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By email [ElectraNet2018@aer.gov.au](mailto:ElectraNet2018@aer.gov.au)

29 January 2018

Dear Mr Roberts,

**RE: ElectraNet Determination 2018-23 – Draft Decision and Revised Revenue Proposal**

As the peak body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) has an established history of interest, engagement and provision of proposed advice on the supply of essential services including electricity. We thank the AER for the opportunity to make a submission on the ElectraNet 2018-23 Draft Decision and Revised Revenue Proposal.

SACOSS research shows that the cost and supply of basic necessities like electricity have significant and disproportionately greater impacts on vulnerable people. SACOSS advocacy is informed by our members and direct consultations with consumers and other consumer organisations: organisations and individuals who witness and experience these impacts in our community.

**AER Draft Decision**

We have sought independent external advice from Carbon + Energy Markets and based on that advice and our own analysis, SACOSS believes that the AER has erred in its Draft Decision (AER DD) with respect to approving expenditure of around \$80m to replace the conductors and earth wire at four sections along the 132 kV line that extends from Cultana near Port Augusta to Port Lincoln near the southern tip of the Eyre Peninsula.

The AER DD supports ElectraNet's reconductoring but provides insufficient justification for this. ElectraNet's Revenue Proposal and Revised Revenue Proposal have likewise not answered the questions that would allow SACOSS to understand their justification for this expenditure. The AER does not address the issues SACOSS raised in our submission on the Revenue Proposal (our submission) and we have no reason to change our opposition to approval of this expenditure as the evidence has been presented to us.

To describe our position in more detail, we draw the AER's attention to our submission. The attachment which formed part of our submission to the AER (the attachment) specifically states:

"We asked ElectraNet for the history of outages attributable to conductor failure at any of the four sections that they propose to replace but at the time of writing we have not yet received a response.

"ESCOSA's report says that the replacement of sections of the 132 kV line (which we presume corresponds to ElectraNet's proposal to the AER) will make no difference to the reliability of supply on the Eyre Peninsula."<sup>1</sup>

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<sup>1</sup> Carbon + Energy Markets (2017) SACOSS Submission p.3

To date, SACOSS has not been presented with any evidence of the history of outages attributable to conductor failure and we believe this is a serious and significant omission. In our reading of the AER DD, we conclude that the AER has failed to prove that the AER has received and analysed evidence of the history of outages attributable to conductor failure in the AER DD.

Further, the attachment specifically states:

“In discussion with the AER’s representatives we understand that ElectraNet provided additional supporting information on these projects and that there has been extensive prior discussion with the AER and consumer groups. We asked ElectraNet and the AER for a copy of any written material from this and were referred to the AER’s website. In one presentation from ElectraNet to the AER there is a brief reference to the project and there are also numerous pro-forma sheets of input data to a model – but many of the sheets however have zero as the relevant entry.”<sup>2</sup>

SACOSS understands that the three projects which are described involve significant expenditure and we would expect as part of the regulatory process to view additional supporting information on these projects above what we have been able to obtain. We are disappointed at the failure to provide us with this information.

Our inability to access sufficient additional supporting information also lends strength to our contention that the AER has not provided sufficient justification for its decision making about this proposed expenditure. Our concerns are heightened by the fact that the attachment then proceeds to raise specific questions to help SACOSS to assess the merits of the proposed expenditure, as follows:

“ElectraNet envisages expenditure of around \$80m to reconductor and replace the earth wire at the four sections of the line. This is an average cost per customer of around \$2,500 or around \$1.5million per MW of peak demand on this 132 kV line.

The rationale for this expenditure raises questions. For example:

- Specifically what conductors tests were undertaken and how has this been used to assess failure?
- What are the consequences of failure, having regard to the network support agreement with Synergen, plausible estimates of the frequency and duration of outages, the value of lost load and public safety?
- Is there evidence to-date of failure attributable to the conductor deterioration at the four sections that ElectraNet proposes to replace?

