COTTON AUSTRALIA

Advancing Australian Cotton

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
via email: Powerlink2016@aer.gov.au

22 December 2016

Dear Mr Roberts,

Re: AER Draft Decision – Powerlink Electricity transmission revised revenue proposal 2017–2022

Cotton Australia is the key representative body for Australia's cotton growing industry. The cotton industry is an integral part of the Australian economy, worth over $1.25 billion in export earnings in the 2014–15 season, and employing on average 10,000 people. The industry's vision is: *Australian cotton, carefully grown, naturally world's best*.

Cotton Australia has considered the revised proposal submitted by Powerlink on 1 December 2016. We were encouraged to see a number of encouraging business practices being implemented by Powerlink including:

- a lower rate of return 5.48%
- write off of assets in line with the changing nature of demand; and
- consideration of asset condition as opposed to implementation of a standard asset age replacement strategy.

We would have liked to have seen how this write off of assets had translated to impacts on the regulatory asset base (RAB) and operating expenditure (OPEX) for Powerlink. In practice it appears that despite the transmission network recognising that these assets are redundant and no longer required for an efficient business operation, the infrastructure continues to form part of the RAB. We would like to clarify whether this is in fact the case.

Cotton Australia acknowledges that the AER has in broad accepted the proposal of Powerlink however we would like to raise the following issues for consideration by the regulator.

Cotton Australia supports the decision of the AER not to include the redundancy costs within the Efficiency Benefit Sharing Scheme (EBSS). We believe that this is consistent with the regulators decisions relating to network labour costs. The regulator has previously stated that:

COTTON AUSTRALIA LIMITED ABN 24 054 122 879
HEAD OFFICE SUITE 4.01, 247 COWARD ST, MASCOT NSW 2020 AUSTRALIA **P** + 61 2 9669 5222 **F** +61 2 9669 5511
BRISBANE LEVEL 6, 183 QUAY ST, BRISBANE QLD 4000
TOOWOOMBA 115 CAMPBELL ST, TOOWOOMBA QLD 4350
NARRABRI LEVEL 2, 2 LLOYD ST, NARRABRI NSW 2390
WWW.COTTONAUSTRALIA.COM.AU

'*Service providers have broad discretion about all contractual arrangements and the manner in which they carry out those obligations*'

and

'*it is for the service providers to determine the appropriate response to excess labour needs and to bear the costs associated with those earlier decisions. The service providers could do this either within their regulated forecast by prioritising expenditure programs or with alternative sources of funding not recovered from customers*.'

The AER guidelines state that:

'*In accordance with clauses 6.5.8(a) and 6A.6.5(a) of the NER, an efficiency gain is where actual operating expenditure (opex) incurred by a NSP in a regulatory control period is less than the forecast opex set by the AER for that period*'.

We believe that that the OPEX provided by the regulator, states the costs that Powerlink should bear as an efficient transmission network operator. In line with this, redundancy costs do not form an additional 'benefit' for consumers as these should fall within the forecast OPEX. We believe that Powerlink, as stated previously by the regulator, should bear the costs associated with earlier inefficient labour contracting processes. Cotton Australia supports the AER's decision to exclude redundancy costs from the EBSS.

Cotton Australia previously expressed concerns regarding the contingency funding for capital investment proposed by Powerlink when this approach was proposed within the issues paper. During consultation with Powerlink, it appeared that the contingency funding process is a mechanism whereby the regulator approves a trigger for CAPEX investment. Following a trigger being reached, it is our understanding that any investment still needs to be assessed according to the Regulatory Investment Test (RIT-T), to determine the requirement for network investment.

Based on our reading of the contingent projects and the issues raised by Powerlink it is stated that the transmission company has contested the rejection of the trigger for network augmentation within the Southern Galilee Basin. Powerlink has additionally put forward a trigger for a Queensland to South Australia interconnector.

Cotton Australia questions the necessity of 'contingency' projects, when the final outcome appears to be very similar to assignment of CAPEX. Powerlink in its revised proposal has stated that it wants:

'*the Regulatory Investment Test to demonstrate a maximising of net market benefits except where a proposed contingent project is for reliability corrective action in which case the trigger should note that the net market benefit may be negative i.e. a net economic cost*' (pg 48).

We continue to hold significant concerns regarding the contingency trigger approach as it is our understanding that there are already measures in place within the rules to allow for CAPEX

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where this is required. Furthermore the RIT-T was introduced as a mechanism to avoid unnecessary CAPEX and we do not support any exclusion of projects from assessment.

In addition, Powerlink has already raised the construction of a new interconnector and interconnector upgrades when there are currently major reviews of the National Electricity Market (NEM) underway. These represent significant investment and while these may be necessitated through the outcomes of the review of the NEM, we would not want Powerlink or any of the other network transmission or distribution networks pre-empting the requirements and recommendations stemming from the review.

Should you have any questions regarding our intended approach to the provision of feedback please do not hesitate to contact me on 02 9669 5222 or FelicityM@cotton.org.au

Kind regards,

Felicity Muller
Policy Officer
Cotton Australia

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