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Mr Dale Johansen
Assistant Director – Network Regulation
Australian Energy Regulator
PO Box 12241
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Dear Dale,

ActewAGL part one framework and approach paper – determination on Dual Function Assets

I am writing to provide input into the AER's part one framework and approach paper for ActewAGL's 1 July 2014 to 1 June 2019 revenue application. In particular, I am providing an additional response to ActewAGL's proposal to classify certain assets as Dual Function Assets (DFAs) so as to recover the assets' costs via transmission pricing.

TransGrid considers that the assets in question should not be classified as DFAs, as they will not be primarily used for transmission. If ActewAGL's proposal is adopted by the AER, NSW electricity customers will be unfairly charged for assets which they do not use or receive benefit from.

This letter first provides contextual information about transmission services in the Canberra region and then explains that:

- the majority of the assets will primarily be used for distribution within ActewAGL's own network;
- the portion of the assets that would deliver a transmission service are estimated to cost $12 million, if built for that purpose, and have only been in use for the period April 2012 to February 2013; and therefore
- the test for DFA classification is not met.

The network arrangements and proposed DFAs are shown in the figure attached to this letter.

Transmission services in the Canberra region

The configuration of recent and future network arrangements in the Canberra region can be considered in three separate stages:

Stage 1 – Past, prior to April 2012

Previously, the only transmission connection points in the Canberra region were TransGrid's Canberra, Queanbeyan and Cooma Substations. The Canberra load (approximately 500 MVA at peak times) was serviced by the ActewAGL distribution network which was supplied directly from Canberra and Queanbeyan Substations. The Cooma load (approximately 75 MVA at peak times) was serviced by the Essential Energy distribution network. The Essential Energy network was supplied directly from TransGrid's Cooma Substation, which in turn was supplied via TransGrid's two 132 kV transmission lines from TransGrid's Canberra Substation.

Stage 2 – Interim period (construction of Line 3C), from April 2012 to 22 February 2013

In April 2012, TransGrid's Williamsdale Substation was established to provide an additional supply point for the Canberra load, as per the requirements of the Australian Capital Territory Government's "Disallowable Instrument". Note that, in this "interim period", Williamsdale was not yet providing that function. Its function during this period was to ensure supply could be maintained to Cooma as outlined below.

To supply Cooma, power is required to be delivered to Williamsdale Substation from Canberra Substation. During this interim period, the section of the original 132 kV transmission lines supplying Cooma Substation was taken out of service between Canberra Substation and the Williamsdale Substation site. This was necessary to allow TransGrid to replace them with a single higher capacity 330 kV line (Line 3C) which utilised these existing 132 kV easements. Line 3C, when commissioned, will be able to deliver power, not only to the Cooma Substation to meet the Cooma load, but also to Williamsdale Substation to provide an alternative supply point for the Canberra load.

During this construction period for Line 3C, TransGrid could not provide supply to Cooma because the original 132 kV transmission lines were dismantled. ActewAGL agreed to supply the Cooma load through its own network for this period, by transferring the Cooma supply from Canberra Substation through the ActewAGL network to Williamsdale and then on to Cooma Substation via the remaining southern 132 kV sections of the original transmission lines supplying Cooma. TransGrid and ActewAGL agreed to pricing arrangements, for TransGrid to compensate ActewAGL for losses on its network due to transferring the Cooma load[1].

In order for this to occur, some assets were made available or installed by ActewAGL within their network. These assets (in addition to some others which TransGrid believes are not related to transmission services) are the ones for which ActewAGL has proposed DFA classification (refer to the table below for further detail).

TransGrid understands that ActewAGL is currently applying for transmission network service provider (TNSP) status in order to receive the payments for loss compensation from TransGrid during this limited period, and to claim the associated metering installation costs (bringing them to a standard suitable for a transmission network).

