

Minutes

The AER’s predetermination conference on its draft decision for Transend’s transmission determination

**Hotel Grand Chancellor, Davey St, Hobart
Wednesday 10 December 2008**

The conference commenced at 10.35am with 33 registered attendees and 5 AER staff.

Organisation	Attendees
Areva	Gustavo Bodini
Aurora Energy	Giles Whitehouse, Paul Grzinc, Robert Bilyk
Australian Paper	Gary Stevenson
Carbon Market Economics	Bruce Mountain
Copper Mines of Tasmania	Suhail Sheikh, Ajay Jajoo
DA Electricity	David Asten
Department of Infrastructure, Energy and Resources	Tim Astley
Energy Users Association of Australia	Roman Domanski
Goanna Energy Consulting	Marc White
Hydro Tasmania	James Pirie, David Bowker
Major Employers Group	Terry Long
McLennan Magasanik Associates	Nicola Falcon
Norske Skog	John Laughher
Nyrstar	David Gaskell
Office of the Tasmanian Economic Regulator	Glenn Appleyard, Heather Cerutti
PB Australia	John Thompson
Powerco Tasmania	Fraser Kirkpatrick
Rio Tinto Alcan	Jennifer Jarvis
Transend	Richard Bevan, Mike Hunnibell, Bess Clark, Stephen Clark, Iain Meaney, Leigh Burrill, Pamela Watts, Mike Sward, Kirstan Hoppitt, Amy Lloyd-Bostock
AER	Andrew Reeves, Chris Pattas, Paul Dunn, Vani Rao, Vu Lam

1. The predetermination conference began with a presentation from Andrew Reeves, a Commissioner of the AER, on the AER’s draft decision for Transend’s transmission determination. The presentation is available on the AER’s website www.aer.gov.au. Mr Reeves then invited submissions and questions from other parties.

2. Gary Stevenson (Australian Paper) noted that most of the data provided by Transend was based on a period of time, however, there have been a number of major (economic) changes which have since occurred and these items are not regular items which occur. Mr Stevenson noted that materials have been examined closely and he asked if the AER would also be reviewing Transend's demand forecasts.
3. Mr Reeves responded that most of the anticipated load growth related to general loads at Aurora Energy connection points rather than major industrial loads. He noted that the AER works within the regulatory framework to assess the reasonableness of proposals put forward by transmission network service providers (TNSPs). Mr Reeves also noted that more recent information will be used to update AER views on input costs prior to the final decision.
4. Bruce Mountain (Carbon Market Economics) commented that benchmarking is a critical tool to measure costs and he considered that the AER had not undertaken benchmarking of any meaningful measure. He asked if the AER had tried to benchmark and sought AER comment on the usefulness of benchmarks.
5. Mr Reeves responded that benchmarking can provide information to form views and indicate what to look at. However, the AER has not put weight on benchmarks for this decision but had relied on its detailed investigation of the Transend submission.
6. David Asten (DA Electricity) expressed concern that there was no specific reference to the distribution assets owned, operated and maintained by Transend. He stated that the distribution assets are relevant to Aurora Energy in relation to feeder reliability. Mr Asten stated it may be appropriate for Transend to transfer the distribution assets to Aurora Energy.
7. Mr Reeves responded that it is not within the AER's brief to consider the optimal ownership between transmission and distribution companies. Although there may be efficiencies to be gained by optimising ownership of assets, the total of transmission and distribution charges would not be affected. He noted further that one of the reasons for Transend's relatively high \$/MWh charge was because of the inclusion of distribution assets in its asset base, although stressing this was a personal observation.
8. Roman Domanski (EUAA) expressed concern that no benchmarking was available to provide points of comparison as to whether Transend's costs were efficient. He also noted the very significant difference in the quantum of the adjustments to Transend's capex program proposed by WorleyParsons and Nuttall Consulting and sought comment on the disparity between the two consultants.
9. Mr Reeves responded that Nuttall Consulting's review was in the context of the ACCC's 2003 decision for Transend. He noted that, in Nuttall Consulting's view, there was insufficient supporting economic analysis for the replacement capex program. He invited Mr Pattas of the AER to respond on benchmarking more generally.

