



Appendix I

Review of Capital Projects for the 2008-2013 Regulatory Period



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PC2005/0034 Folio 2

30 May 2007

Mr Ian Stirling
Chief Executive Officer
ElectraNet SA
PO Box 7096
Hutt Street Post Office
Adelaide SA 5000

RE: REVIEW OF CAPITAL PROJECTS FOR THE 2008-2013 REGULATORY PERIOD

Dear Ian,

Thank you for your letter of 13 April requesting the Planning Council's comments on ElectraNet's proposed capital projects for the next regulatory period.

The Planning Council provided feedback on the preliminary capital program outlined in the attachment to that letter directly to the officers involved in preparing your submission. Many of the Planning Council's concerns have now been addressed and the following comments relate to the updated capital program provided to us on 28 May:

General

Projects to address Network Constraints

As you are aware, the Planning Council has been undertaking its own analysis to determine those areas of the network that are likely to require attention over the next regulatory period to ensure that the network continues to meet the requirements of the *South Australian Electricity Transmission Code* and the *National Electricity Rules*. To date, our analysis confirms that the projects proposed by ElectraNet broadly match the emerging network limitations identified by the Planning Council and the Planning Council is pleased to note that the capital program appears, on our analysis, to be well targeted.

In reaching this conclusion, the Planning Council has undertaken a preliminary review of each specific project and a more detailed assessment of a number of the projects that are considered to be strategically important. We appreciate that ElectraNet has responded to issues raised throughout this work and made changes where potential improvements have

been identified. We are satisfied that the projects, taken together, constitute a reasonable development program to meet the emerging network limitations over the regulatory period though we are yet to conclude whether the exact combination of projects is optimal.

Treatment of Contingent Projects

The discussion in the remainder of this document with respect to Contingent Projects presupposes that the projects and cost estimates are only intended to represent one of a number of possible solutions and that at the time of the contingency occurring, a more rigorous assessment will be undertaken to determine the precise scope and establish the actual amount to be rolled into the capital program. Should this not be the case, the Planning Council would anticipate the need to more carefully review the proposed contingent projects.

In any event, the Planning Council considers that there is value in undertaking further strategic planning to consider the longer term development options with respect to:

- the Murray mallee/southeast,
- the Fleurieu Peninsula,
- the implications to the broader system of a major load increase at Olympic Dam; and
- the potential interconnector upgrade options.

These will allow ElectraNet to give longer term direction to network development and place the organisation in a better position to respond within a pre-defined framework should any of the contingency events occur during this regulatory period.

In addition to the contingent projects identified by ElectraNet, the Planning Council would welcome ElectraNet's consideration of the implications of a large step load (~50MW) in the southern suburbs of Adelaide and whether accommodating such an increase would require a further contingent project.

Contingent Triggers

The Planning Council supports the structure of ElectraNet's contingent projects and, in particular, the specification of the quantum of step load required to trigger many of the contingent projects.

Prescribed or Negotiated Services

A regulatory ruling on whether some of the proposed projects should be classified as negotiated or prescribed may result in changes to the capital program. For example, the project cost associated with a possible Penola pulp mill may be seen as a negotiated service while the rebuild of some existing regulated assets, such as the pumping station connection points, may, subject to interpretation, be considered regulated. Where there is some doubt over the definition, the Planning Council supports, subject to the agreement of the AER, the listing of those projects as "Contingent" with one of the triggers being a regulatory ruling as to the whether the project should be considered as part of the prescribed or the negotiated services.

Additionally, the naming of the projects may give rise to uncertainty as to the appropriateness of the regulated status currently afforded to them. For example, the \$37m project relating to the secondary systems and primary plant replacement at Torrens Island could easily be interpreted as work relating to the Torrens Island Power Station whereas the Planning Council understands that the work is being carried out primarily on the shared network substation assets. The Planning Council would encourage ElectraNet to explicitly identify that this project does not involve expenditure on the power station related assets.

