

Energy Consumers Coalition of South Australia

AER Review

ElectraNet Revenue Reset

Application Forum

**Presentation by
David Headberry on behalf of
John Pike (ECCSA Chair)**

24 July 2007

ENERGY CONSUMERS COALITION OF SA

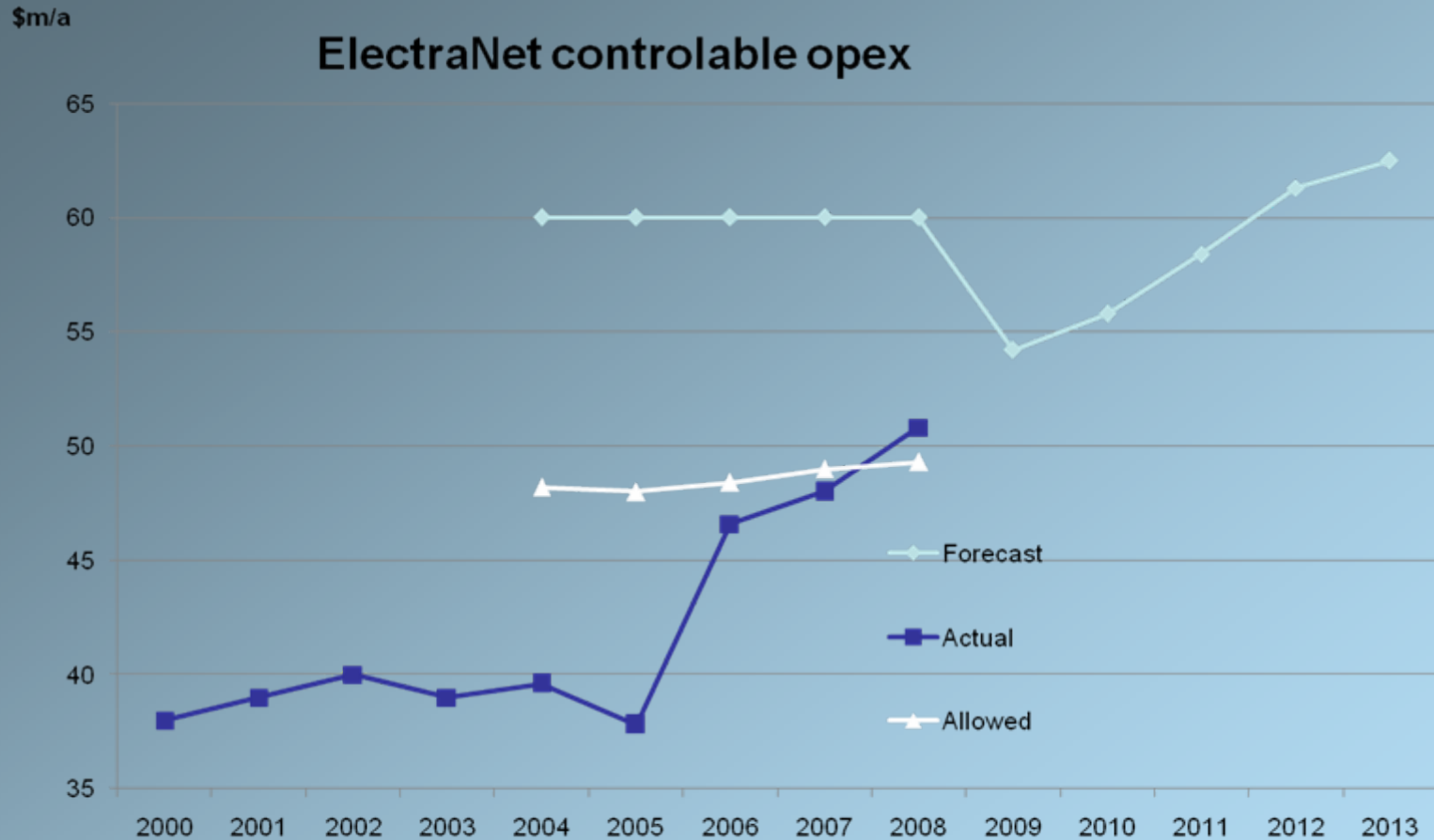
The drivers of TNSP profit

- Depreciation and opex, are recovered on a cost basis and theoretically have no profit attached to them
- Pass throughs have no profit for a TNSP attached to them
- Efficiency carry over has no profit attached to it and declines over time
- Achieving performance standards has a profit element but is not a secure source of profit
- The bulk of a TNSP profit comes from the WACC which is a return on assets
- **Therefore a TNSP is actively incentivised to increase the assets involved so as to increase its profits**

