

6 February 2015

Mr Chris Pattas  
General Manager  
Network Investment and Pricing  
Australian Energy Regulator  
CANBERRA ACT 2601

Dear Chris

**re: TransGrid – Draft Decision and Revised Revenue Proposal 2015-2018**

ElectraNet appreciates the opportunity to lodge a submission in response to the Australian Energy Regulator's (AER) draft decision on the revenue determination for TransGrid for the period 1 July 2015 to 30 June 2018 and TransGrid's revised revenue proposal lodged in response. The following comments focus on some key aspects that raise issues of regulatory precedent and approach.

**Capital Expenditure Forecast – Low span remediation**

The AER's rejection and substitution of TransGrid's forecast expenditure for low line span remediation fails to adequately consider all the information provided by TransGrid and relies on the fact that, to date, a low span has not caused a fatality or bushfire.

This fails to recognise the full nature of a network service provider's legal obligations, as detailed in TransGrid's Revised Revenue Proposal.<sup>1</sup> ElectraNet also believes that the AER has not fully taken into account consumers' expectations of network service providers in relation to bushfire and public safety risks.

**Operating Expenditure Forecast – Major Operating Projects and Insurance Premium**

ElectraNet questions the view that it is appropriate to adopt a base year "revealed cost" approach for major operating projects and insurance premium forecasts.

The "revealed cost" method will only provide Transmission Network Service Providers (TNSPs) with a reasonable opportunity to recover at least the efficient costs if the resulting forecast of operating expenditure takes account of the forecast variation in operating expenditure over time, compared to the base year.

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<sup>1</sup> TransGrid Revised Revenue Proposal 2014-15 to 2017-18 pp. 63-67

Where the efficient volume of activities or works for key categories of expenditure vary materially over time – as is typically the case for some categories of transmission operating expenditure – then it is essential for the expenditure forecasts to take account of the drivers of that forecast variation.

It is inappropriate to assume that the expenditure in the base year will provide a sufficient allowance where the volume of work is expected to change materially from year to year. Equally, it is invalid to assert that lumpy items are “one off” events that should be excluded from any trend. “One off” or lumpy expenses are efficiently incurred based on underlying requirements and therefore need to be recognised.

ElectraNet notes in the ElectraNet 2013-2018 Determination the AER accepted the forecast cost of insurance based on independent advice from insurance experts. While the AER did not apply this forecast as a zero based forecast methodology, it accepted the difference of \$2.4 million as a step change to the base year extrapolated allowance, achieving an equivalent outcome<sup>2</sup>.

In the recent draft decision on TasNetworks’ revenue proposal,<sup>3</sup> the AER also accepted the forecast cost of insurance, which did not rely on the revealed expenditure methodology.

The AER appears to have selectively adopted approaches that deliver the lowest revenue outcome, rather than provide an opportunity to recover efficient cost.

## **Consumer Engagement**

ElectraNet supports TransGrid’s understanding of the AER’s *Consumer Engagement Guideline* that all TNSPs are to engage with their ‘end users’. End users of electricity transmission services are in fact residential and non-residential electricity consumers not just directly connected customers and distribution network service providers (DNSPs).

The AER stated in its draft decision that it does not consider it efficient for a TNSP to engage with distribution customers<sup>4</sup>. However, the AER *Consumer Engagement Guideline* requires service providers to have heard from a comprehensive cross-section of consumers<sup>5</sup>. Without engaging with a representative sample of distribution customers, this is difficult to demonstrate.

The AER also stated that it considered that TasNetworks had adopted concrete measures to effectively engage with its consumers.<sup>6</sup> However, a number of TasNetworks’ engagement activities were conducted directly with distribution customers<sup>7</sup>. It again appears that the AER is applying its guidelines selectively or at least inconsistently.

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<sup>2</sup> AER, Final Decision ElectraNet Transmission determination 2013-14 to 2017-18, April 2013, page 33

<sup>3</sup> AER Draft decision TasNetworks transmission determination 2015-16 to 2018-19 November 2014 pp. 7-18-19

<sup>4</sup> AER Draft decision TransGrid transmission determination 2015-18 November p.7-57

<sup>5</sup> AER Consumer Engagement Guideline for Network Service Providers November 2013 p.11

<sup>6</sup> AER Draft decision TransGrid transmission determination 2015-18 November p.49

<sup>7</sup> Straight Talk Consultation with consumers outcomes report 19 March 2014 p. 9

The AER *Consumer Engagement Guideline* requires network service providers to build consumers' capacity to understand issues where matters are complex and this is hindering engagement.<sup>8</sup> It is difficult to reconcile this expectation with the AER's statement in the draft decision that education roles are the domain of the AER and AEMO<sup>9</sup>. To promote meaningful engagement, all regulated network businesses should be seeking to appropriately educate consumers.

In the interests of transparency and certainty for transmission businesses and consumers alike, these expectations of consumer engagement should be clarified in the final decision.

### **Benchmarking**

ElectraNet shares the concerns of Grid Australia on the robustness and use of benchmarking analysis in TNSP revenue regulation. The use of benchmarking in relation to revenue determinations is very new to the Australian regulatory framework, and additional testing of the data inputs and outputs is required before the framework is mature enough to be applied in a deterministic sense.

ElectraNet welcomes to opportunity to work with the AER to improve the benchmarking framework. Separate submissions from Grid Australia and the ENA detail the key concerns regarding the AER's use of benchmarking techniques in the TransGrid draft decision.

### **Efficiency Benefit Sharing Scheme**

ElectraNet is concerned that the AER has adjusted historic operating expenditure in relation to employee entitlement provisions for the purposes of Efficiency Benefit Sharing Scheme (EBSS) calculations, but has not adjusted the applicable targets, which were set on a different basis.

This inconsistency not only delivers a distorted outcome by using different methodologies for the setting of targets and measurement of performance, but also undermines the incentive properties of the EBSS mechanism by retrospectively changing the performance measure.

It is recommended that the AER reconsider applying any retrospective changes of this nature to performance incentives in its final decision.

### **Rate of Return**

ElectraNet supports the ENA's view that the AER guideline approach to estimating the return on equity and the return on debt falls short of meeting the requirements of the revised National Electricity Rules. The ENA's separate submission details the key concerns with the AER's preferred methodology.

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<sup>8</sup> AER Consumer Engagement Guideline for Network Service Providers November 2013 p.8

<sup>9</sup> AER Draft Decision TransGrid Transmission Determination 2015-18 November p.7-58

Should you have any queries in relation to this submission please contact Simon Appleby in the first instance on 08 8404 7324.

Yours sincerely



Rainer Korte  
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