



Munno Para Reinforcement

Contingent Project Application

11 February 2011



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Executive Summary

The Munno Para Reinforcement project is being undertaken to provide an additional point of transmission supply into the Para System on the northern fringe of the Adelaide metropolitan area by 30 November 2014, as requested by ETSA Utilities. The project consists of the establishment of a new 275/66 kV Munno Para substation located in the northern suburbs of Adelaide and connecting to the Para-Brinkworth 275 kV transmission line.

This project was identified as a contingent project in the Australian Energy Regulator's (AER's) revenue determination that applies to ElectraNet in the current regulatory control period from 2008-09 to 2012-13 (the "Munno Para Reinforcement contingent project").

This contingent project application is submitted to the AER to amend the revenue determination that applies to ElectraNet in the current regulatory control period¹ to include incremental revenue for the Munno Para Reinforcement contingent project, in accordance with the provisions of Rule 6A.8.2 of the National Electricity Rules (NER) and approve the total capital expenditure for the project, which will extend into the following regulatory period.

The forecast of total capital expenditure is based on that reasonably required to deliver the contingent project. The incremental revenue forecast for the current regulatory control period is based on capital expenditure that is reasonably required for the contingent project in each year of the current regulatory control period.

ElectraNet commenced briefings with the AER early in November 2010 and provided further detailed information on the contingent project in the period leading up to submitting this application.

¹ As most recently amended by the AER in its decision "Contingent Project Application: ElectraNet: Adelaide Central Reinforcement Project" dated November 2009.

1. Introduction

This contingent project application is submitted to the AER to amend the revenue determination² that applies to ElectraNet in the current regulatory control period from 2008-09 to 2012-13 and approve the total capital expenditure forecast for the Munno Para Reinforcement contingent project in accordance with the provisions of Rule 6A.8.2 of the National Electricity Rules (NER).

Through joint planning ElectraNet and ETSA Utilities identified limitations in the distribution network servicing the Northern Suburbs of Adelaide. In December 2006 ETSA Utilities and ElectraNet published a joint Request for Information (RFI) / Request for Proposals (RFP) describing those limitations and invited proposals from interested parties. No responses were received.

In October 2007 ETSA Utilities published an Evaluation Report setting out the results from the Regulatory Test analysis and recommended the construction of a second 66kV line from ETSA Utilities substations at Parafield Gardens West to Parafield Gardens and the establishment of a new 275 / 66kV connection point at Munno Para. The scope of this contingent project application is the establishment of the 275 / 66kV connection point at Munno Para.

The AER in its revenue determination for the current regulatory control period accepted the Munno Para Reinforcement as a contingent project subject to the successful completion of the Regulatory Test by ETSA Utilities and an application to connect in accordance with Chapter 5 of the NER. As the defined trigger events for the contingent project have now occurred, this application presents the required information for the AER to make a determination to approve the total capital expenditure for the project and amend ElectraNet's revenue determination under Rule 6A.8.2 of the NER.³

The remainder of this application is structured as follows:

- Chapter 2 describes the proposed contingent project. It also provides a summary of the Regulatory Test that ETSA Utilities has completed in respect of the project;
- Chapter 3 sets out the regulatory requirements for the application;
- Chapter 4 sets out the forecast capital expenditure requirements;
- Chapter 5 sets out the forecast incremental operating expenditure to the end of the regulatory control period; and
- Chapter 6 sets out the incremental revenue required to the end of the regulatory control period as a result of the contingent project.

² As most recently amended by the AER in its decision "Contingent Project Application: ElectraNet: Adelaide Central Reinforcement Project" dated November 2009.

³ Rule 6A.8.2(b)(3) sets out the information requirements for a contingent project application.

2. Project Summary

2.1 Project Scope

The scope of the Munno Para Reinforcement contingent project involves the establishment of a new 275/66 kV connection point at Munno Para. The substation will comprise a single 275/66 kV transformer, switchgear, secondary systems and communications.

The South Australian Electricity Transmission Code (ETC) groups the existing Para and Parafield Gardens West connection points and classifies these as Category 4. The new Munno Para substation will form part of this electrical system, and together these substations are required to provide continuous N-1 transmission line and transformer reliability to the 'Para System'.