10. Chris Pattas (AER) noted that the AER had commenced building up a database to support benchmarking. Also, that the AEMC is about to commence a review on the application of Total Factor Productivity which would facilitate greater use of benchmarking in regulatory decisions. He stated that benchmarking was considered a valuable tool for illustrative purposes and provided context for reviews and that the need for expenditure could be informed by benchmarking comparisons when they are available.
11. Gustavo Bodini (Areva) asked how much consideration the AER had given to serviceability and maintainability by manufacturers in relation to the renewal capex projects relating to Reyrolle circuit breakers.
12. Paul Dunn (AER) responded that there is no doubt that the Reyrolle circuit breakers should be replaced, however, there is an issue as to the timing and priority of the replacements. The AER noted in its decision that the Sprecher and Schuh breakers were in worse condition and had accepted their replacement but Transend had not satisfied the AER that the Reyrolle breakers should receive the same priority.
13. Jennifer Jarvis (Rio Tinto Alcan (RTA)) asked what steps the AER will be taking between the draft and final decisions to satisfy itself that the forecast capex has been properly allocated to prescribed services. She sought confirmation that the AER was not simply relying on Transend's assurances that the capex had been properly allocated.
14. Paul Dunn responded that it was not a case of analysing 100 per cent of the projects proposed by Transend, however, for the specific projects reviewed, there has been an assessment as to whether assets should be included in the prescribed services category. He noted that there are currently some substation re-development projects which include some assets that may be considered to be negotiated services under the current NER. He stated the AEMC is currently reviewing the relevant rule and, pending the outcome of the AEMC review, adjustments would be made where appropriate at the time of the final decision.
15. David Asten (DA Electricity) stated that the status and condition of one distribution circuitbreaker at Transend's substation was a low priority to a transmission NSP but critical to the distribution NSP. Control and management of distribution assets appear to be a costly distraction to Transend. He asked if Aurora had had a penalty imposed by the Tasmanian Regulator last year for poor levels of network performance and if part of that penalty was due to data and control of distribution assets being owned by Transend instead of by Aurora, as would be the case in any other jurisdiction. He stated that distribution assets owned by Transend should be re-allocated to a distributor and that the AER should facilitate this process.
16. Mr Reeves re-iterated that it is beyond the AER's powers to facilitate such a request as this is a business decision for the owners of the business.

17. Terry Long (Major Employers Group of Tasmania (MEG)) made a presentation (available on the AER's website) which raised the following issues:
- The MEG stated that the AER needs to review:
 1. Demand forecasting
 2. Opex savings associated with renewal/replacement of assets
 3. Application of straight-line depreciation of assets in the Regulated Asset Base (RAB) given the level of asset renewal
 4. Allocation of costs to prescribed services
 5. Impact of financial events
 - The MEG stated that Transend should be required to release the full methodology and assumptions associated with its demand forecast. The MEG believed that the NIEIR and PB reports should be provided otherwise they were concerned there was a lack of transparency. MEG noted that the demand forecasting methodology is an important input to the network augmentation program.
 - The MEG stated that the AER should review the opex increase in light of the asset renewal and replacement program and that a workforce analysis should be undertaken to assess Transend's staffing levels if it had not already been undertaken.
 - The MEG noted that it had earlier submitted that Transend should remove replaced assets from the RAB and apply straight-line depreciation to the remaining assets but were unsure of the outcome of the AER's investigation of this point.
 - The MEG stated that augmentation projects supporting energy export via Basslink should not be included in the prescribed service category.
 - The MEG stated that the AER should review its decision in light of recent events in financial markets.
 - The MEG stated that commodity producers in Tasmania were undertaking serious work to review and defer their own capex projects and to review opex in light of changed economic circumstances.
18. Jennifer Jarvis asked if it was possible to request a a review of the revenue cap post the final determination. The question was raised in the context of the economic downturn, and in circumstances where not just the load forecast but also current demand reduced. She stressed that her question should not be interpreted in any way as an indication of change at Rio Tinto Alcan's operations, but noted that if one of the major industrial customers were to cut back (consumption), it would have a significant impact on the Tasmanian electricity demand
19. Andrew Reeves responded there were a number of reasons for the increase in prices in the first year including growth in the asset base in the current period and

the change in accounting (from “as-commissioned” to “hybrid as-incurred”). He acknowledged that if there is a reduction in the major industrial load then Transend is entitled to make up the shortfall from other customers.