Stage 3 – Permanent arrangements from 22 February 2013

Line 3C is planned to be commissioned on 22 February 2013, at which point Williamsdale Substation will be fully energised at 330 kV and will be able to provide the additional supply point for the Canberra load. The Cooma load will return to being supplied from within TransGrid's network from Canberra Substation, via the new 330 kV line to Williamsdale Substation and then the existing TransGrid 132 kV lines from Williamsdale Substation to Cooma Substation.

It is not anticipated that ActewAGL's network will be used again as a transmission network to supply the Cooma load, unless an outage of Line 3C occurs. It is anticipated that this would be an extremely rare occurrence.

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1 TransGrid and ActewAGL's letter to the AER on 26 June 2012, 'Confirmation of transmission prices for the 2012-13 financial year'.

ActewAGL's proposed DFAs will primarily be used for distribution

ActewAGL has claimed that four groups of its assets will provide transmission services[2]. However as described in the table below, these assets would only be used for transferring the Cooma supply from the Williamsdale Substation through the ActewAGL network for the period from April 2012 to February 2013. After Line 3C is commissioned on 22 February 2013, instances where the ActewAGL network will be used to supply power to Cooma will be extremely rare.

For ease of reference, the numbering of the asset groups in the table below is matched to the assets numbered in the figure attached to this letter.

Table TransGrid's understanding of the purpose of ActewAGL's proposed DFAs

Asset groups (numbered as per the attached figure)	Purpose
1. 132 kV double-circuit line from TransGrid's Williamsdale substation to ActewAGL's network near Theodore (already built)	These lines are designed and sized to transfer the full Canberra load (approximately 500 MVA) from Williamsdale Substation into ActewAGL's network from the south. That is, their large capacity has been designed to deliver distribution services. The lines were also used for a brief interim period to transfer Cooma's approximately 75 MVA load south from Canberra Substation to Cooma Substation via the ActewAGL network, as the 'sole supply source' during the construction period for TransGrid's Line 3C (that is, from April 2012 to 22 February 2013).
2. Protection equipment associated with assets in No.1 (already installed)	These are not transmission assets. Their purpose is to protect the ActewAGL lines between Williamsdale Substation and ActewAGL's Gilmore and Theodore Zone Substations. However, TransGrid accepts that advancement in capital expenditure on these assets was required to allow the ActewAGL network to transmit the Cooma load from April 2012 to February 2013, rather than spending the capital in Febraury 2013 when Williamsdale Substation will begin providing an alternative supply point for the Canberra load.
3. Upgrade of ActewAGL Gilmore to Theodore 132 kV line (understood to be still at environmental assessment stage)	This upgrade's sole purpose is to supply the Canberra load from Williamsdale Substation into the ActewAGL network – that is, to perform an entirely distribution service. The existing lines already have sufficient capacity to perform the short-term transmission function to supply the Cooma load during the construction of Line 3C.
4. Installation of transmission-grade revenue metering at each of ActewAGL's zone substations (TransGrid is not aware of the current status of the installation)	To meet revenue metering requirements, as part of ActewAGL's application to be classified as a TNSP and recoup the cost of losses when supplying the Cooma load.

2 ActewAGL letter to the AER on 30 June 2012, 'Advice to the AER on Dual Function Assets'; ActewAGL advice to the AER on 20 July 2012, 'Response to AER queries on ActewAGL's Dual Function Asset statement'; ActewAGL advice to the AER on 3 September 2012, 'Responses to further AER questions on Dual Function Assets'.

TransGrid considers that, of the four asset classes, only Number 4 is exclusively providing transmission services. Only a small portion of the capacity of the Number 1 assets will deliver transmission services (for a very short period of the assets' lives, during construction of Line 3C). The Number 2 assets will only deliver transmission services for the period from April 2012 to February 2013, and none of the Number 3 assets will provide transmission services.