We sought information from ElectraNet on this but at the time of writing have not yet received a response.”<sup>3</sup>

SACOSS notes with disappointment that at the time of writing we have still not received answers to these questions from either ElectraNet or the AER. We believe that answers to these questions should be available in the public domain as part of the regulatory process.

The attachment concludes:

“Bringing these concerns together, we suggest that justification for such significant expenditure on reconductoring sections of the existing line rest on compelling evidence that failing to do this will have significant and imminent impact on reliability and/or public safety. The documentation that we have reviewed does not provide any evidence of such risk.

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<sup>2</sup> Carbon + Energy Markets (2017) SACOSS Submission on ElectraNet RBP p.4

<sup>3</sup> Carbon + Energy Markets (2017) SACOSS Submission pp.4-5

Accordingly we suggest that it would be advantageous to electricity consumers, and the public, for decision on this reconductoring to be deferred until such evidence becomes available.”<sup>4</sup>

In summary, SACOSS concludes that there is insufficient evidence to support the proposed expenditure on reconductoring sections of the existing line and accordingly, we believe that the AER should disallow this proposed expenditure in its Final Decision.

In assessing the extent to which the AER has reviewed the issues raised in our submission in the AER DD, SACOSS has also reviewed the AER process for determining the application of ElectraNet's capex forecasting methodology. According to the AER, this includes:

“In order to test ElectraNet's application of its capex forecasting methodology, we sought and reviewed supporting documentation for all major projects proposed by ElectraNet with costs greater than \$5 million.”<sup>5</sup>

“ElectraNet submitted a range of supporting documentation for the proposed major capex projects, including economic assessments, risk analysis memoranda, project cost estimates, and independent check estimates. ElectraNet explained that, for all large projects, it conducts an economic assessment to determine whether the benefits of undertaking the project exceed the costs, considering all feasible options. This assessment also examines the optimal timing of each project to ensure that net benefits are maximised, and projects are deferred where this is more economic.”<sup>6</sup>

In terms of the issues SACOSS raised in our submission, the risk analysis documentation is of most relevance. The AER describes in more detail the content of the risk analysis memorandum:

“ElectraNet also submitted a risk analysis memorandum for each project primarily driven by risk mitigation which described the specific inputs and assumptions to the risk analysis as well as the quantified outcomes. This enabled us to review the input assumptions applied in ElectraNet's risk cost estimating analysis, the outcomes of which were in turn applied in the economic assessment of project options.”

SACOSS has reviewed the Asset Risk Cost Modelling Guideline but the risk analysis memorandum is not available to SACOSS on the AER website in the relevant section of the Revenue Determination. The latter is not detailed in the March 2017 Confidentiality Register. In terms of the Guideline, SACOSS notes that according to ElectraNet, base information about the asset is gathered and this includes “failure history relating to the failure mode that the project is addressing”.<sup>7</sup> SACOSS cannot find any information about what the failure history is in either the AER or ElectraNet documentation. SACOSS believes that failure to reference details about failure history is an error of the AER in the AER DD, as is the failure of the AER to explain its understanding of the questions referred to above from our submission which are duplicated here:

- Specifically what conductors tests were undertaken and how has this been used to assess failure?
- What are the consequences of failure, having regard to the network support agreement with Synergen, plausible estimates of the frequency and duration of outages, the value of lost load and public safety?
- Is there evidence to-date of failure attributable to the conductor deterioration at the four sections that ElectraNet proposes to replace?

SACOSS believes that it is not possible to support the proposed expenditure on the evidence available. SACOSS reiterates that the evidence is insufficient.