20. Chris Pattas commented there is a re-opener clause in the NER relating to a material error of facts.
21. Andrew Reeves commented that Transend’s capex and opex was not all that sensitive to the demand forecast.
22. Bruce Mountain expressed concern there was an asymmetry on pass-throughs. That is, if costs rose, the TNSP could come back and ask for more. He considered it may be appropriate to re-classify projects as, for example, contingent projects.
23. Chris Pattas noted that contingent projects require specific triggers. Furthermore, a pass through works both ways although there may not be the same incentive for a TNSP to seek to pass through because of a reduction in its costs.
24. Bruce Mountain commented there is a big effect in Tasmania if a number of MWs is lost on a small customer base.
25. Jennifer Jarvis stated it was important to consider effects across all customer loads because any downturn in larger consumers could well affect load growth in the general sector. She also questioned the load forecast for domestic customers noting that the economic downturn was impacting all sectors and the Federal Government’s CPRS was also about reducing electricity demand. .
26. Gary Stevenson stated that a forecast 2.5 per cent annual growth in energy consumption was not consistent with the introduction of an emission trading scheme designed to cut back energy consumption. He asked if there was any ability to set the determination for a shorter period. He stated that if (Transend) continue with price increases, it may impact the viability of industry in the Tasmanian market because if one major industrial leaves, the rest will have to pay and this will affect the remaining businesses.
27. Andrew Reeves commented that Richard Bevan (Transend) would be given the opportunity to respond to comments later in the forum.
28. Roman Domanski expressed concern that customers were facing real price increases on multiple fronts including electricity contract prices, gas costs, introduction of an emission trading scheme and expansion of the Renewable Energy Target scheme under the current adverse economic condition. He stated he would be looking for acknowledgement in the AER’s final determination of its consideration of the price pressures facing customers (particularly end users who are facing economic hardship). Mr Domanski expressed concern that the proposed price increases were very (amounting to an 83% on average increase in transmission charges over 5 years with a 22% increase on 1 July next) significant and coming at an unwelcome time.

29. Mr Domanski commented that the EUAA welcomed the cuts proposed by Nuttall Consulting to Transend's proposed capex program, however, the EUAA was concerned that the cuts proposed by WorleyParsons were not sufficient and questioned how robust they were. Mr Domanski requested the AER engage Nuttall Consulting to review WorleyParsons' work and provide a second opinion on the magnitude of the proposed cuts. Mr Domanski requested early feedback from the AER as to whether it proposed to follow this course of action. He stated that, if the AER was unwilling to do so, the EUAA would consider whether it was in the interest of its members to separately engage a consultant to review the forecast capex program and, in doing so, the EUAA would seek Transend's cooperation in providing information to the EUAA's consultant.
30. Mr Domanski also expressed concern that the AER had not made sufficient efficiency-based or productivity-based reductions to Transend's opex.
31. Mr Domanski stated that the EUAA will put a submission to the AER (in response to the draft decision).
32. Mr Domanski stated that the NEL does provide a merits review appeal mechanism and that it is open to users to use the review mechanism if they feel (that the final decision) doesn't reflect the parts of the NEL.
33. Andrew Reeves responded that the diligence of the AER in undertaking revenue determinations would be the same under any regime. Mr Reeves commented that the forum would allow the AER to anticipate material that will come forward in response to the draft decision. Mr Reeves invited Richard Bevan to address the forum and respond to issues raised.
34. Richard Bevan (Transend Networks) stated that the issues raised at the forum were not news to Transend and that Transend did not like putting prices up. He acknowledged that in the last 6 months, (economic) circumstances have changed, however, he cautioned against a knee jerk reaction towards another alternative.
35. Mr Bevan stated Transend would support benchmarking using an 'end-to-end' wires business to facilitate comparison with mainland NSPs. He noted that, in relation to demand forecasts, there is a disjoint between the likely impacts of the CPRS, RET and demand management initiatives and community understanding/expectations associated with energy consumption.
36. Mr Bevan confirmed that Transend will be lodging a revised submission with the AER by the due date.
37. Andrew Reeves stated that AER will complete its review within the bounds of process, timing and capacity. He thanked attendees for their participation.
38. The conference concluded at approximately 12.50pm.