High level outcome of ElectraNet application

- RAB increases by addition of some \$80m for easement values disallowed in 2002
- Opex increases from \$45m pa to \$58m pa (averaged)
- Capex more than doubles
- Volume to increase by ~2% pa
- Demand to increase by ~2% pa
- Tariffs increase by nearly 50%
- ElectraNet reduces the average age of the assets provided due to the large capex program
- Increased costs are above CPI

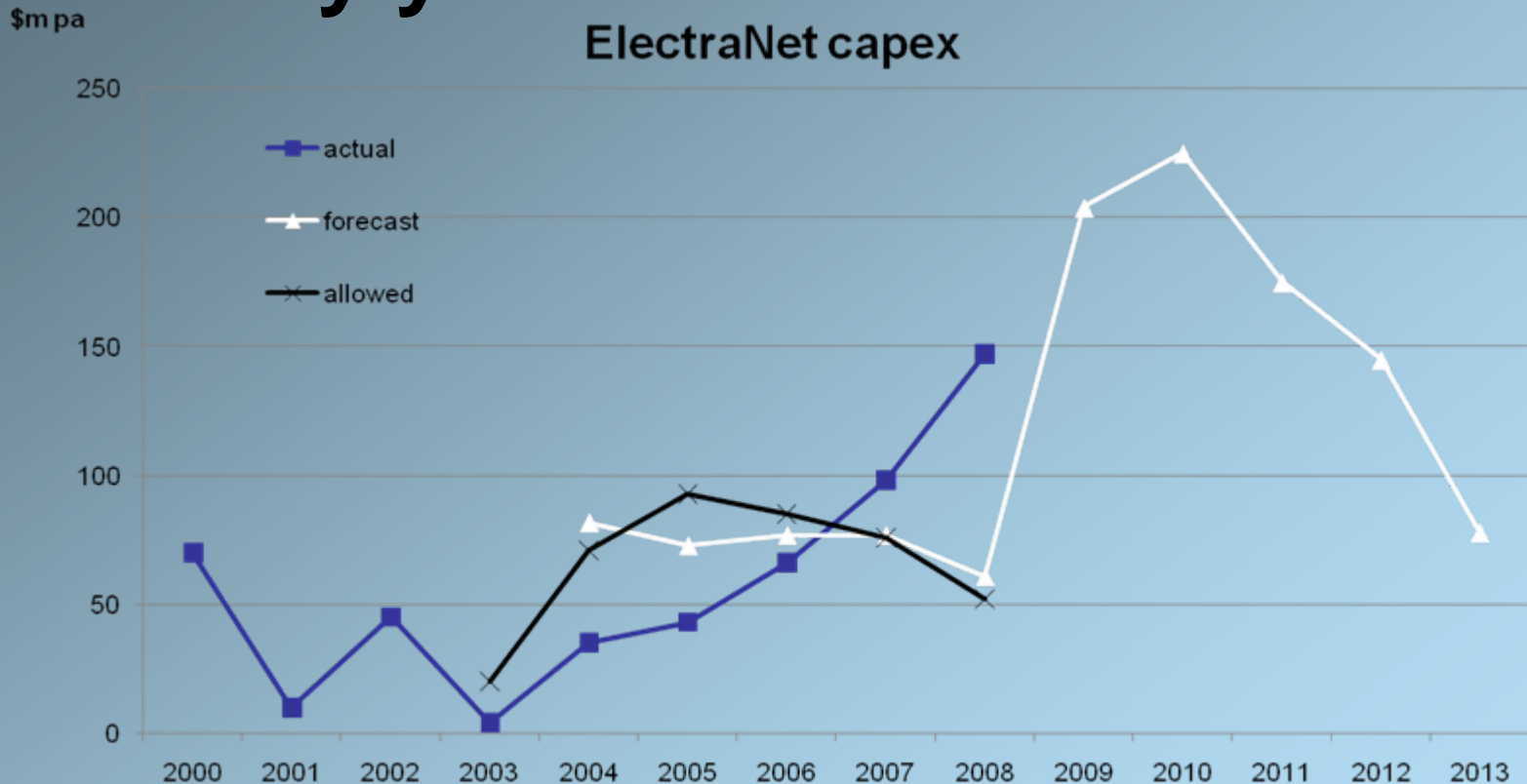
Change on Opex over time



Opex increases by 30%

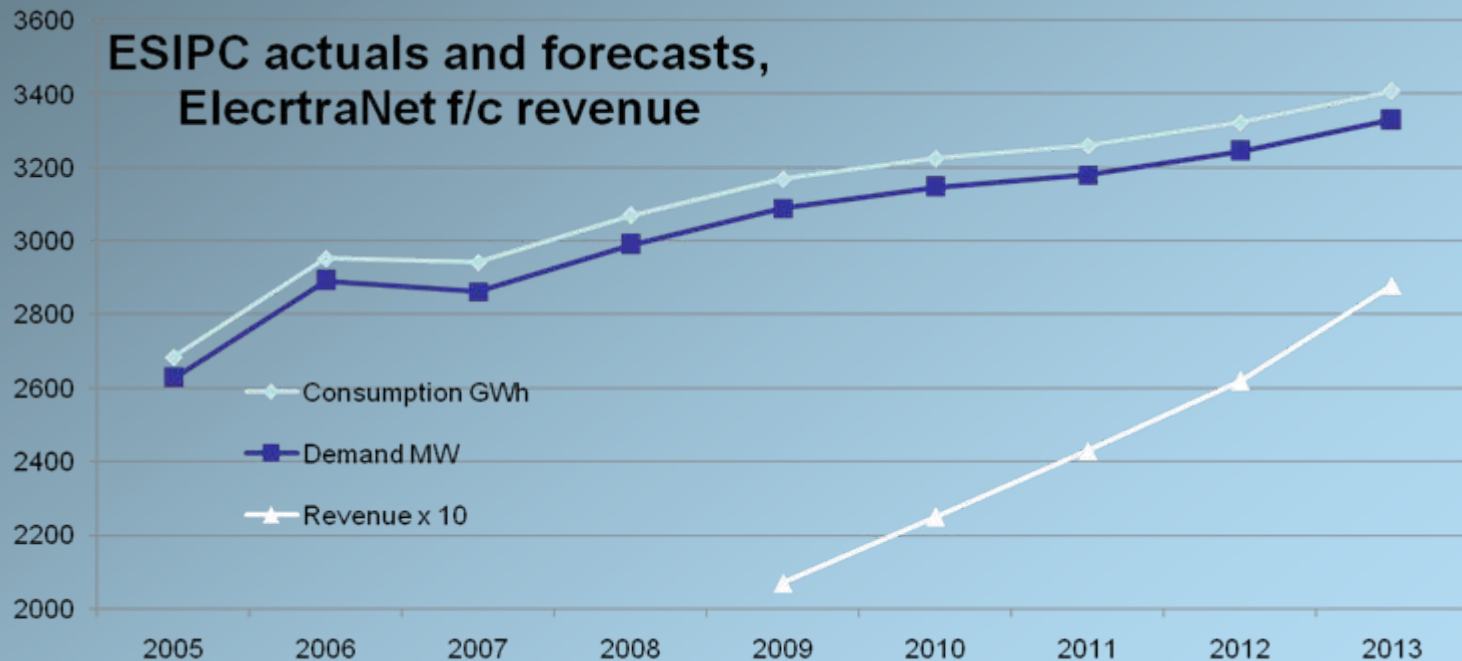
Change in capex over time

- Capex shows a massive increase in the early years



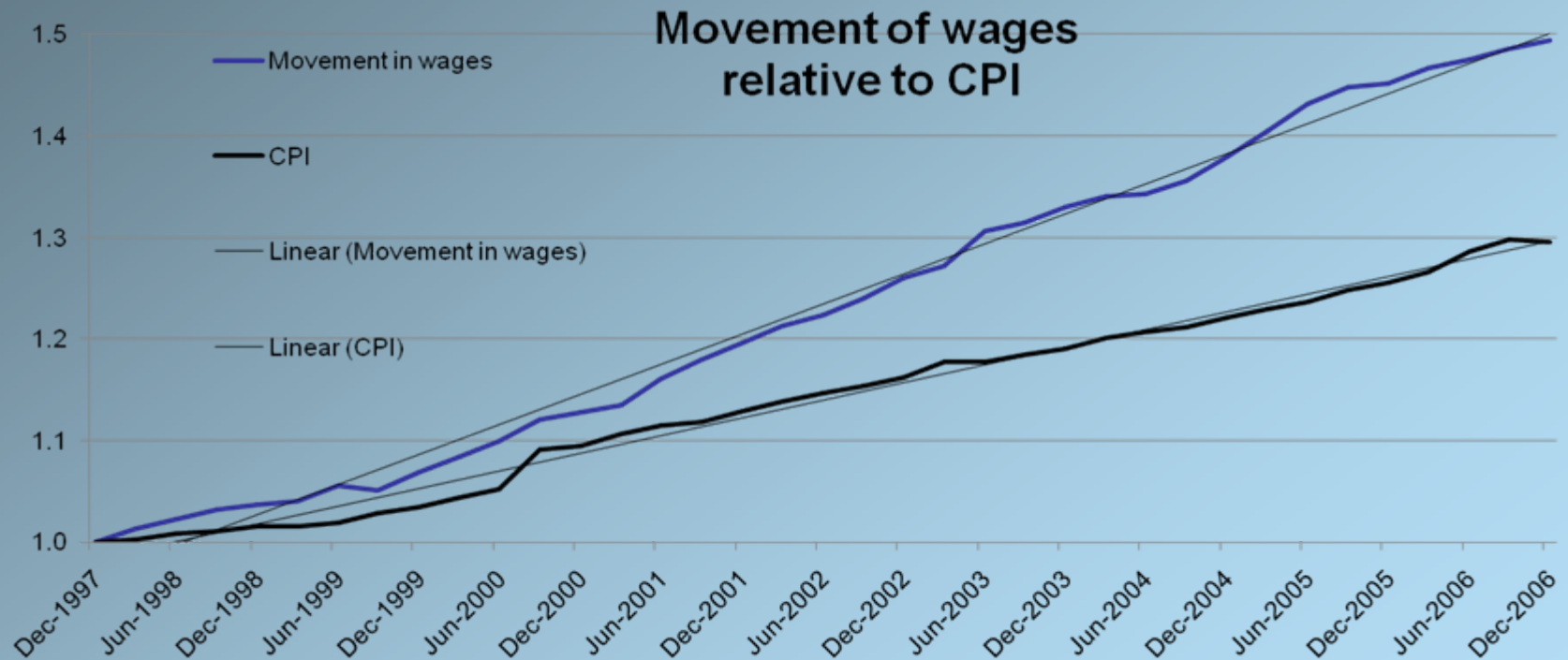
Changes in consumption, demand

- ESIPC forecasts a lessening or maintenance in rate of increase in demand and consumption (50% PoE), yet opex and capex increase significantly