Of the proposed DFAs, only an estimated $12 million-worth will deliver transmission services

TransGrid considers that only an estimated $12 million-worth of ActewAGL's proposed DFAs could be justifiably claimed as providing transmission services. This would represent approximately 1.6% of ActewAGL's Regulatory Asset Base at 1 July 2012[3]. This estimate comprises:

- $2 million for revenue metering (asset group Number 1). This estimate is based on ActewAGL's statement that it has an "obligation to install metering and protection equipment[4] at the connection points to its ACT network zone substations"[5];
- $10 million for a 132 kV double-circuit line from Williamsdale substation to within ActewAGL's network near Theodore, sized for supplying the Cooma load only. This estimate is based on construction of a new double circuit line sufficient to supply the Cooma load only (asset group Number 1); and
- $29,000 for advanced capitalisation of protection equipment (asset group Number 2). This assumes an estimated $0.5 million cost for the protection equipment, and a borrowing cost of 7% for the ten month period.

TransGrid notes that the transmission services provided by these assets will only be provided to Cooma during the 'sole supply period' during construction of TransGrid's Line 3C viz April 2012 to February 2013 (and any subsequent outages of Line 3C, which are likely to be extremely rare).

The test for DFA classification is not met

TransGrid estimates that the tariff impact for ActewAGL's distribution customers from the provision of transmission assets valued at $12 million would be a 0.76% increase of the kilowatthour rate[6]. Such an increase would not constitute materially different prices for distribution customers. TransGrid therefore submits that the test under National Electricity Rule 6.25(b) for pricing the services under Chapter 6A of the Rules has not been met. Moreover, these transmission services will be provided only for the 'sole supply source' period during construction of Line 3C, and any subsequent rare outages of Line 3C.

ActewAGL states that "recovering the cost of the DFA from NSW/ACT transmission network users rather than from ACT distribution network users would have a significant impact on the price of

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3 Assuming an opening Regulatory Asset Base of $739.5 million for 2012-13, as per ActewAGL's 2012 application for revocation and substitution of its 2009-14 determination 'proposed PTRM – after corrections for superannuation errors' accessed at http://www.aer.gov.au/node/2464 on 14 February 2013.

4 TransGrid has not included an estimate for protection equipment as TransGrid has not been previously aware of this requirement, and is uncertain of how ActewAGL is here defining 'zone substation'.

5 ActewAGL advice to the AER dated 3 September 2012.

6 This figure is derived by assuming the investment is spread evenly over three years, by applying ActewAGL's current rate of return of 8.79%, assuming ACT energy throughput of 2,879 GWh, and assuming a linear relationship between the estimated tariff impact of ActewAGL's estimate and TransGrid's estimate (which appears justified from the ICRC's *Final report – retail prices for franchise electricity customers 2012-14*.

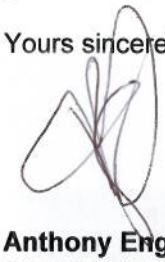
electricity supply for the latter group but a trivially minor impact on the former"[7]. However, TransGrid finds this argument unconvincing – any network charge increase in NSW (or any other region) must be efficient and justifiable, particularly in the context of price pressures felt by consumers due to network charge increases over recent years.

Summary and next steps

There is a significant discrepancy between TransGrid and ActewAGL's opinions on the services provided by the assets nominated by ActewAGL for DFA classification. TransGrid believes that the proposed assets either do not provide transmission services or, where they do, they will not constitute a material impact on the ActewAGL's distribution tariffs. As such, the test for DFA classification is not met.

TransGrid strongly recommends that the AER decide against allowing DFA classification of the proposed assets in its final part one framework and approach paper for ActewAGL's 1 July 2014 to 30 June 2019 revenue application. Should you wish to discuss any of the issues raised in this letter, please do not hesitate to contact me on (02) 9284 3148 or anthony.englund@transgrid.com.au.

Yours sincerely,



Anthony Englund
Regulatory Strategy Manager / Corporate and Regulatory Strategy

7 ActewAGL advice to the AER on 3 September 2012

Attachment 1 – Current and planned network arrangements in Canberra region

Figure Network arrangements in Canberra region, showing ActewAGL's proposed DFAs numbered as per the table above