

The Hon Patrick Conlon MP
Member for Elder



**Government
of South Australia**

2007/12051/T01

Mr Mike Buckley
General Manager—Network Regulation North
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Minister for Transport
Minister for Energy
Minister for Infrastructure
12th Floor, Roma Mitchell Hc
136 North Terrace
Adelaide SA 5000
GPO Box 2969
Adelaide SA 5001
DX 154
Tel 08 8226 1210
Fax 08 8226 0844

Dear Mr Buckley

I write in relation to ElectraNet's revenue proposal for the 1 July 2008 to 30 June 2013 regulatory period.

The Government expects that in undertaking its review of ElectraNet's revenue proposal, the Australian Energy Regulator (AER) will have regard to the National Electricity Market objective, which is to promote efficient investment in, and efficient use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.

On the matter of easements, the Government does not consider that the AER should include any allowance for transaction costs as it was likely that these costs would have either been expensed at the time or capitalised along with the total cost of building the asset at the time of the establishment of the easement and the construction of the asset.

While the Government is mindful that ElectraNet must be allowed adequate expenditure to ensure that the transmission network is able to meet expected demand, ElectraNet's proposed increases in capital and operating expenditure over the upcoming regulatory period are substantial. To this end, in making its assessment, the AER must ensure all expenditure is fully justified while being mindful of the financial impact its decision will have on South Australian consumers.

The Government also considers that the must AER ensure there are benefits for consumers from including contingent projects in ElectraNet's regulated asset base that outweigh the costs on consumers more generally. In particular, costs that can be attributed to specific projects should be funded by the proponent of the project rather than be smeared across all customers.

ElectraNet has proposed changes to its Service Target Performance Incentive Scheme. While recognising that ElectraNet has performed well against its set standards historically and that further improvements may be difficult to achieve, in determining the service levels to apply to ElectraNet over the upcoming regulatory

period, the AER must be cognisant of the need to maintain strong penalties should ElectraNet not meet its mandated standards.

Should you wish to discuss any of the above matters, please contact Jeremy Tustin, Acting Director, Markets and Sustainability, Energy Division, the Department for Transport, Energy and Infrastructure on 08 8226 5928.

Yours sincerely


HON PATRICK CONLON MP
MINISTER FOR ENERGY

24 August 2007