- Tariffs rise from \$13.3/MWh to \$18.5/MWh



Cost increases ???

- TNSPs are claiming increases in costs which impacts capex and opex
- ABS statistics show labour costs are increasing at 4.5% pa which is consistent over the last decade
- Some labour is more expensive but much is not



Cost increases ???

- CPI is increasing at 2-3% pa and this is consistent since the GST was introduced in 2000
- Materials costs (as measured by ABS) are not rising as ElectraNet states
- It is noted that transformers have increased in price since 2002, but MEU members use equivalent quality from China at half the cost indicated
- Other hardware has maintained parity with CPI (eg CBs and CTs)
- The \$A exchange rate has moved significantly but this is not recognised

\$A buys	USD	TWI	EUR	JPY	GBP
average of first six months of 2002	0.5347	51.8740	0.5954	69.2730	0.3701
average of first six months of 2007	0.8064	65.9199	0.6067	96.6713	0.4095
% increase in \$A	51%	27%	2%	40%	11%

Source: Derived by EUCV from RBA data

ECCSA Conclusions

- **ElectraNet has sought a major increase in costs**
- **Average tariffs will rise by nearly 50%, and to put this into context,**
 - **tariffs used to be half this amount, and**
 - **the tariff in 2013 will be half the cost of generation**
- **Growth is dependent on Olympic dam, yet this project uses little of ElectraNet resources => average tariffs are distorting**
- **Opex is above the “ElectraNet” benchmark**
- **Opex has grown despite an efficiency benefit which is intended to lead to an opex plateau**
- **Capex nearly doubles, yet ElectraNet had trouble spending the last allowances**
- **Easements were addressed last time yet they are back again**
- **Costs are to rise significantly yet the independent data does not support an increase**