%**	**30.20%**
Average Bill	**$1,655**						
Forecast Consumer Price Rise Attributable to Powerlink over 5 years							**$49.99**

AER 3.1 % Growth

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
Revenue $m _Powerlink Revised	815	840	912.9	992	1078.1	1171.6	
GWhrs deliv	47431	48901	50417	51980	53592	55253	
$ / MWhr	**17.18**	**17.18**	**18.11**	**19.08**	**20.12**	**21.20**	
Pecent Increase		**-0.03%**	**5.41%**	**5.40%**	**5.41%**	**5.41%**	**23.40%**
Average Bill	$1,655						
Forecast Consumer Price Rise Attributable to Powerlink over 5 years							**$38.73**

As the above shows, the increased MAR requested by Powerlink is 5 times the cost impact on the consumer than the AER publically stated in December 2011.

Operational Expenditure

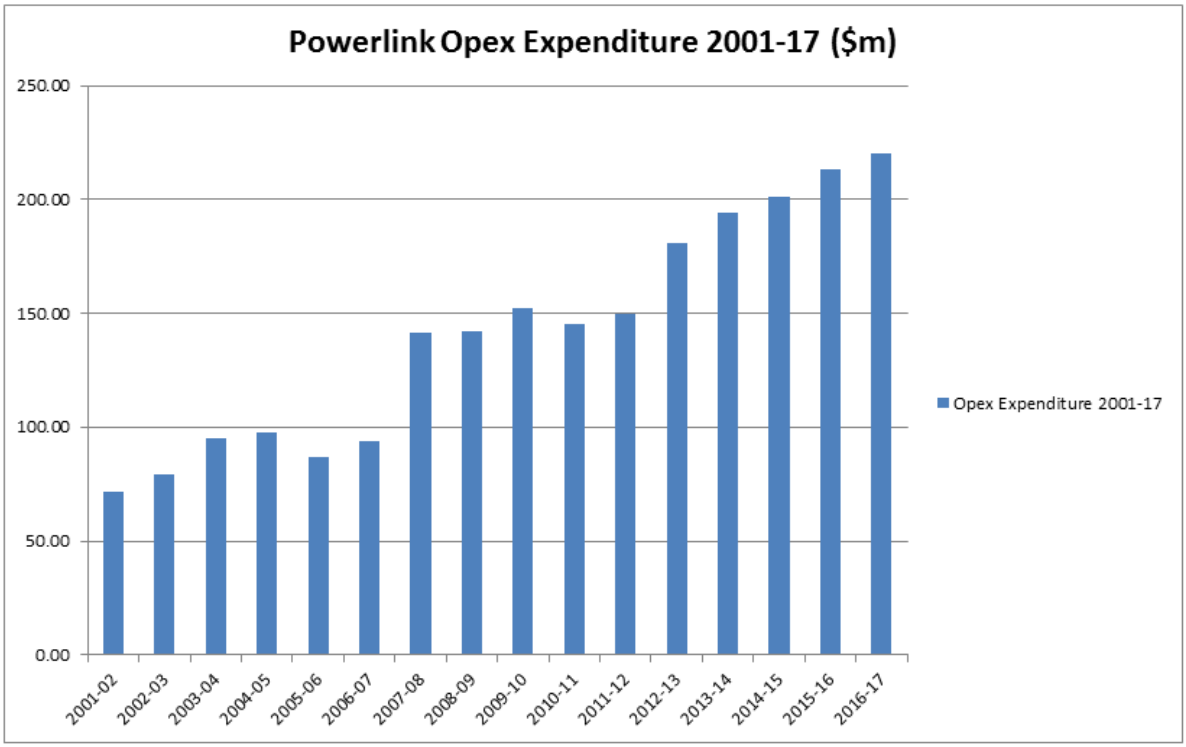
The AER noted the many criticisms of Powerlink's stated Opex efficiency claims and is to be commended for performing some much needed benchmarking, moving away from ratios that clearly favour an organization that has been spending massively on new infrastructure and uses RAB as the basis for efficiency measures. It is interesting to view the time series of the Opex for Powerlink since 2001, which is shown below:

