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Dear Mr Leuner

Draft regulatory investment test for transmission and regulatory investment for transmission application guidelines

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity provided by the Australian Energy Regulator (AER) to comment on its draft regulatory investment test for transmission (RIT-T) and RIT-T application guidelines, and the associated explanatory statement. This submission is provided by Ergon Energy in its capacity as a distribution network service provider in Queensland and is available for publication.

Ergon Energy supports light-handed, meaningful regulation by the AER in appropriate circumstances in accordance with clause 5.6.5B(c)(2) of the National Electricity Rules (Rules) which states that:

The regulatory investment test for transmission must not require a level of analysis that is disproportionate to the scale and likely impact of each of the credible options being considered;

In this regard, Ergon Energy provides the following comments for the AER's consideration:

- Clause 5.6.5B(c)(11) of the Rules provides that the RIT-T must incorporate sensitivity analysis of any modelling relating to costs benefit analysis. However, Ergon Energy queries the efficiencies and benefits envisaged by requiring TNSPs to incorporate sensitivity analysis at the reasonable scenario level.

Reasonable scenarios would be based on TNSPs' best projections of inputs, assumptions and forecasts at a point in time. Undertaking sensitivity analysis - which would need to be undertaken for all reasonable scenarios for each credible option - would only change the range of costs and benefits of each of the credible options but not their relative ranking.

For example, a sensitivity of applying a high capital cost would need to be applied to all reasonable scenarios under each credible option, rather than just to the scenarios under a single credible option, otherwise this would introduce a significant level of subjectiveness into the analysis.

The RIT-T is concerned with identifying the preferred option (which maximises the net economic benefit) from a range of credible options and not the magnitude of the net economic benefit from that preferred option over other options.

- The draft RIT-T proposes that: “the market benefit of a credible option is the probability-weighted sum of the market benefits of that option arising across all reasonable scenarios”¹. Ergon Energy questions the benefit in applying probability weightings to reasonable scenarios. Similar to above, the application of probability weightings is counter-productive and unnecessary because:
 - the “Base case”/ “Medium” classified reasonable scenario is based on inputs and assumptions which the TNSP believes is the most accurate and therefore this scenario has the “highest probability”; and
 - the assignment of probabilities to each reasonable scenario introduces a level of subjectiveness into the RIT-T.
- Clause 5.6.5B(c)(1) of the Rules provides that the RIT-T must:

be based on a cost-benefit analysis that is to include an assessment of reasonable scenarios of future supply and demand if each credible option were implemented compared to the situation where no option is implemented.

Given that the draft RIT-T and Rules provide that a preferred option may have a negative net economic benefit where the need is for reliability driven investments², Ergon Energy sees little value in requiring TNSPs to conduct base case analysis for reliability driven projects.

It is arguable that most “reliability driven investments” do not require a base case analysis, so comparing the system where no option is implemented (as per the Rules) seems irrelevant.

If you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact me on (07) 4121 9545.

Yours sincerely



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¹ Section 3.6 of the Regulatory investment test for transmission application guidelines.

² Refer to clause 5.6.5B(b) of the Rules and paragraph (1) of the draft RIT-T