Minutes of the AER's public forum on ElectraNet's revenue application

Tuesday 24 July 2007 (9.00 am to 1.00 pm)

Stamford Plaza Hotel – Adelaide

Attendees: the meeting commenced with 39 registered attendees and 5 AER staff

Summary of forum

A summary of the discussions that occurred at the forum is under each agenda item.

1. Opening remarks by the Chair

Steve Edwell (Chair) opened the forum. He advised attendees that the forum was held to assist the AER in making a transmission determination for ElectraNet under chapter 6A of NER. He stated that:

- The AER's preliminary examination found that ElectraNet's proposal satisfied the AER's submission guidelines and NER.

- ElectraNet's proposal is published on the AER website and written submissions are invited from interested parties. Submissions close on 17 August 2007.

- The AER has adopted an indicative timetable with a draft decision to be released jointly with its consultant's report in November 2007 and the final decision to be released in April 2008.

- Chair outlined the key aspects of the ElectraNet proposal and procedural issues for the forum.

2. Presentation by ElectraNet

The Chair invited Ian Stirling (Chief Executive Officer) and Rainer Korte (Revenue Reset Manager) to present ElectraNet's proposal to the forum. ElectraNet's slides can be found in the attached '.pdf' file.

3. Questions and Comments on ElectraNet Presentation

Bob Davenport (EUAA) stated that the EUAA was concerned about the capital expenditure increase. He noted that, were the proposal accepted 'as is', capital expenditure would increase nearly 100% in the first two years. He asked whether this increased capital expenditure program was achievable given the issues raised in ElectraNet's presentation.

Rainer Korte (ElectraNet) stated in response that the capital expenditure profile was very much driven by the recently amended Electricity Transmission Code (ETC). He stated that under the ETC ElectraNet must use its best endeavours to implement the mandated changes in 12 months. He stated that ElectraNet's contractors had been made aware of the upcoming influx of work and that the contractors had assured ElectraNet that they had the ability to scale up to meet the increased amount of work.

Craig Bildstien (Adelaide Advertiser) asked whether the $947m contingent project amount proposed was over and above the $778m capital expenditure amount asked for.

Rainer Korte (ElectraNet) stated in response that the contingent project amount was in addition to the capital expenditure amount. He stated that there was no way all or even most of the contingent projects would occur but that some may occur. How many might occur and the additional capital cost was uncertain – that is why the projects were identified as contingent.

Steve Edwell (AER) stated that ElectraNet's last operating expenditure spend was $17m less than forecast however, ElectraNet was now requesting the large amount of $320m. He asked ElectraNet to expand on the reasons for this.

Rainer Korte (ElectraNet) stated in response that ElectraNet had done a lot of work on asset condition assessment. The results ElectraNet obtained indicated that ElectraNet needed to revamp its maintenance regime to address an ageing asset profile. The new maintenance regime involved increased maintenance effort for older assets including asset condition monitoring and testing. He stated that these increases needed to continue and that the results of the proposed replacement program did not reduce the average maintenance cost because whilst some assets got younger due to replacement the untouched assets got five years older so, on average, asset age increased and maintenance costs therefore also increased.

Ian Stirling (ElectraNet) stated in response that the first three years of the current period involved significant corporate restructuring which reduced operating expenditure costs. However, as the condition assessment information became available to ElectraNet they increased their maintenance spending.

Bob Lim (ECCSA) asked whether ElectraNet's corporate costs decreased as their reliance on outsourcing increased.

Ian Stirling (ElectraNet) stated in response that this was not the case. He stated that it had always been ElectraNet's business model to outsource construction and maintenance services. He stated that operating expenditure had decreased because ElectraNet's corporate overheads had been decreased and that these savings were permanent.

Steve Edwell (AER) asked how the large capital expenditure program would affect service standards. He asked whether there would be any disruption of service standards as the program was implemented.

Rainer Korte (ElectraNet) stated in response that more construction activity would put pressure on service standards. This pressure was not expressly reflected in ElectraNet's proposal. He stated that there were other pressures relating to service standards, for example the number of radial lines in ElectraNet's network. As demand increased on radial lines service standards may be impacted. He stated that overall service standards should be maintained at the current level, however the increased capex expenditure, due to the implementation of the ETC changes, should result in improvements in reliability at the relevant connection points on the network and therefore improve service standards in the longer term.

4. Presentation by ESCOSA

The Chair invited Bob Burgstad (Director, Essential Services Commission of South Australia) to address the forum. ESCOSA's slides can be found in the attached '.pdf' file.

5. Questions and Comments on ESCOSA's Presentation

David Headberry (ECCSA) asked whether ESCOSA was of the view that the capital expenditure amount proposed by ElectraNet was necessary to meet the ETC changes.

