



12 May 2017

Mr Sebastian Roberts
General Manager – Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Lodged online: TransGrid2018@aer.gov.au

TransGrid Transmission Revenue Proposal (1 July 2018 to 30 June 2023) – Issues Paper

Dear Mr Roberts

Origin Energy Limited (Origin) welcomes the opportunity to comment on TransGrid's revenue proposal for the regulatory period 1 July 2018 to 30 June 2023. The summarised submission points are:

- Greater cost efficiencies can be identified in the capital expenditure program.
- The Powering Sydney's Future program should be re-classified as a contingent program of work.
- An assessment on the accuracy and adequacy of the planning model should be undertaken to provide greater confidence in the outputs.

Study of Capital Efficiencies

The calculation of TransGrid's forecast capital expenditure uses a project-by-project approach to estimate costs for various projects and programs¹ which accounts for projects on an individual development basis. Origin considers that the AER should examine the potential for greater efficiency and cost savings where the timing and delivery of particular projects can be aligned. For example if two projects can be completed concurrently, the tendering process could allow for delivery in one rather than two separate tenders. In this instance a single contractor could bid for both jobs creating cost efficiencies and streamlining of work schedules.

Replacement expenditure (replex) accounts for ~\$961m of TransGrid's capex proposal². Origin notes that capital works have increased across the future regulatory period and are projected to continue to increase for the next 20 years as significant assets from the 70's and 80's begin to be considered for replacement³. It is important that the replex forecasts are based on a condition assessment and risk analysis of existing assets and are scrutinised to ensure that only appropriate, prudent and efficient works are undertaken.

Origin would like the AER to specifically examine the risk assessment levels or risk profiles⁴ that TransGrid have used to determine asset replacement. This should determine if the appropriate level of risk has been assigned to various assets, thus ensuring that assets are not replaced prematurely or when there is a low risk of failure.

It would also be appropriate for the AER to examine how active maintenance planning has led to replacement deferral and increased asset efficiency. For example, TransGrid could demonstrate how a small amount of maintenance on an asset could extend the life of the asset a number of years, thus

¹ Page 63 – TransGrid Revenue Proposal, Jan 2017.

² Page 18 – AER Issues Paper, March 2017.

³ Page 100 – Figure 5.12 - TransGrid Revenue Proposal, Jan 2017.

⁴ Page 79 – Figure 5.6 – TransGrid Revenue Proposal, Jan 2017.

allowing the replacement expenditure to be deferred as opposed to the current proposal to only replace like for like assets.

Another area of scrutiny should include efficient replacement spend in areas where older assets are being retired, especially where there is likely to be a change in generation output or load decrease, thus resulting in a changed (including reduced) equipment requirement to meet the required need.

In conclusion, Origin supports replacement expenditure that is driven by asset condition and prudent risk assessments, where assets are only replaced if their condition and the related risk cost warrants it. The basis of the risk levels along with the relative sensitivity should be scrutinised by the AER to ensure that an appropriate trade off between risk and cost is assessed as having sound basis, is prudent and in the best interests for consumers.

Contingent Projects

Origin considers that Powering Sydney's Future should not be classified as an approved project. Given the size and impact of the project on the price path it should be held as a series of contingent projects until such time as the outcome of the RIT-T process has concluded. Origin believes the RIT-T will help to identify efficient levels of spending, determine the identified need, and provide a suitable trigger mechanism which would signal when to commence the necessary works.

Pre-empting this process and placing the required capex spend into an approved project status results in an increased asset base, which consequently allows TransGrid to recover a return on capital based on an inflated figure. If the project is delayed or costs are reduced, there is a potential for over recovery of costs that have been budgeted for in the revenue determination, which would ultimately result in greater costs for consumers. TransGrid's proposal does state that in the absence of the project, the predicted trend for augmentation capital expenditure will be very similar to the current period.⁵

Origin seeks further clarity on how augmentation capex and associated opex will be allocated, should the Powering Sydney's Future project be delayed. This is especially true as the major expenditure items are due to occur in the last two years of the regulatory determination period (2021-2023)⁶. Given the complexity of the RIT-T process, there is a real possibility of significant delays and potential costs extending into the next regulatory period.

Changing nature of the market

AEMO's 2016 NEFR report forecasts strong uptake of small scale renewable energy over the coming years resulting in a flattening of demand for grid supplied electricity over the next 20 years. Origin would welcome further clarification on how TransGrid intends to assess the impact of increased levels of distributed energy resources on its network, which would be expected to ultimately reduce utilisation rates. TransGrid's proposal should address how the increasing risk of stranded assets will be minimised, through for example shorter asset life investments, and consideration of the trade-offs involved in delaying decisions. The AER should seek a robust strategy that minimises risk to consumers.

Grid Planning Model Stability

Origin contends that TransGrid and the AER should undertake a backcasting exercise of the current grid planning model to determine the accuracy and stability of the model and its associated outputs. Origin's recent experience has seen costs increase far in excess of expectations due to TransGrid modelling errors.

Instability and errors do not provide customers with long term certainty in expected pricing outcomes, which reduces the ability for market participants to accurately budget. Ultimately, participants are

⁵ Page 77 – TransGrid Revenue Proposal, Jan 2017.

⁶ Page 89 – Table 5.10 - TransGrid Revenue Proposal, Jan 2017.

looking for stable and reasonable network charges, and backcasting the model will ensure parameters are fine-tuned to deliver greater stability in modelling outcomes.

Should you have any questions or wish to discuss this information further, please contact James Googan on james.googan@originenergy.com.au or (02) 9503 5061.

Yours sincerely,

A handwritten signature in blue ink, consisting of a series of fluid, connected strokes that form a stylized, somewhat abstract shape.

Steve Reid
Manager, Wholesale Regulatory Policy