The preferred site (not part of this contingent project application⁴) is located in the northern suburb of Adelaide known as Munno Para. The site is adjacent to ElectraNet's Para-Brinkworth 275 kV transmission line and ETSA Utilities' 66 kV sub-transmission line that runs along Coventry Road. The purchase of this land is currently being negotiated.

2.2 Regulatory Test

The Evaluation Report published pursuant to section 4 of ESCOSA Guideline 12⁵ contains a complete discussion on the analysis of options for the reinforcement of the Munno Para area and the recommended option in accordance with the Regulatory Test. A brief summary of the test is set out below.

2.2.1 Limitations

The Regulatory Test, undertaken by ETSA Utilities, described multiple network limitations that were forecast to occur in the Northern Metropolitan region of Adelaide. Those limitations related to the overloading of the ETSA Utilities' 66 kV sub-transmission network at peak load, following a single contingency and the inadequacy of the transmission connection point capacity supplying the 'Para System'.

The limitations in the distribution network were described as an overload of the Parafield Gardens West to Parafield Gardens 66 kV line will there is an outage of the Parafield Gardens West to Paralowie 66 kV line during peak summer load times. That overload has been managed by contingency switching. However, projected load levels have risen to the point that any further line loading relief provided by the contingency plans has now been exhausted.

The limitations on the transmission connection point capacity were described as an inadequacy to meet the transmission line and transformer N-1 requirement set out in the ETC for Category 4 loads from 2014. Specifically, an outage of one transformer at Para 275/66 kV transmission connection point which would lead to an overload of one of the remaining units at that substation.

2.2.2 Options considered

ETSA Utilities examined the possibility of using embedded generation to address the network limitations above. It was concluded that embedded generation would unlikely to be economic and or practicable.

ETSA Utilities identified and examined three feasible network options under the Regulatory Test:

⁴ The required land parcel has been separately funded as a strategic land acquisition project, which forms part of the approved capital expenditure forecast for the current regulatory control period.

⁵ "Electricity Supply to the Northern Suburbs 66kV Network", Evaluation Report RFP-ER 008/06, October 2007 available at:
<http://www.etsa.com.au/public/download.jsp?id=3051&str=munno+para>

1. Construct a second 66kV line from Parafield Gardens West to Parafield Gardens, upgrade Para 275/66kV Connection Point capability and construct a new 66kV line from Para to Penfield;
2. Construct a second 66kV line from Parafield Gardens West to Parafield Gardens, rebuild the 66kV line between Elizabeth South and Penfield and establish a new 275/66kV Connection Point in the Munno Para area; and
3. Construct a new 66kV line from Parafield Gardens West to Salisbury, rebuild the 66kV line between Elizabeth South and Penfield and establish a new 275/66kV Connection Point in the Munno Para area.

2.2.3 Summary of results

In applying the Regulatory Test, ETSA Utilities demonstrated that in all cases Option 2 above, was ranked as the least cost solution and therefore satisfied the requirements of the Regulatory Test.

In addition, ETSA Utilities assessed the market benefits of all options and found that Option 2 provided a net benefit to customers in ten of the eleven scenario cases analysed.

2.2.4 Recommendation from the Regulatory Test

ElectraNet and ETSA Utilities are now proceeding to deliver the Munno Para Reinforcement project in accordance with this option, with a view to completion by Summer 2014 as required in order to meet the identified network need.

3. Regulatory Requirements

The regulatory requirements for contingent projects are contained in Rule 6A.8.2 of the NER and in the AER's "Process Guideline for Contingent Project Applications under the National Electricity Rules", September 2007.

The key requirements for this application are as follows.

3.1 Amendment of Revenue Determination for Contingent Project

Rule 6A.8.2 of the National Electricity Rules sets out the requirements for making an application to amend a revenue determination to include a contingent project.