Operating expenditure time series analysis

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Opex ($m)	71.43	79.21	95.01	97.73	87.15	93.54	141.49	142.00	152.33	145.58	149.85	181.00	194.50	201.00	213.50	220.30
Year on Year Increase		10.9%	19.9%	2.9%	-10.8%	7.3%	51.3%	0.4%	7.3%	-4.4%	2.9%	20.8%	7.5%	3.3%	6.2%	3.2%
Revenue Period increase											38.1%					27.6%
Percentage increase compared to 2001-02																208.4%

This shows an organization that is growing its expenditure in an uncontrolled manner – a 208% increase in a 15 year period would be severely punished in the commercial world for a utility service provider. That Powerlink is a monopoly that has no competition in its market and that the expenditure is unnecessary is a reasonable conclusion. There is no evidence of economies of scale being reaped and the efficiency incentives that are in place are clearly not "efficient" in achieving their goals. It is clear that, common with other Government agencies, there is no incentive to spend less than the budget allocated. The success measures for Government agencies and the executives that run them is the scale of the agencies, not the efficiencies or cost focus measures that the consumer continually pays for.

It is also interesting to note that there is a "step-up" in opex at the beginning of each regulatory period, supposedly justified by step changes impacting future operating years – a year on year increase in 2007-08 of 51% on the previous year and a 21% forecast increase in 2012-13.



The step changes highlighted have been severely criticised in other submissions made previously and PAGE sees no justification for only one-way (upwards) step changes being the norm for Powerlink. The bar chart above illustrates this and the significant onward growth of costs, with no end in sight – the consumer it seems will have ever escalating bills to pay. This clearly demonstrates that Powerlink (a government owned monopoly) is in not achieving or attempting to achieve any economies of scale that an efficient operator should be expected to deliver. It is the AER's

role to ensure that costs do not trend out of control and the above graph shows an ever increasing cost base to be paid by the consumer. PAGE is requesting the AER to perform additional benchmarking on operational expenditure and to investigate the underlying reasons why no economies of scale have been achieved and at what point will Powerlink's costs be brought in line with the rest of the TNSP's in Australia.

This also brings into question the acceptance of the efficient base year that Powerlink propose, but which is not supported by any credible evidence. By accepting this base year as efficient the AER is entrenching an ever escalating operating cost base on consumers.

Debt Costs

The allowance of debt costs largely in excess of what Powerlink actually pays is clearly contrary to the interests of consumers, which the AER is charged with safeguarding. While recognising the difficulties in establishing an appropriate nominal rate, the addition of a risk premium far in excess of what Powerlink (a Government owned corporation that receives its funding through Queensland Treasury Corporation) actually pays is outrageous – this is in effect a tax on Queensland consumers. PAGE re-iterates the points raised by the Energy Users Group in Queensland:

