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**Government  
of South Australia**

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Dear Mr Edwell

Thank you for the opportunity to provide a submission concerning the Australian Energy Regulator's Draft Distribution Determination for the ETSA Utilities Regulatory Proposal for the period 2010 to 2015.

I note the AER has reviewed ETSA Utilities' sales forecasts and concluded that a modest positive growth is a more plausible forecast under emerging environmental constraints. I am pleased to note the acceptance of capital expenditure for the City West substation project.

I am disappointed the AER has disallowed ETSA Utilities' Kangaroo Island augmentation project. The island is an iconic tourist attraction and its development and reliability of supply are an important part of South Australia's future prosperity.

Rejection of this project has been based upon a misconception that the second undersea cable was intended to provide a higher level of supply redundancy. In fact the second undersea cable is intended to provide for demand growth and ensure continuous supply in the event that the existing cable failed as it approached its physical capacity and the end of its expected operating life.

ETSA Utilities' Revised Regulatory Proposal envisages the seriousness and cost of an untimely interruption of supply to Kangaroo Island. The augmentation project would mitigate those costs and disruption. The standby generators at Kingscote are unlikely to provide long term backup supply and are not designed for extended, continuous duty.

It is of concern that the AER has not given sufficient regard to ETSA Utilities' detailed understanding of its network and has determined the technical performance capabilities of the undersea cable and the Aged Assets Program in the Central Business District based upon desk audits by the AER or its consultants.

The AER determination regarding the undersea cable to Kangaroo Island contradicts that of the previous regulator, the Essential Services Commission of South Australia (ESCOSA). In July 2004 in the Kangaroo Island Reliability Service Standards determination ESCOSA determined that a new undersea cable was not required for the regulatory period 2005 to 2010 and noted ETSA Utilities' intention to lay a new cable in the period 2010 to 2015 and endorsed that intention. ESCOSA stated "The Commission believes it appropriate that the replacement of the current cable take place within the scheduled timeframe". It should be noted that ESCOSA's investigations for Kangaroo Island were thorough and extensive canvassing all plausible options for improved reliability and security.

The AER's draft decision has also significantly reduced ETSA Utilities' proposed capital expenditure relating to its low voltage (LV) capacity upgrade program. This decision appears significantly influenced by the AER's consultant's opinion that ETSA Utilities has overstated the risk to the low voltage network from hot weather events. Extreme heatwaves in summer are not unusual in Adelaide as evidenced by the heatwaves of January 2006, March 2008, January 2009, November 2009 and January 2010. South Australia has the peakiest electricity profile in Australia, due primarily to air conditioning demand with significant impact on the LV network.

In its review of ETSA Utilities' performance during the 2006 heatwave, ESCOSA noted LV interruptions as of most concern. ESCOSA also noted that ETSA Utilities should have regard to monitoring good practice developments in network planning and to ensure that its planning basis adequately accounts for very hot weather conditions. Following the 2006 review ETSA Utilities significantly improved its LV capacity upgrade program rather than cutting the program.

ESCOSA's information paper on the performance of ETSA Utilities during the heatwave of January 2009 emphasises the importance of a rigorous program of transformer monitoring and upgrading prior to the onset of summer. The draft decision of the AER would seem to have severely hampered ETSA Utilities ability to improve the performance of its LV assets in heatwave conditions. The AER has favoured a limited, short sighted reduction in costs at the expense of long term reliability for South Australian electricity consumers. I note that in its revised proposal ETSA Utilities has made some adjustments to its methodology to reduce the scope and cost of its LV capacity upgrade program. I encourage the AER to further consider the impact that past heatwave events had on electricity customers in South Australia through LV interruptions.

The AER's conservative interpretation of the National Electricity Rules as they relate to ETSA Utilities proposed negotiating framework result in key consumer protections regarding network connections and charges being removed. The AER's fee of \$2750 for any person to notify an access dispute is a significant step backwards from current practices undertaken in South Australia by ESCOSA. As such I will seek approval from the Ministerial Council on Energy to have this fee waived for small to medium consumers and bring it in line with similar requirements under the National Gas Law and Regulations whereby small consumers are not required to pay a fee for notification of a gas access dispute.

As you may be aware, the South Australian Parliament recently amended the *Electricity Act 1996* to extend the obligation on ETSA Utilities to act as the Retailer of Last Resort (RoLR) in South Australia until 30 June 2015. It is essential that South Australia has an effective RoLR scheme going forward. A key component of an effective scheme is the ability for ETSA Utilities to recover the costs of meeting its RoLR obligation in an economically neutral manner. Accordingly, I support ETSA Utilities' proposal that a RoLR event be allowed as a nominated pass through event for the 2010 to 2015 regulatory period.

Should you require clarification on matters raised in this submission please contact Mr Sean Kelly, Executive Director, Energy Division of the South Australian Department for Transport, Energy and Infrastructure on telephone (08) 8204 1715.

It remains this Government's priority to ensure South Australians are provided with safe, reliable and affordable electricity and I thank you for seeking my views on the Draft Distribution Determination for 2010 to 2015.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Conlon', written in a cursive style.

**HON PATRICK CONLON MP  
MINISTER FOR ENERGY**

15 February 2010