

**Minutes of the AER's public forum on Transend's revenue application**  
**Tuesday 6 August 2008 (9.30 am to 1.30 pm)**  
**Grand Chancellor Hotel – Hobart**

**Attendees: the meeting commenced with 33 registered attendees and 4 AER staff**

**Summary of forum**

A summary of the discussions that occurred at the forum is under each agenda item.

**1. Opening remarks by the Chair**

Andrew Reeves (Chair) opened the forum. He advised attendees that the forum was held to assist the AER in making a transmission determination for Transend under chapter 6A of NER. He stated that:

- The AER's preliminary examination found that Transend's proposal satisfied the AER's submission guidelines and NER.
- Transend's proposal is published on the AER website and written submissions are invited from interested parties. Submissions close on 11 August 2008.
- The AER has adopted an indicative timetable with a draft decision to be released jointly with its consultant's report in November 2008 and the final decision to be released in April 2009.
- Chair outlined the key aspects of the Transend proposal and procedural issues for the forum.
- Chair outlined that all questions on the Transend proposal would be taken at the end of the session as some topics may be covered in the presentations.

**2. Presentation by Transend**

The Chair invited Richard Bevan (Managing Director) to present Transend's proposal to the forum. Transend's slides can be found in the attached '.pdf' file.

**3. Presentation by Department of Infrastructure Energy and Resources (DIER) Office of Energy Planning and Conservation**

The Chair invited Tony van de Vusse (Director, DIER) to address the forum. DIER's slides can be found in the attached '.pdf' file.

**4. Questions and Comments on DIER's Presentation**

Roman Domanski, Energy Users Association Australia (EUAA) questioned how ministerial approval for augmentation projects exceeding \$15 million would take place. Mr van de Vusse (DIER) stated that the Minister would not consider approving a project unless the technical standards have been met and that the minister would also need to be satisfied that the project was appropriate on cost benefit grounds.

Mr Paul Hyslop (ACIL Tasman consultant of Major Employers Group (MEG)) questioned the need for ministerial involvement and sign-off for any reliability augmentations made by Transend worth more than \$15 million. Mr van de Vusse stated that this was a conservative approach that allowed the Minister to review the decisions made by Transend that are affected by the Minimum Network Performance Requirement set by the Minister.

Mr Hyslop asked if this regulation affects any projects in the next regulatory period. Mr Mike Hunnibell (Transend) replied that it currently affected projects in the contingent projects category. Transend is in the process of discussing the specific triggers associated with these projects with the AER and their consultants.

Mr Hyslop further asked which projects are affected by this. Ms Bess Clark (Transend) responded that the projects affected are those that face the reliability benefits test arm of the regulatory test.

Mr Brian Grimes (Aurora Retail) asked if the proposed \$680 million capex allowance included the contingent projects. Mr Mike Hunnibell (Transend) stated contingent projects are not part of the proposed capex due to the level of uncertainty associated with the project being triggered. It is not certain any of the projects would be going ahead.

Mr Brian Grimes (Aurora Retail) asked how Transend would collect revenue on these contingent projects if they went ahead. Mr Mike Sward (Transend) further explained that to adjust the Maximum Allowable Revenue due to a contingent project going ahead was like having a mini reset.

Mr Brian Grimes (Aurora Retail) stated that there seemed to be five key contingent projects for the period ahead. He asked how these would be justified. Mr Mike Hunnibell noted Transend has proposed nine contingent projects. Ms Bess Clark also noted that justification for contingent projects would be in NPV terms as long as the project trigger was met.

## **5. Presentation by Aurora**

The Chair invited Ian Gibb (Technical Regulations Manager, Aurora Networks) to address the forum. Aurora's slides can be found in the attached '.pdf' file.

## **6. Presentation by MEG**

The Chair invited Paul Hyslop (ACIL Tasman consultant of MEG) to address the forum. MEG slides can be found in the attached '.pdf' file.

## 7. Questions and Comments on Transend Presentation

Jennifer Jarvis (Rio Tinto Alcan) stated that as far as she was aware Rio Tinto had not been consulted for their future growth needs. Mr Richard Bevan (Transend) stated that the model was based on inputs from Aurora and Direct Connect customers. He stated that Rio Tinto Alcan is connected to Transend but the connection agreement is between Aurora and Transend. Jennifer stated Rio Tinto Alcan's growth will be zero because of market conditions. Richard noted he would check with his team which major industrials had been consulted. The inputs provided are extrapolated using an econometric model to give a forecast of future demand. Mr Stephen Clark stated that where the customer has not provided Transend with a forecast, Transend assumes a zero forecast for that customer.