Bob Burgstad (ESCOSA) stated in response that the ETC was amended to reflect transmission network changes that would have eventually been necessary notwithstanding ETC changes. He stated that some, not all, of ElectraNet's capital expenditure was driven by ETC changes.

Steve Edwell (AER) stated that the AER did not question jurisdictional standards. Instead the AER investigated the transmission network service provider's interpretation of what was necessary to implement the standard and the efficiencies of their project choice and implementation.

Bob Burgstad (ESCOSA) stated that ESCOSA was of the view that the standards in the ETC had provided significant benefits to South Australian consumers for many years. He stated that the amended ETC was straight forward for ElectraNet to interpret. He also stated that the amended ETC was based on the code established by the SA Government as part of the "sale" process and that it continued to provided certainty with respect to the SA reliability standards, whilst introducing more flexibility in how these standards may be met by ElectraNet. That is, it was up to ElectraNet to determine how they met the standards in the most cost effective way. He stated that the allowance of 20% non-network solutions for the new category 1, 2 and 3 would allow ElectraNet to delay some network augmentation work and hence reduce transmission costs to SA consumers.

David Headberry (ECCSA) stated that ESCOSA's presentation had mentioned that an increase in spending allowance for ElectraNet in relation to the Adelaide CBD would eventually benefit consumers as it would later allow ETSA Utilities to spend less. He stated that this raised an issue of corporate knowledge and memory as this allowance and the reasoning for it must be remembered by the AER when it undertook ETSA Utilities' review.

Bob Burgstad (ESCOSA) stated in response that that information has been, and continues to be made available through the Commission's consultation processes including public forums, websites etc. He stated that ElectraNet and ETSA Utilities work closely together to minimise duplication and hence minimise the combined transmission and distribution network charges paid by consumers.

James Bennett (ETSA Utilities) stated that ETSA Utilities' cost associated with the Adelaide CBD has been identified as contingent and was a particularly critical issue for ETSA as contingent projects were currently unavailable in the proposed Rules for distribution.

Bob Burgstad (ESCOSA) stated that he was sympathetic to ETSA's concerns and perhaps ETSA should lobby for regulatory changes as required.

6. Presentation by ESIPC

The Chair invited David Swift (Chief Executive, Electricity Supply Industry Planning Council) to address the forum. ESIPC slides can be found in the attached '.pdf' file.

7. Presentation by ECCSA

The Chair invited David Headberry (Energy Consumers' Coalition of South Australia) to address the forum. ECCSA slides can be found in the attached '.pdf' file.

8. Questions and Comments on ECCSA Presentation

Steve Edwell (AER) stated that the AER agreed that cost escalators were a contentious issue. It would be useful to the AER if submissions it received could provide views about where and how capital expenditure was inflated or inefficient.

Peter Brook (Energy Australia) stated that ElectraNet's capital and operating expenditure increases were a reflection of an ageing asset base and not an attempt to 'gold plate' the network.

David Headberry (ECCSA) stated in response that an ageing asset base was not unique to the electricity industry but was prevalent in Australia. ECCSA would ask the AER to recognise however, that competitive industries, who face similar ageing problems, undertake a process of continual adjustment and refurbishment and do not receive the guaranteed returns and ability to replace assets on such a large scale as do TNSPs and yet these industries seem to manage. He stated that ECCSA argue that ElectraNet's revenue proposal should, as much as possible, reflect that of a competitive industry participant.

Bob Davenport (EUAA) stated that TNSPs receive a guaranteed return on investment. EUAA argue that it should not be a 'cost plus' exercise and there should be a thorough examination of available efficiencies.

Rainer Korte (ElectraNet) stated in response to David Headberry's presentation that there was a process underway that was transparent and detailed. This process involved the provision of a significant amount of information in the proposal, in addition to other information that was provided as part of the AER's review.

With respect to the operating expenditure increase, ElectraNet had examined and explained the cost drivers and the reasons for the increased maintenance regime in their forum presentation today. He reiterated the key cost drivers of asset growth, higher maintenance costs associated with ageing assets, scope changes and higher input costs.

With respect to David Headberry's comments on revenue versus demand – not all capital was demand driven, for example, renewal and the physical security of critical infrastructure. With respect to wages growth – ElectraNet had asked BIS Shrapnel to forecast wages growth and had followed BIS Shrapnel's advice. BIS's report had focussed on utility industry wages.

David Headberry (ECCSA) stated in response that an increase from $13/MWh to $18/MWh would cause industry problems. He stated that this price rise could cause parties with high usage to seek alternative sources or locations and those that had no alternative, for example, the average consumer, would have to bear the majority of the cost.

The Chair expressed his appreciation to the presenters and attendees for their participation.

The forum closed at approximately 1.00 pm.