SP AusNet™
A member of Singapore Power Group

8 June 2006

Mr Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
470 Northbourne Avenue
Dickson ACT 2602

By email aerinquiry@aer.gov.au

Dear Mike,

Submission on Powerlink Revenue Review

SP AusNet wishes to address some issues raised in the Powerlink Revenue Cap Application for the period 2006/07-2011/12. In particular, SP AusNet has made comments in the following areas:

- rising input costs, an issues that affect TNSPs generally; and
- Powerlink's use of Victorian data in its benchmarking.

Input Costs

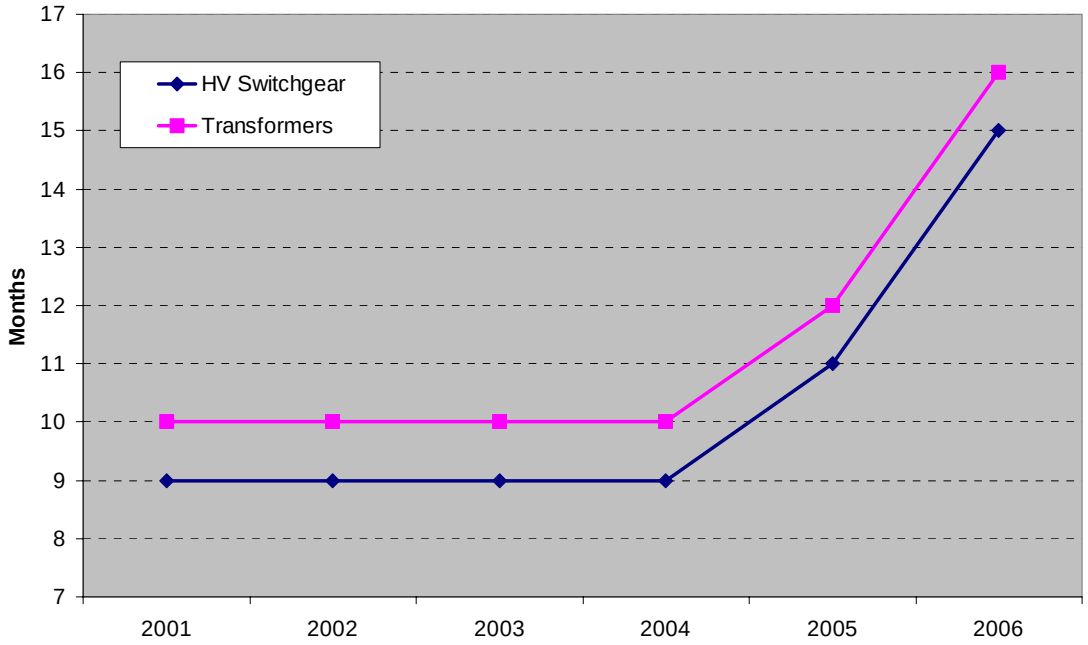
A major issue for Powerlink's next regulatory period is the significant increase in input costs being experienced by the electricity industry. The causes are well known and include commodity price rises caused by rapidly rising demand in China and India and the worldwide infrastructure boom. In Australia, the situation is made worse because the huge increase in export infrastructure capacity required by the resource industry and the coincident demand driven augmentation of electricity networks along the eastern seaboard. The Powerlink Application provides various pieces of evidence to support this.

SP AusNet has also seen a substantial shift in market condition for plant and equipment over 2005 and 2006. This has been manifested in:

- increased delivery times for major plant such as switchgear and transformers
- difficulty in obtaining fixed price contracts from suppliers
- rising costs for plant, especially for plant contain significant amounts of iron and steel

The following graph shows the increase in delivery time for transformers and HV switchgear between 2001 and 2006. As shown, after remaining stable until 2005 delivery times have blown out as excess capacity in manufacturers factories is exhausted. For a TNSP facing increased delivery times for plant on non-discretionary reliability upgrades the alternative to longer project lead times is to pay higher prices to receive priority in the factory manufacturing slots (moved up in the queue of jobs).