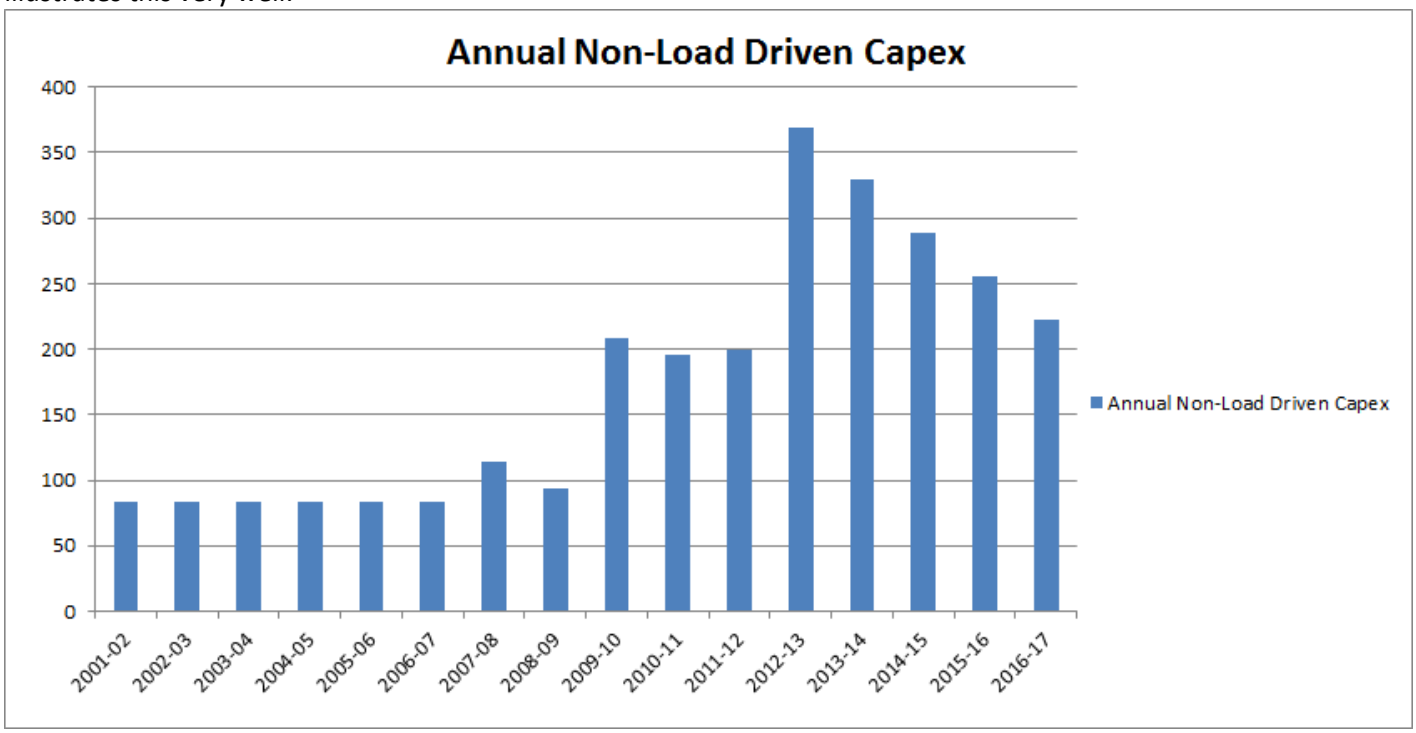
- Powerlink operates at 66% gearing, yet the AER allows 60%, effectively providing a further benefit as the allowed return on equity is higher than the return on debt
- The AER has reduced the market risk premium to 6% in its recent decisions, yet Powerlink is being given 6.5%
- The approach to the Debt Risk Premium (DRP) by Powerlink and the AER is contrary to the NEL although the AER states that their draft decision reflects the Rules.
- The cost of debt proposed by the AER is 7.51%. The cost of debt proposed by Powerlink is 8.16%. Yet Powerlink currently only pays 6%.
- It is probable that Queensland bonds will fall in price reducing the cost of debt as Qld bonds trade at only 0.5% above CGS
- AER's draft determination allowed $18.9M debt raising costs, yet Powerlink gets its debt from an already secured debt facility, meaning there are no debt raising costs

AER Review of Projects

The AER have in past reviews performed a review of Powerlink proposed and past projects to assess the processes, controls and validity of capital expenditures. It is disappointing to note that the AER has not undertaken that analysis in the current review period. PAGE would strongly urge a detailed project by project review on significant proposed future projects and on Powerlink's past performance on projects to ensure programs and projects making up that program are properly controlled and managed. PAGE would suggest the AER commission an independent review of the Woolooga – Eerwah Vale Transmission and Substation project. This project was reviewed by the AER in the last reset period and expressed grave concerns about the validity of the option proposed by Powerlink, quite rightly as it turns out as this project has was publically terminated on July 4th 2011. The reasons for the termination require some investigation to assess the validity and veracity of Powerlink's planning capability and credibility. The other interesting item to note is that although the project was terminated in the 2011/12 financial year, no costs were incurred for the 2010/11 year. The delay in announcing the termination of this project is of considerable concern from a planning and community consultation perspective.

Annual Non-Load Driven Capex

The massive increase in Non-Load Driven Capex looks like a significant ambit claim by Powerlink. It is a 141% increase on the 2011-12 financial year from $150m to $362m. This would appear unreasonable at a macro level and other submissions have commented on the individual items involved. PAGE would urge the AER to put some significant resources into reviewing this aspect of the Powerlink proposal and challenging this significant spend. A graph illustrates this very well:



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