SACOSS Submission to the Australian Energy Regulator Consultation on ElectraNet's 2013-18 Transmission Network Revenue Proposal

August 2012

SACOSS Submission to the Australian Energy Regulator Consultation on Electranet's 2013-18 Transmission Network Revenue Proposal
August 2012

ISBN 978-1-921982-13-2

First published in August 2012 by the
South Australian Council of Social Service

47 King William Road
Unley, SA, 5061 Australia
Ph (08) 8305 4222
Fax (08) 8272 9500
Email: sacoss@sacoss.org.au
Website: www.sacoss.org.au

Executive Summary

This submission represents one of the few made by SACOSS on Transmission matters. However, it is apparent that Transmission Charges are continuing to grow at rates well in excess of CPI and have now reached the point where the average revenue per customer closely matches the value of the SA Energy Concession (2012-13 circa $145 + GST = $160 per annum vs concession value of $165).

Overall, SACOSS is of the view that the ElectraNet proposal is based on demand and reliability assumptions that are not appropriate. SACOSS can understand the business imperatives of revenue growth and ElectraNet have provided a proposal that matches these imperatives. However, it is SACOSS's firm view that electricity businesses need to accept a business model that better reflects the needs of their captive customers.

SACOSS is concerned that ElectraNet's proposal continues the history of revenue growth despite softening demand. Deepening this concern is the long list of 'contingent projects' that can be expected to increase this revenue requirement further.

Contents

The long-term interests of consumers

SACOSS would like to draw the AER's attention to ElectraNet's claim[1] that:

> " …[t]he community expects an increasingly reliable and secure electricity network. At the same time, there is increasing community and political sensitivity to rising electricity prices."

SACOSS would appreciate being presented with evidence that the community does in fact expect increasingly reliable network performance – and, if they do, that it relates to Transmission-level investment.

SACOSS is of the view that recent work by AEMO and the AEMC on the Value of Customer Reliability (VCR) confirms that the state-wide VCR used in network planning (including the update of SA's Electricity Transmission Code, ETC, and the preparation of project specific Regulatory Investment Tests for Transmission, RiT-T) is set at a value that is multiples of the VCR expressed by residential consumers.

The published values for SA are derived from work for AEMO[2] and based on Victoria results for 2007 at which time, the residential sector VCR was determined to be around $17/kWh compared to a state-wide figure of $38/kWh.

4 Recommended VCRs and Next Steps

The re-weighted VCRs are outlined in Table 1.

Table 1 Victorian survey results re-weighted to produce regional VCRs ($/kWh)

Year	New South Wales	Victoria	Queensland	South Australia	Tasmania
2007	35.08	50.26	37.20	38.04	42.02
2008	37.53	52.94	40.13	40.06	45.69
2009	40.07	56.18	42.00	43.12	48.44
2010	41.53	57.29	44.31	44.30	50.97

Sector-by-sector results ($/MWh)

	Vic	Qld	NSW	SA	Tas
Residential	20,395	15,318	17,190	16,469	18,532
Agricultural	111,062	62,887	68,396	133,493	76,716
Commercial	90,763			18,649	
Industrial	36,074	31,427	32,055	32,905	34,157
State-wide	50,258	37,198	35,085	38,037	42,022
Residential / State-wide	41%	41%	49%	43%	44%
State-wide - 20%	$ 40,000	$ 30,000	$ 28,000	$ 30,000	$ 34,000

Table 1: OGW derivations of region specific VCRs (for 2007)

Source: AEMO and analysis for SACOSS by st.kitts.associates

Complementary past work by ESCOSA has also confirmed that SA consumers are not willing to pay (WTP) for increased reliability. This work referred to Distribution reliability but since Distribution

[1] ElectraNet Transmission Network Revenue Proposal May 2012 Executive Summary, page 7.
[2] Final report, January 2012 www.aemo.com.au/en/Electricity/Planning/Related-Information/Policies-and-Procedures/National-Value-of-Customer-Reliability-VCR

