Summary of meeting

Expenditure Forecast Assessment Guidelines Working Group meeting No. 3

Category assessment – replacement and augmentation capex for transmission businesses

7 March 2013

Held via video link between AER's Melbourne and Sydney offices

On 7 March 2013, the AER, as part of its *Better Regulation* package, hosted a working group meeting on the development of the Expenditure forecast assessment guidelines (the Guidelines). The meeting was chaired by AER Director, Paul Dunn. A full attendee list can be found in Attachment A.

This summary outlines the key topics and themes of the meeting, including views expressed at the meeting, without ascribing particular comments to any one individual or organisation. The outline broadly follows that of the agenda.

1 Introductions

In this workshop, AER staff sought feedback from stakeholders on the information it would require to assess replacement expenditure (repex) and augmentation expenditure (augex).[1] This workshop focused on the information requirements for transmission network service providers (TNSPs). The AER signalled the potential use of the repex and augex models when assessing TNSPs' capex forecasts.

AER staff highlighted these models are not the only tools it would use to assess repex and augex forecasts, respectively, and would not be used deterministically to set allowances. Rather, they are screening tools that provide the AER an alternative view of repex and augex forecasts. Ideally, the models would assist the AER in identifying outliers in TNSPs' capex forecasts.

The AER's consultant, Nuttall Consulting, summarised the purpose of the repex model and augex model, emphasising they are regulatory tools, not planning or management tools. Nuttall Consulting

[1] The AER's 28 February 2013 workshop explored higher level issues such as definitions, drivers and measures, and challenges in assessing repex and augex (for transmission and distribution).

provided example templates in the repex model to illustrate the model's potential information requirements for TNSPs. Nuttall Consulting noted the workshops scheduled for 27 March 2013 will discuss the mechanics of the models in greater detail.

2 Major issues for discussion and feedback from forum

Forum participants discussed issues regarding the repex and augex models and associated information requirements.

General issues with the repex model and its application

TNSP representatives stated it was unclear how distribution network service providers (DNSPs) used the repex model in the Victorian and Tasmanian distribution determinations. TNSP representatives also asked whether repex model's forecasts have been accurate in relation to actual repex. Nuttall Consulting stated forecasts of the repex model has not yet been compared to actual repex. However, the repex model identified several issues that the AER and its consultants targeted for detailed review in previous distribution determinations.

TNSP representatives noted a repex model for TNSPs would not require data disaggregated to the same level as DNSPs because TNSPs have relatively fewer but larger assets. The limitations of the model when using data on assets with smaller populations were noted. Energy users considered that such limitations could only be identified through testing the models with TNSP data. The potential pooling of data across NSPs to overcome limited data sets was suggested.

TNSP representatives also noted some of the older transmission assets in the National Electricity Market are reaching the end of their technical lives. In some cases asset conditions may deteriorate more quickly than their nominal technical lives, and in other cases assets may remain serviceable for longer than their nominal technical lives. Hence the repex model's use of asset age as a proxy for condition may not be informative. TNSP representatives noted the industry has used condition based replacement rather than age-based replacement for some time. Some TNSPs are now moving toward consequence-based replacement. It was noted that TNSPs with a smaller number of diverse assets than DNSPs, an appropriate asset management approach is to regularly monitor detailed asset condition information and rely on asset specific condition assessments and management processes when determining replacement needs.

Representatives of energy users expressed a strong view that the information collected for the purpose of the repex model would be useful in its own right if published by the AER. It would enable energy users to perform their own analysis for their submissions to the AER during revenue determination processes, among other purposes. Some TNSP representatives noted that information on asset lives was already in the public domain, however expressed a concern that this information could be misleading if published without appropriate context.

Cost categories in the repex model

Forum participants explored possible disaggregation levels for several TNSP asset classes, particularly towers, substations, and circuit breakers. Forum participants also noted issues in using such information for assessing repex forecasts.

It was noted different states have different standards for towers; hence TNSPs have different compositions of tower types (for example, strain towers, ordinary towers, reinforced towers, and so on). There is also the question of what constitutes a "tower" for the purpose of collecting information for the repex model, and whether it should include tower structures such as insulators. Other considerations for assessing repex for towers include topography and the number of circuits in the towers.

Regarding substations, energy user representatives suggested disaggregation by major asset components such as switchbays, isolators, busbars, insulators, cabling, power factor correction, and so on. Similarly, it was suggested circuit breakers can be disaggregated by program, by site, by bay, and whether it is AIS or GIS.

AER staff noted it had been sharing information with AEMO for the purposes of developing a "price book" containing the cost of particular assets and of projects developed by TNSPs and this sharing of information will continue. It was noted this information may be useful in the assessment of a TNSP's expenditure proposal and the categories therein may align with that is required for the AER's models.

AER staff undertook to circulate a draft proposal of asset categories for the purpose of populating the repex model and more generally to enable the AER to assess TNSPs' repex forecasts. This would be provided to stakeholders after 15 March 2013. A TNSP representative will also provide a reference/guide for repex categories for TNSPs.

General issues with the augex model and its application

Nuttall Consulting noted an augex model may not be as useful for assessing TNSPs' forecast augex. However, Nuttall Consulting and energy users representatives considered the data collected for the augex model will still be useful for assessing TNSP augex forecasts.

TNSP representatives noted the augex model does not account for the influence of generation on augex forecasts. Potential limitations of the augex model in dealing with meshed networks and in how investments affected energy flows were noted. AER staff noted they will consider these matters in the ongoing development of the augex model. TNSP representatives also stated the AER should note several TNSPs use a probabilistic approach to forecasting capex, particularly augex, when interpreting the results of the augex model.

Cost categories in the augex model

AER staff suggested they will create a draft proposal of asset categories for the purpose of populating the augex model and more generally to enable the AER to assess TNSPs' augex forecasts. This would be provided to stakeholders after 15 March 2013.

3 Other matters

TNSP representatives stated the draft and final expenditure forecast assessment guidelines should clearly delineate between TNSPs and DNSPs. They also requested the AER publish more detail on the

expected content of working group meetings and to consider allowing more than one person from each organisation to attend and assist in technical discussions.

Energy users requested the AER confirm the public availability of the post-tax revenue models from final determinations (containing asset information).

Attachment A: Attendee list

Melbourne office

Name	Organisation
Jennifer Harris	Powerlink
David Dawson	Strategic Economics Consulting Group
David Headberry	Major Energy Users
Frank Montiel	Australian Energy Market Operator
Bruce Mountain	CME (for EUAA)
Brian Nuttall	Nuttall Consulting
Michael Seddon	Transend Networks
Katie Yates	SP AusNet
Paul Dunn	AER
Israel del Mundo	AER
Matthew Simpson	AER
Anthony Seipolt	AER
Esmond Smith	AER

Sydney office

Name	Organisation
Andrew Kingsmill	TransGrid
Lawrence Irlam	AER
Matt Le Cornu	AER