

Jo De Silva
Consumer Challenge Panel Sub Panel 4
c/- AER

21 December 2016

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Sebastian,

Further to my submission on the Powerlink 2017-22 Draft Decision, please find below my comments related to the Revised Regulatory Proposal.

As stated in response to the Draft Decision, the author supports the assertion that further capex savings are achievable for Powerlink, beyond those identified in the Draft Decision. Briefly, we expressed concern about the limited extent to which the AER has addressed the findings in the EMC reports. This letter outlines those aspects of the EMC reports that the AER and Powerlink have not addressed.

In relation to risk management, we note that EMC have stated:

“We observed that the risk assessment matrix in Powerlink’s risk methodology was applied at a project level for a number of projects. This approach appears to be a work in progress and its development and integration in the business appears to be part of a broad range of risk- and condition-based asset management improvement initiatives. We understand therefore that the risk-cost based portfolio optimisation methodology has not been applied to the development of the non-load driven expenditure forecast for the next RCP.

We expect that an outcome of Powerlink’s improvement initiatives will be, over time, refined expenditure forecasts, leading to lower overall required expenditure.”¹

We find no reference in the AER Draft Decision to the above EMC finding but we believe it is of significance for the AER to address. We believe that the identification of an avenue for further efficiencies required the AER to seek clarification about the measure from Powerlink, to at the very least determine why the risk-cost based portfolio optimisation methodology was not applied to the expenditure forecast for non-load driven expenditure, and to seek commitments from Powerlink about future incorporation of this methodology.

¹ EMC (July 2016) Review of Forecast Non-load driven capital expenditure in Powerlink’s Regulatory Proposal:
p.21

The AER has stated that it is not satisfied that the forecast power transformer capex reasonably reflects the efficient costs that a prudent operator would require in the 2017–22 regulatory control period. This is in line with the EMC findings. The author agrees that it is incumbent on Powerlink to further demonstrate prudence with regards to forecast power transformer capex. The author welcomes further review by the AER on the information contained in Powerlink’s RRP relating to these forecasts.

Thank you for consideration of these comments.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jo De Silva', with a stylized, cursive script.

Jo De Silva