<sup>4</sup> Carbon + Energy Markets (2017) SACOSS Submission p.6

<sup>5</sup> AER (2017) Attachment 6 – Capital expenditure | ElectraNet transmission draft determination 2018–23 p.6-50

<sup>6</sup> AER (2017) Attachment 6 – Capital expenditure | ElectraNet transmission draft determination 2018–23 p.6-50

<sup>7</sup> ElectraNet (2017) Asset Risk Cost Modelling Guideline p.9

The AER states:

“While we were generally satisfied that the project documentation submitted by ElectraNet demonstrated that it had applied its capex forecasting methodology and assumptions appropriately in determining its forecast capex requirements, we identified a number of specific issues in the documentation which we raised with ElectraNet.”<sup>8</sup>

SACOSS notes that the stated specific issues the AER identified did not include the issues SACOSS raised in our submission.

In summary, SACOSS is concerned that at best the AER has viewed the available evidence around failure but has not referred to it adequately in the AER DD. At worst, SACOSS is concerned that the AER has not sought the evidence.

### **Stakeholder Engagement Approach**

SACOSS commented on the ElectraNet engagement approach in our submission on the Revenue Proposal. As we stated in our submission:

“The EEA [early engagement approach] placed significant additional expectation on consumer representatives. Arguably already stretched consumer representative resources were requested to extend to numerous meetings with the business and independent facilitator, in addition to participation on the ElectraNet Consumer Advisory Panel which also met regularly over the consultation period.”<sup>9</sup>

In the AER DD, the AER states in response to this concern of SACOSS:

“However, we consider that the opportunities presented by ElectraNet's consumer engagement would be of benefit to organisations that choose to participate.”<sup>10</sup>

In response to the AER, SACOSS considers that this current submission provides evidence of where the consumer engagement has not been of benefit to a participating organisation. Despite the information requests we have detailed in this current submission, ElectraNet has failed to provide the answers to our questions or the information we have sought. The possibility of insufficiently justified expenditure being approved is a detrimental outcome as far as the organisation of SACOSS is concerned.

Furthermore, SACOSS raised the issue about consumer representative resources because this is an important issue which needs to be addressed if engagement processes like these are to become the norm. SACOSS understands that COAG Energy Council is considering the issue of consumer resourcing, that the AER has supported the provision of more resources for consumer advocacy to be engaged in revenue determinations and that organisations like Energy Consumers Australia have recognised the resource limitations of advocacy organisations. It is entirely reasonable for SACOSS to raise this issue of resourcing as the early engagement process has implications for all jurisdictions. It is not sufficient for the AER in the AER DD to acknowledge the SACOSS concerns and the resource implications of participating in the ElectraNet EAA. The AER needs to be taking consistent and active steps to address the resource asymmetry existing between energy networks and consumer representatives.

In our submission, SACOSS stated:

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<sup>8</sup> AER (2017) Attachment 6 – Capital expenditure | ElectraNet transmission draft determination 2018–23 p.6-51

<sup>9</sup> SACOSS (2017) Submission on the RBP p.1

<sup>10</sup> AER (2017) Overview ElectraNet Draft Decision p.36

“SACOSS understands that invitation to participate in the deep dive meetings was extended to all members of the ElectraNet Consumer Advisory Panel. The expectation was that there would be a limited number of participants. SACOSS elected not to nominate due to resource limitations.”<sup>11</sup>

In a meeting with ElectraNet post the submission, ElectraNet raised questions about the SACOSS decision not to nominate in the deep dive meetings. SACOSS wishes to reiterate that our decision not to nominate was due to resource limitations, as stated in our submission. Energy consumer advocacy organisations are far more limited in their resources than energy network businesses. These organisations have a small number of staff, receive relatively low funding and cover wholesale and retail as well as networks. There are many invitations which consumer advocates have to decline, based on priorities at the time. It is vitally important that network businesses and the AER understand the limitations on consumer resourcing at the time of any given revenue determination. Failure to do so is bad consumer engagement practice.

When SACOSS made the decision not to participate in the deep dive process, SACOSS maintained communication with organisations who did participate. However, the fact that SACOSS did not participate in the deep dive processes gives SACOSS a different perspective on the process than those that did. SACOSS believes this is a positive outcome as it enables diverse views on the engagement process to form part of broader regulatory considerations.

