

7 April 2016

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Dear Sebastian,

### **Transmission Revenue Reset: Update on Synchronous Condensers**

AusNet Services' Transmission Revenue Proposal includes proposed revenues in relation to three synchronous condensers (SCOs) currently on its network. These SCOs are located at the Fisherman's Bend, Brooklyn and Templestowe Terminal Stations and all three have reached the end of their economic lives. AusNet Services and AEMO have assessed whether the net market benefits provided by the SCOs justify the cost of their replacement.

At the time of submission, the Fisherman's Bend SCO had been taken out of service, while AusNet Services was awaiting advice from AEMO on whether net market benefits were provided by the Brooklyn and Templestowe SCOs. AusNet Services' Revenue Proposal assumed that all three SCOs will be decommissioned at the start of the next regulatory period, which was considered to be the most likely scenario.

AEMO's advice has now been received (see Attachment 1) and confirms the SCOs are no longer justified by market benefits and will not need to be replaced. Therefore, AusNet Services will retire all three SCOs. The implications for the Revenue Proposal are:

- Operating Expenditure – the proposed decommissioning costs of \$4.3m (real 2016-17) forecast in 2017-18 continue to be required.
- Accelerated Depreciation – the proposed accelerated depreciation to recover the remaining RAB value of the SCOs over the 2017-22 regulatory period continues to be warranted. This will ensure future consumers do not pay for the services of assets that they do not use.
- Contingent Project – the replacement of the Brooklyn and Templestowe SCOs was proposed as a contingent project, to address the uncertainty over the outcome of AEMO's advice. This proposed contingent project is no longer required.

AusNet Services and AEMO have worked together to ensure that the future of the three SCOs provides the lowest cost outcome for consumers, without compromising network performance. The SCOs are in a poor condition and, if their continued services were required, would have been replaced over the 2017-22 regulatory period at a cost of around \$70m. Responding to changes in network conditions by reassessing the continued need for particular services delivers continued value for Victorian transmission customers.

Sincerely,



Tom Hallam  
Manager Regulation and Network Strategy  
**AusNet Services**