Government of South Australia

Department for Energy and Mining

Our Ref: F2022/000178

Mr Warwick Anderson
General Manager
Network Pricing
Australian Energy Regulator
GPO Box 520
CANBERRA ACT 2601

Dear Mr Anderson

The Energy and Technical Regulation Division (Division) of the Department for Energy and Mining appreciates the opportunity to provide the following submission on the Murraylink electricity transmission revenue proposal for 1 July 2023 to 30 June 2028.

The Division firstly acknowledges the improved level of engagement that Murraylink has provided to date as part of the Murraylink Stakeholder Engagement Plan. The transparency and visibility of issues raised with the Division have assisted our understanding of the issues raised by Murraylink in its proposal.

The Division acknowledges the proposed 15 per cent decrease in Murraylink's maximum allowable revenue to $70.4 million underpinned by a significant 58 per cent reduction in capital expenditure, compared to the current transmission determination. However, the Division remains aware that the potentially significant, but as yet undetermined, contingent project cost has not been included in the return on capital component of the revenue proposal.

The Division also acknowledges the importance and urgency of the Insulated Gate Bipolar Transistor (IGBT) obsolescence issue. Given this issue and noting that the control and protection system and IGBTs are essentially integrated, the Division is concerned that the recent expenditure on the upgrade of the control and protection system may now need to be written down at consumers expense. As such, the Division supports Murraylink undertaking a robust options analysis to support an outcome that efficiently and affordably meets the needs of consumers.

The Division notes the commentary from Murraylink that IGBTs are integral to the continued operation of Murraylink converter stations and, by extension, the Murraylink transmission interconnector. Murraylink remains a valuable transmission asset to the South Australian

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power system, allowing the Australian Energy Market Operator to both utilise the interconnector as a controllable network element in parallel with the Heywood interconnector and allow the export of renewable energy generation that otherwise would have been curtailed. In this regard, it is critical to resolve the obsolescence of the IGBT's in a way that is consistent with the long-term interests of consumers of electricity in South Australia.

The Division notes that the largest capital expenditure program (totalling $3.411 million) outlined in the revenue proposal is classified under the disparate label "stay in business". While the projects that make up this program are individually listed in the worksheets of Attachment 17, it is recommended that this program, or the projects making up this program, be renamed to be more intuitive and informative to stakeholders.

As raised by the Division (and previously disallowed by the AER) for the 2018-23 revenue determination, the Division disagrees with capital expenditure of $198,000 allocated to regulatory reset costs in this proposal. The Division opposes any cost transfers to consumers from undertaking engagement with customers as part of the normal operations of a network service provider.

Similarly, the Division notes that the largest operating expenditure category outlined in the revenue proposal (totalling $3.52 million nominal) is labelled as "controllable costs". The costs that make up this category do not appear to be described, including in the worksheets of Attachment 16. For prudency and transparency, these controllable costs should be itemised within the revenue proposal.

If you have any further queries, please contact [redacted].

Yours sincerely

[redacted]

Rebecca Knights
A/EXECUTIVE DIRECTOR, Energy and Technical Regulation

13 / 05 / 22