Jennifer Jarvis (Rio Tinto Alcan) also asked about the assumption implicit in a carbon constraint stating that Rio Tinto was already seeing carbon taxes being priced in. Following from the MEG presentation she questioned whether this had been fully accounted for by Transend as she considers that none of the major industrial were looking to expand following the implementation of a carbon tax. Richard Bevan (Transend) replied that due to the high level of risk that Transend forecasts do not include carbon tax impacts. However, the capex forecasts developed using scenario analysis has included assumptions for carbon tax.

Jennifer Jarvis (Rio Tinto Alcan) made statements concerning Transend's opex shortfall. She regarded this as an incentive for Transend to operate as a more lean company and questioned if Transend had attempted to find operational savings. She also pointed out the Transend had made a record profit in the period along with large scale transfers to Tasmania Hydro. Richard Bevan (Transend) noted that at the time of disaggregation [1998] Transend did not acquire debt because of the considerable age of the transmission assets.

Jennifer Jarvis (Rio Tinto Alcan) also stated that while 28.5% increase in the first year may only be a \$42.00 increase for the average customer it would be a lot larger charge to the five major industrials. Richard Bevan (Transend) responded that Transend have not underplayed the impact of the increase that customers will face.

Jennifer Jarvis (Rio Tinto Alcan) then proceeded to ask if the timing of much of the capex costs was prudent or whether the costs of much of the projected expenditure would be considered prudent. This led to a discussion by Richard Bevan over the difference between the prudent cost and prudent timing. He stated that under the rules he must operate Transend prudently and efficiently. He further stated that the profit achieved is a matter for shareholders to consider and that Transend's capital structure is not relevant to revenue regulation.

Bruce Mountain (EUAA) asked Richard Bevan (Transend) if the Board held him to account for expenditure. Richard Bevan stated that anything over \$2.5 million went to the Board for approval.

Bruce Mountain (EUAA) asked if the Board had any independent benchmarking done to for Transend. Richard Bevan (Transend) began speaking about the ITOMS benchmarking but was told by Bruce Mountain that he was asking about independent studies to determine how Transend operated domestically. He was further asked if the Board had perhaps hired independents to find innovative solutions to problems. Richard Bevan stated that the only independent study ordered by the Board was to assess Transend's estimation capability.

Roman Domanski (EUAA) stated that consumers also faced cost pressures, and that the landscape of the electricity industry would be changing dramatically over the next period. He stated that it was not readily apparent from this presentation if Transend was capable of adjusting to these changes.

Roman Domanski (EUAA) further stated that while Transend has said that they are not gaming the regulator or making ambit claims, that under the current system the incentive exists for people to game the system. He went on to question the extent to which Transend look at costs and benefits of deferring some of the capital expenditure, considering Australia is at a high point in terms of the economy. Mr Domanski further questioned the capability of Transend to undertake the proposed capital expenditure program, and whether the figures are reasonable considering the average asset life.

Richard Bevan (Transend) responded that some assets have a much shorter life than 40 years. He further acknowledged that deliverability is a serious issue for Transend, however Transend have had discussions with the regulator and its consultants already on this issue. Mr Bevan reiterated that Transend were not gaming the regulator, and have taken the approach that they will work with the regulators to get the best possible outcome for both Transend and its customers.

## **8. Miscellaneous Comments and Questions**

Jennifer Jarvis (Rio Tinto Alcan) thanked the AER for hosting this forum, but expressed concern that there were only three days before submissions were due to close. She stated that due to the volume of material and a lack of dedicated resources, some customers were not adequately able to prepare a submission. She suggested that the AER could consider preparing an issues paper in the future. Andrew Reeves (AER) agreed that this is a valid concern, but pointed out that an issues paper is resource intensive and it would be a challenge to produce one during the same time frame as the draft decision.

Jennifer Jarvis was further concerned about the publishing timeframes, clashing with Christmas and the New Year. Chris Pattas (AER) stated that the timeframes are prescribed and the AER is forced under the rules to comply with these timeframes.

## **9. Concluding Comments**

The Chair expressed his appreciation to the presenters and attendees for their participation.

The Chair stated that a record of the forum in minute form would be drafted, that all parties will receive a record of the forum, and that the minute and presentations will be placed on the internet. The Chair reiterated that written submission are invited by Monday 11 August 2008.

Chris Pattas (AER) stated that the AER will consider the discussion points arising from the forum.

The forum closed at approximately 1.00 pm.