Clause 6A.8.2(b)(3) sets out the information that the application must provide, specifically:

- an explanation that substantiates the occurrence of the trigger event;
- a forecast of the total capital expenditure for the contingent project;
- a forecast of the capital and incremental operating expenditure, for each remaining regulatory year which the Transmission Network Service Provider considers is reasonably required for the purpose of undertaking the contingent project;
- how the forecast of the total capital expenditure for the contingent project meets the Rule threshold;
- the intended date for commencing the contingent project (which must be during the regulatory control period);
- the anticipated date for completing the contingent project (which may be after the end of the regulatory control period); and
- an estimate of the incremental revenue which the Transmission Network Service Provider considers is likely to be required to be earned in each remaining regulatory year of the regulatory control period as a result of the contingent project being undertaken.

Clause 6A.8.2(f) includes a requirement that the AER must accept the relevant amounts in the application if it is satisfied that the amounts of forecast capital expenditure and incremental operating expenditure reasonably reflect the capital expenditure criteria and operating expenditure criteria, taking into account the capital expenditure factors and operating expenditure factors, in the context of the contingent project.

Chapters 4 and 5 of this application set out the capital and incremental operating expenditure requirements for this contingent project respectively, together with the assumptions and methodology used to arrive at these forecasts. The incremental revenue required for this project is set out in Chapter 6. The remaining regulatory requirements are addressed in the remainder of this section.

For convenience, Appendix A includes a checklist of the above regulatory requirements with references to the relevant sections of this application that address these requirements.

3.2 Trigger Events

The AER determined the following trigger events for this project:

- successful completion of the Regulatory Test by ETSA Utilities; and
- DNSP application to connect in accordance with Chapter 5 of the Rules.

A contingent project application must be lodged as soon as practicable after the occurrence of the applicable trigger event(s).

Clause 6A.8.2(b)(3)(i) requires ElectraNet to substantiate the occurrence of these trigger events.

Regulatory Test

The first trigger event, the successful completion of the Regulatory Test, has occurred, with the Evaluation Report issued in October 2007. A copy is available on the ETSA Utilities website at: <http://www.etsa.com.au/public/download.jsp?id=3051>.

Connection Application

The second trigger event, the lodgement of a connection application by ETSA Utilities in accordance with Chapter 5 of the Rules, was satisfied with the lodgement of an application on 29 February 2008. A copy is in Appendix B.

3.3 Project Timing

The Connection Application lodged by ETSA Utilities on 29 February 2008 requests supply to the ETSA Utilities network in the Munno Para region by no later than 30 November 2014. In order to meet this requirement, in August 2010, ElectraNet commenced the detailed processes to design and construct the substation⁶.

For the purposes of this application, the applicable dates of contingent project commencement and completion are as follows:

- Date for commencing contingent project – 1 August 2010
- Anticipated date for completion of contingent project – 30 November 2014

This project therefore commences in the current regulatory control period of 2008-09 to 2012-13, and extends into the following regulatory control period. As such, the project will be bound by the provisions of NER 6A.6.7 for projects spanning regulatory control periods.

⁶ Given the lead times involved, the processes to acquire the relevant land parcel commenced prior to this as a separately funded project.

3.4 Pre-lodgement Consultation

The AER's "Process Guideline for Contingent Project Applications under the National Electricity Rules" encourages transmission companies to engage with the AER prior to lodgement of a contingent project application to assist both the AER and TNSP to satisfy the NER requirements.

ElectraNet commenced the pre-lodgement process early in November 2010 with briefings to assist the AER with the overall assessment process and to assist ElectraNet in satisfying the regulatory requirements.

4. Forecast Capital Expenditure

This chapter presents the forecast capital expenditure for the Munno Para Reinforcement contingent project in accordance with clauses 6A.8.2(b)(3)(ii), (iii) and (iv) of the NER.

In accordance with the relevant NER provisions, the forecast capital expenditure detailed in this chapter is considered by ElectraNet to be reasonably required to undertake this project, taking into consideration the capital expenditure criteria and capital expenditure factors set out in the NER.

4.1 Basis for estimates

The capital expenditure forecasts have been estimated by ElectraNet based on current costs and benchmarks. This information is drawn from a range of sources, including recently completed projects, purchased equipment and current labour rates.

Table 4-1 which follows provides a summary breakdown of the capital cost components and the basis of the forecast costs. Due to the stage of development of the project, estimates based on current costs have been used to determine forecast capital requirements.