This current submission has pointed out deficiencies in the consumer engagement approach of ElectraNet. While not a party to the deep dive process, SACOSS has sought responses and information from ElectraNet which have not been provided to SACOSS to date. SACOSS believes this information is important not just for participants in the deep dive process but also to participants involved in the revenue determination more generally. SACOSS believes this is a reflection of a shortcoming of the consumer engagement process. SACOSS does not wish to be misunderstood in this context. We do see many positives in the ElectraNet approach. However, it is also our part of our role to point out shortcomings and help drive continuous improvement.

In our submission, SACOSS stated:

“Therefore, the caution about interpreting results given limited participation remains. Furthermore, insights and critiques of the ElectraNet proposals post the consultation process are still valid and it is in this context that SACOSS makes this submission.”<sup>12</sup>

and

“The EEA also presupposes adequate technical and economic capacity, detailed understanding of the industry and transmission and in particular understanding of the unique and particular circumstances of the transmission business – all of these cannot be guaranteed in any given revenue determination. It is therefore foreseeable that an EEA type approach will place consumer representatives in an untenable role in current and future scenarios, and particularly in jurisdictions with multiple networks.”<sup>13</sup>

Due to our limited resources, SACOSS has had to make decisions about when to engage technical expertise. We did this at the release of the RBP and once again at this current stage. We do not have the resources to engage technical experts throughout the process. For SACOSS, this technical expertise has been invaluable. It has enabled us to produce technical submissions which we believe the AER must consider fully. While some may not appreciate our critique at this stage of the engagement process, we believe that it is our role to be critical agents throughout the entire process, to extent that we are able to at the time. SACOSS

<sup>11</sup> SACOSS (2017) Submission on the RBP p.2

<sup>12</sup> SACOSS (2017) Submission on the RBP p.2

<sup>13</sup> SACOSS (2017) Submission on the RBP p.2

reiterates that insights and critiques of the ElectraNet proposals post the consultation process are still valid, and the engagement process needs to be robust enough to be able to incorporate them.

Our submission states:

“In meetings with the business, SACOSS understood that one aim of the Early Engagement Approach was to have the Proposal fast tracked through the AER processes, so that the Draft Decision was as close to a Final Decision as possible. SACOSS understands that fast tracking of a proposal would be a new feature of the regulatory process. SACOSS is not supportive of fast tracking as we believe that a revenue determination requires a consultation process of dialogue and discussion and as a deliberative process, it needs to run its course.”<sup>14</sup>

In light of the concerns raised in this submission relating to capex, SACOSS continues to emphasise the importance for the AER not to engage in light weight regulation. While the previous appetite to lodge merit reviews may have left the AER with little desire for adversarial approaches, this does not mean that the AER can take the foot off the pedal and subject businesses to more limited scrutiny. Evidence of sound consumer engagement is only one step in assessing prudent and efficient expenditure and the AER needs to be highly alert to the fact that their decisions are still subject to judicial review.

### **Battery Project**

As stated in our submission, SACOSS does not support Electranet adding \$6m to the regulated asset base for the 30 MW, 8 MWh battery project its it developing as part of a consortium (with AGL and Advisian). As outlined in the Carbon + Energy Markets advice, we consider it is not appropriate for this expenditure to be included within Electranet’s RAB since this establishes a conflict of interest. SACOSS believes that it should be expensed in the same way as the network service agreements Electranet has with generators.

We thank you in advance for consideration of our comments. If you have any questions relating to this submission, please contact Jo De Silva on [jo@sacoss.org.au](mailto:jo@sacoss.org.au) or 08 8305 4211.

Yours sincerely,



Ross Womersley  
Chief Executive Officer

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<sup>14</sup> SACOSS (2017) Submission on the RBP pp.2-3