Government of South Australia
Department of the Premier and Cabinet

In reply please quote A946203

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 Murraylink electricity transmission revenue proposal for 1 July 2018 – 30 June 2023.

The Division is concerned that the Murraylink revenue proposal does not clearly demonstrate how it will provide value to consumers particularly given that Murraylink are proposing a 30% increase in their maximum allowable revenue to $90.5 million.

For example, $27.2 million of Murraylink's proposed $33.8 million capital expenditure is for replacement of the control and protection systems required to operate the interconnector. Murraylink submit that the replacement is required because the systems will not be supported by their manufacturer beyond 2021, that components are failing increasingly and that sourcing parts has become difficult. However, there is insufficient information provided to allow stakeholders to assess this proposal.

A very different cost ($843,700) for control system end of life replacement project was put forward by Murraylink in their revenue proposal for the current revenue period. It is not entirely clear from the information provided how the current proposal differs from this previously proposed project. Further, Murraylink have redacted identification and discussion of alternate options, citing confidentiality claims.

In the absence of greater stakeholder consultation and information to help assist meaningful assessment and comment of the Murraylink revenue proposal, this will need to be an area of critical evaluation by the AER and their technical advisers to ensure that consumers get value from the investment.

The revenue proposal includes three contingent projects with a total cost of $994 million. These are the duplication of Murraylink and the augmentation of its feeder transmission lines. The Division agrees with the potential benefits of increased interconnection, and is concerned about constraints on Murraylink's capacity within its feeder transmission systems.

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However, again, these projects are not sufficiently described or justified. We agree with the AER that the proposed trigger for the group of contingency projects is not based on specific network limitations. To be convinced as to the value of these contingent projects, the Division would need to see a clear case showing how each contingent project would change how Murraylink operates within the National Electricity Market (NEM).

The Division is particularly interested in seeing the contingent projects set out in relation to overcoming constraints on the Victorian side of the interconnector, which at times limit Murraylink's import capacity to 100MW or less. To have the full capacity available at critical times would obviously have enormous benefit to South Australia, and the Division would look favourably on capital expenditure to enable this.

The Division acknowledges the current South Australian Energy Transformation Regulatory Investment Test – Transmission (RIT-T) being led by ElectraNet with the support of the South Australian Government. A new interconnection project resulting from one of these processes may negate the need for Murraylink's proposed contingent projects.

Finally, the Division is concerned that the financial building blocks applied to Murraylink's determination do not align with recent AER determinations, and so do not reflect the current economic climate or deliver best value for consumers. The Division's concerns apply to rate of return, return on equity, beta and gamma.

To illustrate, Murraylink's proposed rate of return of 6.54% departs from recent AER determinations. A rate of 6.02% was applied in the recent Powerlink and TasNetworks determinations, and a rate of 5.80% was applied in the recent AusNet Services determination. ElectraNet propose a rate of 6.02% in their current revenue proposal.

In summary, it is the Division's experience that, to date, Murraylink has not conducted effective consumer engagement. The Division's view is that Murraylink have an obligation to engage not only with their direct customers, but also with consumers and their representatives.

Thank you again 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

17 May 2017