Table 4-1: Breakdown of forecast capital expenditure and basis of estimation

Capex Item	Basis for Forecast Expenditure
Substation	Estimate based on current costs and benchmarks
Transmission Line	Estimate based on current costs and benchmarks
Telecommunications	Estimate based on current costs and benchmarks
Project risk	Detailed probabilistic risk assessment
Project delivery costs	Estimate based on current costs and benchmarks
Equity raising costs	Benchmark costs calculated using the PTRM

4.2 Capex Forecast by Year

The capital expenditure forecast for the contingent project is as follows:

Table 4-2: Capital expenditure forecast (\$m 2007/08)

	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Total Capex	1.0	1.5	5.8	24.2	6.8	39.3

4.3 Capital Expenditure Threshold

To qualify as a contingent project, the proposed capital expenditure must exceed either \$10m or 5% of the maximum allowed revenue for the first year of the regulatory control period, whichever is the greater.

For ElectraNet, the AER determined maximum allowed revenue for the first year of the current regulatory control period of \$229.99m⁷. Therefore, the relevant threshold for a contingent project is \$11.5m. As the total estimated cost of the Munno Para Reinforcement contingent project clearly exceeds this figure, the threshold requirements of clause 6A.8.2(b)(3)(iv) of the NER are satisfied.

4.4 Conclusion

The total forecast capital expenditure for the Munno Para Reinforcement contingent project is \$39.3m (\$2007/08).

The total forecast capital expenditure for the contingent project in the remaining years of the current regulatory control period is \$8.3m (\$2007/08).

ElectraNet is confident that this forecast is both efficient and prudent (in accordance with the capital expenditure criteria) and that it meets the required capital expenditure objectives set out in the NER.

5. Forecast Incremental Operating Expenditure

ElectraNet is not seeking any incremental operating expenditure for the Munno Para contingent project for the remainder of the current regulatory period. For this project, operating expenditure will be incurred from the commissioning date in the next regulatory period.

⁷ AER statement on updates for ElectraNet transmission determination 2008-09 to 2012-13, dated February 2009.

6. Incremental Revenue Requirements

Clause 6A.8.2(b)(3)(vii) of the NER requires ElectraNet to provide an estimate of the incremental revenue likely to be required for each remaining regulatory year of the regulatory control period as a result of the Munno Para Reinforcement contingent project being undertaken.

The incremental revenue sought by ElectraNet is consistent with the actual capital expenditure incurred in 2010/11 to date and the forecast capital and incremental operating expenditure for the remaining regulatory years as described in chapters four and five above.

ElectraNet has modelled the required incremental revenue on a nominal basis using the AER's PTRM as used for the revenue determination for the current period and based on the annual capital expenditure forecasts presented in this application.

In accordance with clause 6A.8.2(b)(3)(v) of the NER, the capital expenditure forecast has been classified in a manner consistent with the AER's roll forward model to allow for the calculation of the Regulated Asset Base at the close of the current regulatory control period.

6.1 WACC

Clause 6A.8.2(b)(4)(ii) of the NER requires ElectraNet to model its incremental revenue requirements on the basis of the rate of return determined by the AER for the current regulatory control period. The WACC used by ElectraNet for this contingent project application satisfies this NER requirement, and is provided in the table below.

Table 6-1: AER WACC Parameters.

Parameter	AER Final Decision
Risk-free rate (nominal)	6.20 %
Risk-free rate (real)	3.48 %
Expected inflation rate	2.63 %
Debt risk premium	3.42 %
Market risk premium	6.00 %
Gearing	60 %
Equity beta	1.00
Nominal pre-tax return on debt	9.61 %
Nominal post-tax return on equity	12.20 %
Nominal vanilla WACC	10.65 %

6.2 Depreciation

Clause 6A.8.2(b)(4)(iii) of the NER requires that the calculation of the estimated incremental revenue be consistent with the manner in which depreciation is calculated under clause 6A.6.3.

The incremental annual regulatory depreciation figures shown in Table 6-2 below have been calculated using the PTRM as applied by the AER in its revenue determination for ElectraNet applicable to the current regulatory control period.

Table 6-2: Incremental Regulatory Depreciation (\$m nominal).