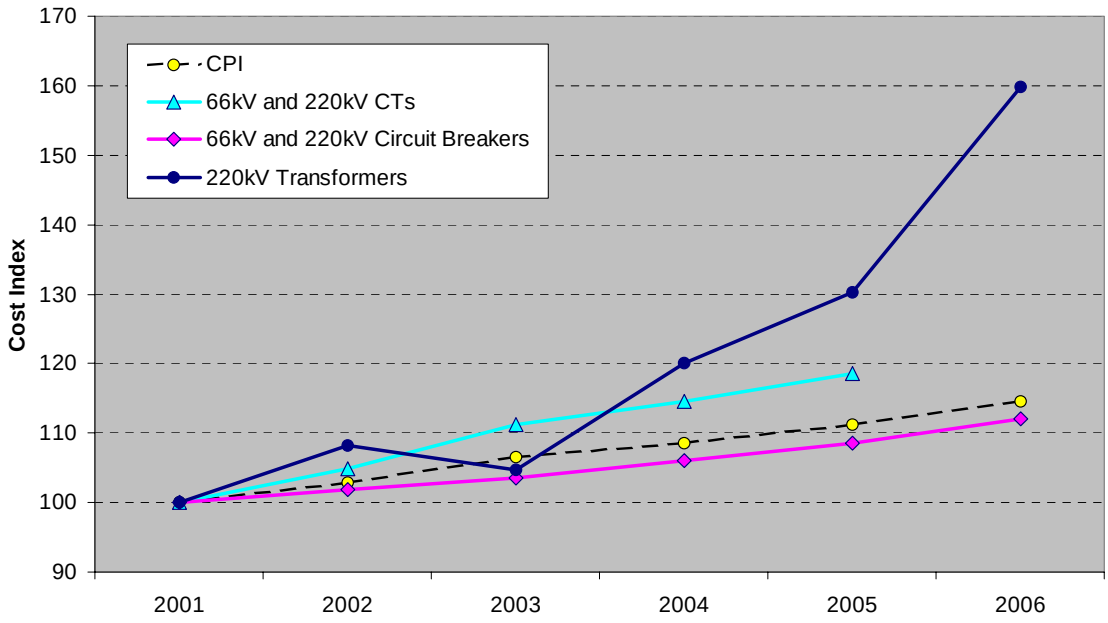
SP AusNet Primary Equipment Delivery Times



Source: SP AusNet purchasing database

The following graph shows the increase in costs for 66kV and 220kV transformers, CTs and circuit breakers between 2001 and 2006. SP AusNet has a large data sample for this equipment to allow it to generate a reasonable cost index. As shown, after remaining stable until 2005, costs have generally rise faster than CPI after 2005. In particular, large increases in prices have been experienced for equipment heavy in steel and copper such as transformers.

SP AusNet Primary Equipment Costs



Source: SP AusNet purchasing database

Benchmarking

SP AusNet would like to bring to the attention of the AER that the benchmarking graphs supplied by Powerlink on page 98 of their Application contains incorrect data for SP AusNet and Victoria.

While adding VENCorp's opex costs to SP AusNet's is legitimate to get a like for like comparison of Queensland and Victorian TNSPs, Powerlink seems to have incorrectly included the payments SP AusNet's receives for service standard contracts and opex efficiency benefits from the previous period and incorrectly excluded the unregulated assets associated with VENCorp's opex when calculating the opex/RAB ratio. While this mistake is understandable, as the payments are not separated out in the 2002 ACCC Victorian Revenue Cap Decision, the correct combined SP AusNet/VENCorp benchmark lines are considerably below what is shown in the Powerlink provided graphs. For example, in 2004/05:

- actual opex/line length for SP AusNet/VENCorp was around $9,000/km, not above $12,000/km as shown; and
- opex/RAB was below 2.5%, not 4% as shown.

Results for other years are of similar magnitude.

If you have any questions regarding the information disclosed, please don't hesitate to contact our Economic Regulation Manager, Tom Hallam on telephone 03 9695 6617.

Yours sincerely,

[Sgd] Patrick Murphy

On behalf of

Charles Popple
General Manager, Regulatory and Business Strategy
SP AusNet