Compliance with the *Electricity Transmission Code*

Most of ElectraNet's obligations with respect to prescribed services are a result of the reliability standards specified in the South Australian *Electricity Transmission Code*. Recent changes to that *Code* have resulted in a requirement to complete a number of projects within the first three years of the revenue reset period.

While the Planning Council supports the changes to the *Code* and the general requirement to address any reliability within the specified three year time frame, it would not support the inefficient spending of capital to meet the *Code* requirement where a short delay would allow for the implementation of a more robust and strategically sound solution. Should ElectraNet identify any such areas, the Planning Council would be prepared to make representations to ESCOSA supporting a modest time extension on a case by case basis.

Project Specific Comments

Clare North and Waterloo

The new Clare North substation has the potential, at least in the short term, or completely unloading the existing Waterloo substation. However, the Planning Council understands that the current advice from ETSA Utilities is that the underlying 33kV network cannot be supported from the single Clare North substation past 2012/2013.

As such, the Planning Council notes that ElectraNet has included a \$24.1m project to rebuild Waterloo by this time.

However, the Planning Council is yet to be convinced that such a rebuild is the most economical solution and we are discussing distribution upgrade options with ETSA Utilities that may allow the full area load to be supported through Clare.

As such, the Planning Council would prefer to see the Waterloo rebuild listed as a contingent project with the trigger being the written confirmation by ETSA Utilities that the distribution upgrade options available will have a higher NPV than the proposed Waterloo project.

Para Replacement

The Planning Council supports the proposed 275kV injection at Templers as a first step in reconfiguring the role of the 132kV subtransmission system in the area. One of the possible impacts associated with this proposal is the retirement of the 132kV functionality at Para. The Planning Council would like ElectraNet to consider whether this potential retirement would have an impact on the quantum of the capital required for the project to refurbish the secondary systems at Para.

Riverland

The Planning Council remains concerned about the ability of Murraylink and the north western Victorian network to deliver sufficient support to defer the Riverland Augmentation beyond the next revenue reset period. The Planning Council is conducting further analysis on the basis of information provided by SPAusNet, but, in the interim, supports the Riverland Augmentation being listed as a contingent project.

The Planning Council will also consider the alternative of supporting upgrades to key lines in Victoria to maintain the level of support necessary to allow such a deferral.

South East

While the projects individually listed for the South East appear to adequately address the emerging network limitations in the area during the regulatory period, as stated above the Planning Council would welcome further strategic planning work in respect to longer term developments for this area.

Metropolitan

Further work is still being carried out by the Planning Council on the Metropolitan projects. It is likely that significant projects such as the CBD will require ongoing engagement between the two organisations over the next couple of years. For the purposes of the Reset process, it will be the quantum of the capital required that is important as the Planning Council sees the requirement for such a project as unambiguous.

The Planning Council notes that there is no provision for a project in relation to the Port River crossing. We understood that ElectraNet had committed to either allow the removal of one of the crossings or redevelop the crossing for future use. In any event, the Planning Council had anticipated some reference to the project in the forward capital program.

It is important to note that in reviewing the capital program, the Planning Council has not assessed, nor is it in a position to assess, the appropriateness of the quantum of costs associated with each project. The Planning Council understands that the cost estimates used by ElectraNet will be the subject of review by the AER's consultants.

Additionally, the Planning Council has not undertaken an independent assessment of the condition based replacements proposed by ElectraNet.

With those provisos and subject to the above comments, the Planning Council is supportive of the program being proposed by ElectraNet. We look forward to reviewing the full Revenue Reset as part of the AER assessment process. It is our intention, pending further discussions with the AER, to provide a formal paper to the AER that reflects the above conclusions and sets out the independent analysis undertaken by the Planning Council. The contents of that paper will be a matter for future discussions with ElectraNet.

I would like to take this opportunity to thank your staff for their openness and cooperation over the last few months and commend them for the level of effort that has obviously gone into preparing the Revenue Reset submission.

Yours sincerely,

for 

David Swift
CHIEF EXECUTIVE