Year	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Regulatory depreciation	-	-	-	-0.04	-0.11	-0.15

6.3 Tax allowance

The incremental annual net tax allowance figures shown in Table 6-3 below have been calculated using the PTRM as applied by the AER in its revenue determination for ElectraNet applicable to the current regulatory control period.

Table 6-3: Incremental Net Tax Allowance (\$m nominal).

Year	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Net tax allowance	-	-	-	0.01	0.02	0.02

6.4 Incremental revenue requirements for each year to end of period

Based on the estimates provided above and using the PTRM, ElectraNet has estimated incremental annual building block revenue requirements for the contingent project as shown in Table 6-4.

Table 6-4: Incremental annual building block revenue requirement (\$m nominal).

Year	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Return on capital	-	-	-	0.18	0.44	0.62
Regulatory depreciation	-	-	-	-0.04	-0.11	-0.15
Opex Allowance	-	-	-	0	0	0
Net tax allowance	-	-	-	0.01	0.02	0.02
Annual revenue requirement (unsmoothed)	-	-	-	0.14	0.35	0.49

6.5 Amended maximum allowed revenue

The AER's final decision on the annual building block revenue requirement for the current regulatory control period⁸ is set out in Table 6-5 together with the calculation of the amended maximum allowed revenue required for the contingent project.

Table 6-5: Amended annual building block revenue requirement (\$m nominal).

Year	2008-09	2009-10	2010-11	2011-12	2012-13	Total
AER annual building block revenue requirement	229.99	245.26	269.29	288.59	306.43	1339.57
ACR line component contingent project	-	0.44	1.87	11.08	18.02	31.41
Munno Para Reinforcement Project Incremental revenue requirement	-	-	-	0.14	0.35	0.49
Amended annual revenue requirement (unsmoothed)	229.99	245.70	271.16	299.39	324.09	1370.17

Table 6-6 sets out the updated maximum allowed revenue and X factors for the regulatory control period.

Table 6-6: Amended maximum allowed revenue (\$m nominal).

Year	2008-09	2009-10	2010-11	2011-12	2012-13	Total
MAR (smoothed)	229.99	250.01	271.85	295.59	321.41	1368.86
X factor	-	-	-5.95%	-5.95%	-5.95%	

In accordance with ElectraNet's approved Transmission Pricing Methodology, recovery of the incremental revenue approved by the AER will commence in the 2011-12 financial year. The incremental revenue requirement for 2010-11 will contribute to a revenue under-recovery in the current financial year, which will be carried forward for recovery in 2011-12.

⁸ As amended by the AER in accordance with orders of the Australian Competition Tribunal made on 28 January 2009.

7. Conclusion

This contingent project application for the Munno Para Reinforcement project has been prepared in accordance with Rule 6A8.2 of the NER. It requests the AER to amend the revenue determination that applies to ElectraNet in the current regulatory control period from 2008-09 to 2012-13 and include incremental revenue for the contingent project and approve the total capital expenditure forecast for the project.

The incremental revenue set out in this application is based on capital expenditure which is reasonably required for the contingent project in each year of the current regulatory control period.

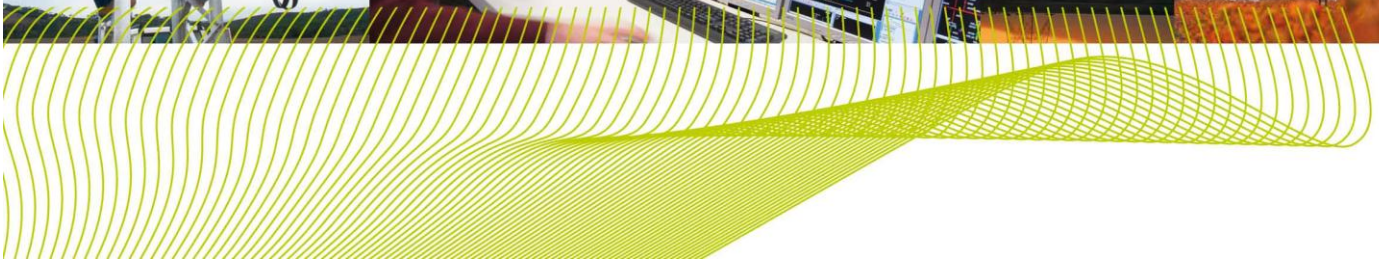
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Munno Para Reinforcement

Appendices

11 February 2011



Appendix A Requirements Checklist

The purpose of this table is to demonstrate compliance with the contingent project application information content requirements specified in clause 6A.8.2(b)(3) of the NER.

