



AusNet Transmission Group Pty Ltd

Transmission Revenue Review 2017-2022

Revised Revenue Proposal

**Appendix 1C: 16 August Stakeholder
Forum Summary**

Submitted: 21 September 2016



Revised Revenue Proposal Stakeholder Forum: Summary

Transmission Revenue Reset 2017-22

16 August 2016

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1. Summary

On 16 August 2016 AusNet Services ran a stakeholder forum titled “Responding to the Draft Decision” as part of its 2017 Transmission Revenue Reset stakeholder engagement program.

This document summarises the subjects covered, the questions raised by participants and the feedback received. Some of the answers provided in this document include additional information to the responses provided during the session.

The forum presentation with speaking notes is available on AusNet Services’ webpage.

1.1 Forum objective

The purpose of this the TRR stakeholder forum was to seek stakeholder feedback on the proposed positions considered by AusNet Services during the preparation of its Revised Revenue Proposal for the 2017 TRR.

The timing of the forum was aligned with AEMO’s presentation of the:

- Victorian Annual Planning Report 2016;
- Electricity Statement of Opportunities 2016; and
- Overview of the RIT-T for transmission augmentation in north-west Victoria.

1.2 Session Overview

A brief overview of AusNet Services’ forum is included below. The attached presentation provides more detail.

- **Welcome and introduction.** Tom Hallam, Manager, Manager Regulation and Network Strategy, opened the forum. Tom introduced the theme (“Responding to the Draft Decision”) and outlined the agenda. He outlined the purpose of the forum to gather stakeholder feedback to enable it to shape our on our Revised Revenue Proposal. He then outlined the remainder of the TRR process.
- **Draft Decision and Proposed Response.** Charlotte Eddy, Principal Economist, outlined the AER’s Draft Decision on AusNet Services’ Revenue Proposal. Matters of agreement between the AER and AusNet Services were highlighted. Charlotte then described AusNet Services’ proposed response on the cost of equity and to the AER’s reduction to the valuation of safety risk underpinning its asset replacement program. Stakeholder input was requested on these matters.

Rob Ball, Regulatory Economist then described the Draft Decision on accelerated depreciation and operating expenditure, and key issues for AusNet Services’ response. Stakeholder input was requested on these matters.
- **Open discussion.** Stakeholders were invited to ask questions or provide feedback on any aspect of the transmission revenue reset.
- **Close and next steps.** Tom Hallam, Manager of Regulation and Network Strategy closed the forum.

1.3 Attendees

The forum was attended by 22 stakeholders from the following organisations:

- AGL
- United Energy

- Council of Small Businesses
- Reach Solar Energy
- Trustpower Australia
- Energy Australia
- Consumer Challenge Panel
- Pacific Hydro
- Acciona
- Engie
- Snowy Hydro
- AER
- Victoria University
- RES
- Wind Prospect Pty Ltd
- AEMO

2. Discussion and Questions

A summary of the questions asked during each section of the forum and responses to these is provided below.

2.1 Capital Expenditure

Q1. Please summarise the reasoning behind the AER's assumption that there is a 1 in 100 chance that a person will be within the hazard zone of an explosive failure.

The AER has applied some assumptions to the level of activity it considers is required to operate, maintain and refurbish transmission assets, on average, over their lives (which can exceed 40 years). The results of this analysis indicated that, on average, someone will be located within the hazard zone of an asset just 1% of the time.

AusNet Services will provide updated analysis on the expected hazard zone occupancy rate as part of its Revised Revenue Proposal. This will include expected occupancy during its major replacement projects and terminal station rebuilds, which are highly relevant to an assessment of asset safety risk.

Q2. Has the cause of the recent explosive failure at Richmond Terminal Station been identified?

Yes. The main cause was the presence of water in the top cap of the current transformer due to degraded sealing. The current transformer was due to be replaced within the next 6 months.

Q3. Is the 1 in 100 hazard occupancy rate assumption applied to all TNSPs?

No. AusNet Services understands that the TNSPs apply slightly different approaches to valuing safety risk. The AER has not yet sought to apply such an adjustment to other TNSP's replacement programs, but has previously adjusted specific programs on the basis that it considered that the TNSP had overstated its assessment of safety risk.

Q4. Do the Victorian safety obligations specify that an occupancy rate exceeding 1 in 100 should be assumed?

The Victorian safety obligations do not specify in detail the methodology that a TNSP must apply to valuing safety risk. However, they do specify that the TNSP must eliminate a risk or hazard **to the extent practicable**. AusNet Services' approach to valuing safety risk has been developed to meet these requirements, taking into account the nature of the works carried out by its staff and the condition of its assets.

Q5. How much additional expenditure is AusNet Services requesting for enhanced safety precautions?

AusNet Services has not asked for additional funding to explicitly address network safety concerns. Its proposed capital expenditure to explicitly meet safety and compliance requirements accounts for just 9% of its total proposed capex program and is significantly below average expenditure incurred over the previous two regulatory periods.

