

12 October 2012

Our Ref: 12/05586

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Mr Warwick Anderson
General Manager Network Regulation
GPO Box 3131
CANBERRA ACT 2601

Dear Mr Anderson

**ELECTRANET REVENUE RESET 2013 – REPLACEMENT OF SUBSTATIONS
PROVIDING SERVICES TO SA WATER PUMPING STATIONS**

I refer to your letter dated 28 September 2012.

Based on the requests you have made, I consider that SA Water can respond effectively through this letter and the time and expense associated with a proposed meeting involving the Australian Energy Regulator, ElectraNet and SA Water can be avoided.

SA Water owns and operates two key bulk water transfer pipelines that are supplied with energy by ElectraNet – the Mannum Adelaide Pipeline and the Morgan Whyalla Pipeline (actually two pipes in parallel). In both cases, the water pumped is sourced from the River Murray which, together with Adelaide Hills' catchments and the Adelaide Desalination Plant, provides the overwhelming majority of water utilised by SA Water in providing drinking water to about one and a half million people.

SA Water is committed to the ongoing utilisation of all three water sources for the foreseeable future and certainly beyond a fifty year planning period. Water source utilisation is prioritised around production costs. Although there is now a sea water desalination option available, it has the highest production cost and is therefore used as the third priority behind Adelaide Hills catchments and the River Murray. SA Water therefore has ongoing need of the two pipelines in question at the pumping capacity currently installed. There are no plans to change the installed pumping capacity on either pipeline.

Furthermore, SA Water is satisfied with the existing level of service provided by ElectraNet and anticipates the service will continue for the foreseeable future. SA Water has not requested any changes to the existing service levels provided by ElectraNet at the connection points in question. It assumes that ElectraNet will carry out competent asset management planning across the installed assets to ensure that the service is provided reliably over time. Clearly, ElectraNet is carrying out asset management and has proposed major asset renewals. It is for the service provider and pricing regulator to agree on the details. SA Water, as customer, simply requires assurance that service level risks are managed effectively over time at lowest whole of life cost.

In relation to consultation between SA Water and ElectraNet, I am comfortable with the current coverage and frequency. As part of its regulatory business proposal preparation ElectraNet held a stakeholder workshop with SA Water, there has been officer to officer operational and logistical liaison during the development stage of the capital upgrade projects you are assessing, and there is the typical ongoing customer key account relationship.

Your letter also refers to the matter of service connection conditions (negotiated services versus grandfathered prescribed services). As stated above SA Water has not requested any change in service levels in relation to the proposed capital projects, notes you have the same understanding, and assumes that current service conditions will be unaffected.

Yours sincerely



PETER SELTSIKAS

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Rainer Korte

Executive Manager Network Strategy and Regulatory Affairs

ElectraNet

Our Ref: AER12/6781

Contact Officer: Pradeep Fernando
Contact Phone: (02) 6243 1264

28 September 2012

Peter Seltsikas
Acting Head of Infrastructure Management and Delivery
SA Water
Level 7, 250 Victoria Square
Adelaide SA 5000

Dear Mr. Seltsikas,

ElectraNet revenue reset 2013 – replacement of substations providing services to SA Water pumping stations

Thank you for agreeing to meet ElectraNet and the AER on 5 October. As requested by you, this letter sets out the basis for this meeting and the reasons for seeking information from SA Water. I also attach a draft agenda for the meeting.

The AER is seeking your views on ElectraNet's proposed capital expenditure for replacing substations that supply SA Water pumping stations. We also wish to understand the level of engagement between ElectraNet and SA Water prior to the regulatory proposal being lodged by ElectraNet. The meeting is also intended to provide you an opportunity to understand and respond to issues that have been raised by the AER's technical consultant.

ElectraNet's revenue proposal to the AER for the regulatory control period 2013–18 contains \$123.4 million (\$2012–13) of replacement expenditure relating to substations providing services to SA Water.

The AER has engaged the services of Energy Market Consulting Associates (EMCa) and Strata Energy Consulting to review ElectraNet's revenue proposal and provide technical advice. As part of this advice, the AER's consultants raised a number of questions relating to aspects of ElectraNet's proposed replacement of the substations supplying SA Water's pumping stations.

At the forthcoming meeting, the AER's consultants and staff wish to get a better understanding of the replacement decision. Some of the aspects we would like to explore include:

- possible changes to service levels
- asset optimisation including load management
- strategic alignment of electrical supply components and water pumping components
- risks of asset stranding.

One question that arises is the appropriate classification of the new substations. Under chapter 6A of the, National Electricity Rules (NER), assets providing connection services are negotiated services. Such assets are not included in a transmission network service provider's regulated asset base. Negotiated services are priced differently to prescribed services provided by assets forming the regulatory asset base.

However, the NER also contains grandfathering arrangements that deem some connection asset replacements to be prescribed services if the rule requirements are satisfied. If the rule is satisfied, those assets can be included in the regulated asset base. The rule will not be satisfied if the user has requested a change to the service level at the relevant connection point.

ElectraNet's replacement capital expenditure proposal is based on maintaining the same service level as that currently provided to SA Water.

The AER is scheduled to make its draft decision on ElectraNet's revenue proposal by 30 November 2012. ElectraNet must provide its revised revenue proposal to the AER in January. The AER will release its final transmission determination by 30 April 2013. Stakeholders and interested parties will have an opportunity to make submissions on the draft decision and I would encourage you to make a submission to the AER.

Thank you for agreeing to meeting with the AER and our consultants at short notice. Should you have any questions please contact me on (02) 6243 1240 or Pradeep Fernando on (02) 6243 1264.

Yours sincerely

Warwick Anderson
General Manager
Network Regulation

Copy:
Rainer Korte
Executive Manager Network Strategy and Regulatory Affairs
ElectraNet

DRAFT AGENDA for meeting: AER, EMCa (consultants to AER) and ElectraNet, with SA Water.

Friday 5th October, 9:30 – 11am, Adelaide

Meeting objective:

To provide information that will assist with the AER's consideration of the reasonableness of ElectraNet's proposed replacement of electricity assets supplying water pumping stations. Main considerations are the prudence and efficiency of the proposed program, taking into account the longer term service requirements of SA Water and the risk allocation of the proposed investment.

Agenda Topics:

1. Brief overview of the water pumping system including
 - a. Original needs identified for the installation of water pumping stations (e.g. water demand and/or consumption; supply security, water storage);
 - b. Overview of the water pumping station assets
 - i. Location
 - ii. Age and condition
 - iii. Electrical peak capacity requirements (e.g. peak demand over time)
 - iv. Asset management
 - c. Whether the need has changed over time (e.g. changes in demand and/or consumption);
 - d. Expectations of whether the water pumping needs will change over the next 50 years.
2. SA Water's asset management strategy relevant to the water pumping stations
 - a. Expected changes to water pumping demand over the next 50 years
 - b. How SA water is responding to expected changes in demand for water pumping over the next 50 years.
 - c. Key sensitivities to water pumping station electricity service requirements
 - d. How risks associated with future changes to water pumping requirements are assessed and taken into account in asset management planning.
3. Engagement with ElectraNet on the electricity substation refurbishment program
 - a. SA Water's outline of the engagement and consultation undertaken by ElectraNet;
 - b. Information requested by and provided to ElectraNet;
 - c. Any joint papers, reports and/or communications issued jointly between SA Water and ElectraNet regarding the proposed project.