Rule 6A.8.2(b)(3) requirements	Reference in Application
(i) an explanation that substantiates the occurrence of the <i>trigger event</i> ;	Section 3.2 and Appendix B
(ii) a forecast of the total capital expenditure for the <i>contingent project</i> ;	Section 4.2
(iii) a forecast of the capital and incremental operating expenditure, for each remaining <i>regulatory year</i> which the <i>Transmission Network Service Provider</i> considers is reasonably required for the purpose of undertaking the <i>contingent project</i> ;	Sections 4.2 and 5
(iv) how the forecast of the total capital expenditure for the <i>contingent project</i> meets the threshold as referred to in clause 6A.8.1(b)(2)(iii);	Section 4.3
(v) the intended date for commencing the <i>contingent project</i> (which must be during the <i>regulatory control period</i>);	Section 3.3
(vi) the anticipated date for completing the <i>contingent project</i> (which may be after the end of the <i>regulatory control period</i>); and	Section 3.3
(vii) an estimate of the incremental revenue which the <i>Transmission Network Service Provider</i> considers is likely to be required to be earned in each remaining <i>regulatory year</i> of the <i>regulatory control period</i> as a result of the <i>contingent project</i> being undertaken as described in clause 6A.8.2(b)(3)(iii); and	Section 6.4

Appendix B ETSA Utilities Connection Application

ETSA Utilities

Delivering energy to South Australians

29 February 2008

Mr Chris Rae
ElectraNet
PO Box 7096
Hutt Street Post Office
ADELAIDE SA 5001

Dear Chris

**NEW CONNECTION POINT REQUEST
for the MUNNO PARA REGION**

Please proceed with a new 275/66kV Connection Point in the Munno Para region with supply available to ETSA Utilities no later than 30 November 2014.

ETSA Utilities and ElectraNet have jointly issued a Request for Information/Request for Proposals (RFI/RFP) in accordance with the National Electricity Rules (Rules) and Electricity Industry Guideline No. 12 on 19 December 2006 titled *Projected Distribution Network Constraint: Electricity Supply to the Northern Suburbs 66kV Network*. The closing date for submissions was 12 June 2007.

No submissions were received for demand side load reduction in response to our RFI/RFP. Various options were subjected to the Regulatory Test promulgated by the AER as required under the Rules and Guideline 12. Our analysis has shown that the construction of the Parafield Gardens West to Parafield Gardens second 66kV line followed by the establishment of a 275/66 kV Connection Point in the Munno Para area in 2014 is the most viable solution. Evaluation of options indicated that a comparable distribution solution or alternative transmission solution would be more expensive. These findings were published on 16 November 2007 in our combined Evaluation Report RFP-ER 008/06 on reinforcement options to address projected network constraints described in RFI/RFP 008/06 - Electricity Supply to the Northern Suburbs 66kV Network, Issue 1.0 October 2007.

Based on the above the optimal solution is the construction of the Parafield Gardens West to Parafield Gardens second 66kV line followed by the establishment of a 275/66 kV Connection Point in the Munno Para area in 2014.

Assets will be split in accordance with the new ElectraNet/ETSA Utilities Connection Point Development Principles, refer to Michael Dobbin.

Please proceed with a new 275/66kV Connection Point in the Munno Para region with supply available to ETSA Utilities no later than 30 November 2014.

ETSA Utilities will shortly initiate the process of identification and purchase of suitable land. Please indicate size of land ElectraNet would require for the proposed Connection Point so that this can be incorporated in the land search exercise.

Please nominate your contact person or project manager for this project.

We request that you acknowledge receipt of this letter and confirm that the delivery date can be met.

For further information please contact David Pritchard on 8404 5713.

Yours sincerely



David Pritchard
MANAGER NETWORK PLANNING