The valuation of safety risk of concern to the AER relates to the safety risk assessment underpinning AusNet Services' business-as-usual asset replacement projects. The asset replacement forecast included in the Revenue Proposal was a substantial reduction compared to previous period expenditure, due to a reduction in forecast demand and the Value of Customer Reliability (VCR). However, the AER has further reduced this forecast as it considers that safety risk has been overestimated in the justification of these projects.

Q6. What additional activities does AusNet Services undertake to mitigate safety risk?

AusNet Services' asset replacement program is its primary means to eliminate the risk of an explosive failure. Under Victorian safety legislation, AusNet Services is explicitly required to eliminate, rather than mitigate, a hazard, where it is practicable to do so.

However, AusNet Services also takes steps to mitigate the risk of explosive failure through implementing a series of safety controls. These include condition monitoring activities and diagnostic testing, installing fire protection systems to reduce the fire hazard following an explosive failure, providing safety training for workers and using partial discharge detection systems to identify impending faults and failures. However, while important, these controls are not 100% effective and their use does not affect AusNet Services' regulatory obligation to eliminate the hazard in the first instance.

Q7. Does AusNet Services intending to propose a similar safety risk assumption in the Revised Revenue Proposal as it did in its Revenue Proposal?

Yes. AusNet Services recognises that its approach to valuing safety risk is relatively simple and could be refined. However, as a package, AusNet Services strongly considers that it values safety risk appropriately. This is verified by AusNet Services' historical safety performance (which shows that AusNet Services does wear a real risk of explosive failures occurring) and data provided to the AER on the average lives of its terminal station assets, many of which are still in operation beyond the end of their expected economic lives. A significant reduction to AusNet Services' proposed asset replacement program would increase safety risk beyond acceptable levels.

Q8. If the new information about the transformers that now require replacing at East Rowville had come to light during the next regulatory period, how would AusNet Services manage the risk?

If the information had come to light within the 2017-22 regulatory period, AusNet Services would have needed to reprioritise its capex allowance to manage the risk. However, it is likely that other, unforeseen issues, may arise within the next regulatory period which will require reprioritisation to occur. It is important that the capex allowance reflects all material expenditure drivers that are known at the time the regulatory review is carried out.

2.2 Accelerated Depreciation

Q9. Will windfarms be connecting into parts of the network AusNet Services is considering applying accelerated depreciation to, such as the Alcoa Portland to Heywood Terminal Station line?

While the future utilisation of the Alcoa Portland to Heywood Terminal Station (HYTS-APD) line depends heavily on the continued operation of the Portland smelter, AusNet Services understands there are a number of windfarms being proposed in north west Victoria, some of which are considering connection into HYTS-APD.

2.3 Operating Expenditure

Q10. What are debt raising costs? Are they part of the Rate of Return?

Debt raising costs are administrative costs which are not to be confused with the 'cost of debt' in the rate of return.

Debt raising costs are the transaction costs associated with raising or refinancing debt, and principally comprise legal and banking fees. The AER has stated that "debt raising costs are an unavoidable cost of raising debt that would be incurred by a prudent service provider."

The rate of return reflects the efficient financing costs of the benchmark efficient entity, including the cost of debt.

Accordingly, while both debt raising costs and the rate of return relate to a service provider's efficient financing costs, the nature of debt raising costs means that they are most appropriately recovered through the opex forecast, rather than the rate of return.

Q11. How much does AusNet Services usually spend on ICT security each year?

AusNet Services' current ICT security opex spend for its transmission network is approximately \$0.6 million per annum.

Q12. Is there a legislative requirement to ensure that the transmission network is protected from cyber-attacks?

AusNet Services' transmission network is designated as critical infrastructure under the Victorian Critical Infrastructure Model, which came into effect from 1 July 2015. Part 7A of the Emergency Management Act 2013 sets out the obligations AusNet Services must comply with to ensure the resilience of the network. However, the Act does not stipulate specific IT security requirements.

In March 2015, the Australian Securities and Investments Commission's (ASIC) published its *Cyber resilience: Health Check* report, recommending a cyber-security framework for ASX-listed organisations. While the adoption of this framework is not currently a legislative obligation, this may change over the coming period given the increasing threat presented by cyber-attacks.

The NER also require that, where there is no an applicable regulatory obligation or requirement to maintain the security of the transmission system, AusNet Services is nonetheless required to do so.

2.4 General**Q13. How has the information provided by AEMO this morning influenced AusNet Services' proposal?**

AusNet Services and AEMO undertake joint planning of the Victorian transmission network and work closely together in developing plans for network augmentation and replacement. AusNet Services' proposed asset replacement plans take into account AEMO's network plans.

The difficulties highlighted by AEMO in estimating future generation in North West Victoria highlight the current uncertainty around the future use of the transmission network. This was a key theme in the development of AusNet Services' Revenue Proposal. AusNet Services proposed to address the uncertainty through accelerated depreciation of new investments. In its Revised Revenue Proposal, AusNet Services addresses the likely change in the generation mix through proposing to accelerate depreciation of generator connection assets that are unlikely to be required at a point in the next two regulatory periods.

Q14. Is benchmarking conducted for transmission networks? How has this been applied in the AER's Draft Decision?

The AER does conduct annual benchmarking for transmission networks, although it considers that the insights provided by this are fairly limited, partly due to the small number of transmission networks in Australia. AusNet Services performs strong under this analysis, being the only transmission network to have had improving overall productivity since 2006.

The AER has applied its benchmarking analysis in its Draft Decision on operating expenditure by using the data to calculate a productivity adjustment that is applied to the opex forecast over the period.

The AER has not relied upon its benchmarking analysis in its capex decision. AusNet Services performs strongly in several relevant metrics, which include maintaining a low and flat RAB over the previous 10 years. Despite this strong performance, the AER has expressed concerns about AusNet Services' approach to valuing safety risk and materially reduced its capital expenditure forecast on this basis.

Q15. Due to the current pace of change in the energy market, is there a case for the revenue reset occurring more frequently than once every 5 years?

Increasing the frequency of regulatory resets during this time of change would have positive and negative implications. While more frequent reviews would provide more certainty around network trends, such as forecast demand and consumption, they would also blunt the incentives provided to outperform expenditure allowances provided. In addition, reviews are highly resource intensive for both the AER and the businesses, so there would need to be material benefits for such a change to be worthwhile.

The pace and degree of change currently seen in the energy market is a relatively recent phenomenon. AusNet Services considers that, in the review for the next regulatory period, some

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aspects of the current uncertainty may have dissipated. For example, Government climate change policies and the expected impacts of battery storage technologies and electric vehicles are likely to have become clearer.

3. Summary of Feedback

This section presents a brief summary of the feedback provided via feedback forms that attendees were asked to complete at the end of the session. The forms consisted of an effectiveness evaluation section and written response questions.

3.1 Effectiveness evaluation

Attendees were asked to rate the effectiveness of the forum in meeting its objectives, using a five point rating scale. i.e. 1 = Highly ineffective, 2 = Ineffective, 3 = Neutral, 4 = Effective, 5 = Highly effective.

The table below shows the forum was generally considered effective in achieving its objectives.

Objective	Average Score (out of 5)
Summarise the key components of the AER's Draft Decision on the 2017 – 22 Transmission Revenue Proposal	4.4
Gather stakeholder feedback on our intended Revised Revenue Proposal positions	3.6

Attendees could also write a comment in this section. Three comments were received from attendees.

One attendee considered that more involvement from the workshop attendees (e.g. through breakout sessions for each table) could be beneficial to achieving the workshop objectives. Another considered that directly asking workshop participants key questions would improve the information gathered from stakeholders.

One attendee submitted that the presentations given by AusNet Services' staff were very clear and concise.

3.2 Written responses

Five 'written response' questions gave attendees the opportunity to suggest improvements, state what they found helpful or unhelpful and include subjects they would like more information about. Below is a summary of the general sentiment of attendees' responses to each question.

i. Do you have any suggestions for improving future forums (format, structure etc)?

Most attendees were satisfied with the format. Two attendees considered that smaller group discussions and/or breakout groups with tasks/questions to address would be beneficial. Another attendee suggested the forum could be improved by providing stakeholders with alternative means of viewing the presentation, including video conferencing, viewing online and dialling in.

ii. Do you have any suggestions for improving the content of the presentation?

Two attendees considered that further detail, analysis and context on the areas discussed would be helpful. One attendee suggested increased use of diagrams.

Two attendees suggested a section outlining how stakeholder feedback has been and will be incorporated into the Revenue Proposal would be beneficial.

One attendee suggested that it should not be assumed that attendees have knowledge of AusNet Services' proposal, citing the link between capex safety assumptions and the timing of replacement as an example.

iii. Regarding the content of this forum, please indicate areas that you found helpful/not helpful.

a) Helpful

A number of responses to this question were submitted. Two attendees stated that all areas of the presentation were well presented and helpful in understanding AusNet Services' position. Other specific comments included:

- Graphs.
- AusNet Services' positions, particularly around safety assumptions.
- Information on changes between proposals and how AER feedback has been taken into account.
- Joint session with AEMO.

b) Not helpful

One comment was submitted by an attendee, who found that long sections of text were not helpful.

vi. Are there any topics or issues you would like to know more about?

All the responses to this question were requests for more information on specific areas. These included a breakdown of total revenue, information on cross-TNSP considerations and an increased focus on the development of renewable energy and the 'fadeout' of coal-fired generation.

iv. Are you interested in further discussions with AusNet Services in regards to the 2017-22 Transmission Revenue Reset Revised Proposal? If so, please indicate topics of interest and availability.

One comment was submitted. An attendee was interested in further discussions in relation to future network augmentation.

4. Next Steps

Attendees were informed that the AER is currently accepting formal submissions on its Draft Decision, and stakeholders will also be invited to submit on the Revised Revenue Proposal post-lodgement.

Stakeholders are invited to request an individual meeting if they would like to discuss particular matter. Feedback could also be taken via email at TRR2017@ausnetservices.com.au.

Feedback related to the format and structure of the forum, presentation, speakers and so forth will be taken into account when planning other forums and stakeholder engagement activities across the business.