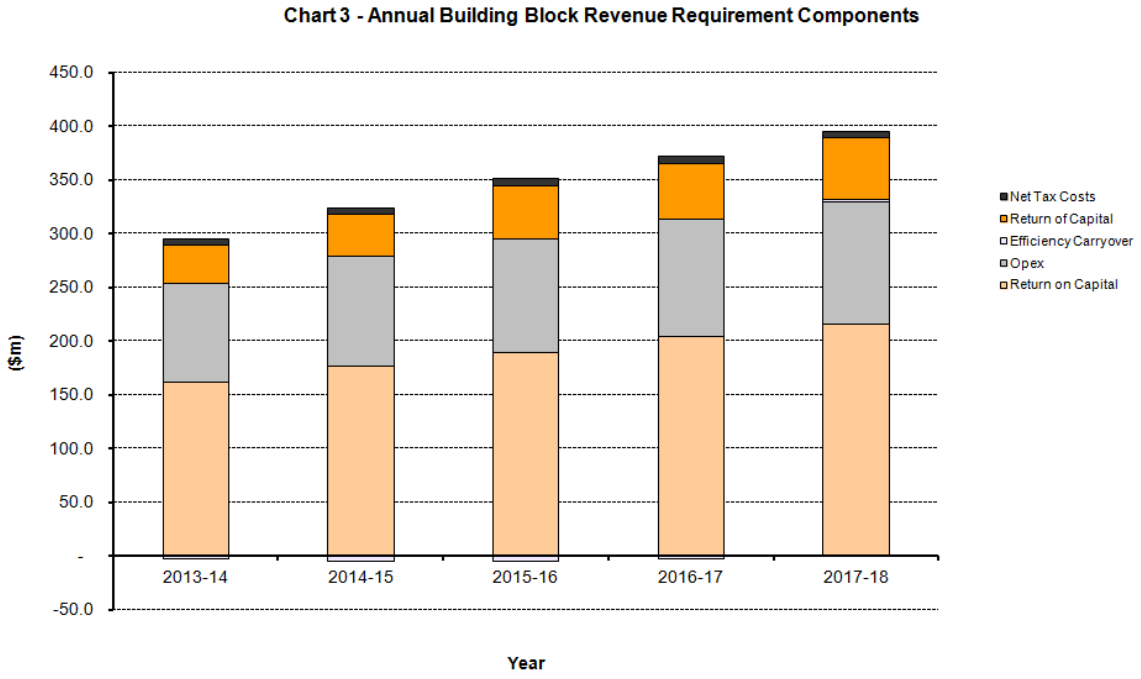
reliability represents the vast majority of time-off supply and the frequency of outages, it is highly unlikely that consumers would view Transmission reliability as providing a greater value.

The SACOSS Approach

SACOSS is very familiar with the AER's network revenue reset processes and generally adopts a two-stage approach: to pursue a Maximum Allowable Revenue (MAR) that efficiently as possible meets consumer's needs, and , secondly, to ensure that the recovery of this revenue is fairly distributed across consumer classes. SACOSS consumer class of primary interest is residential customers.

Of key interest to SACOSS and other consumers is the size of the Regulatory Asset Base due to its close correlation to revenue requirements and, hence, prices (depending of course on quantity of electricity transported and, as quantities fall, prices experience upward pressure in order to ensure full revenue recovery).

As can be seen from ElectraNet's Post Tax Revenue Model (PTRM) published on the AER website, the return on capital (WACC x RAB) continues to dominate revenue – and hence, dominate Transmission tariffs. The combined return on and of capital represents between 68% and 70% of revenue in each year. The other key element, Opex, is principally for delivering Asset Management functions and hence directly related to size (and condition) of the asset base. SACOSS's analysis suggests that over 90% of changes to regulated revenue can be explained by changes to the size of the RAB[3].



ElectraNet's Table 7.1 shows how the RAB increased by around 60% over the current regulatory period (from $1,394m to $2099.9m). Further, SACOSS analysis of residential electricity prices

[3] Based on data published by the AER and ElectraNet in their Asset Roll-Forward Model (RFM) and Post-Tax Revenue Model (PTRM).

shows that the average residential electricity customer has experienced an increase in Transmission charges of 60% in real terms of the same period (see Figure 1, below).

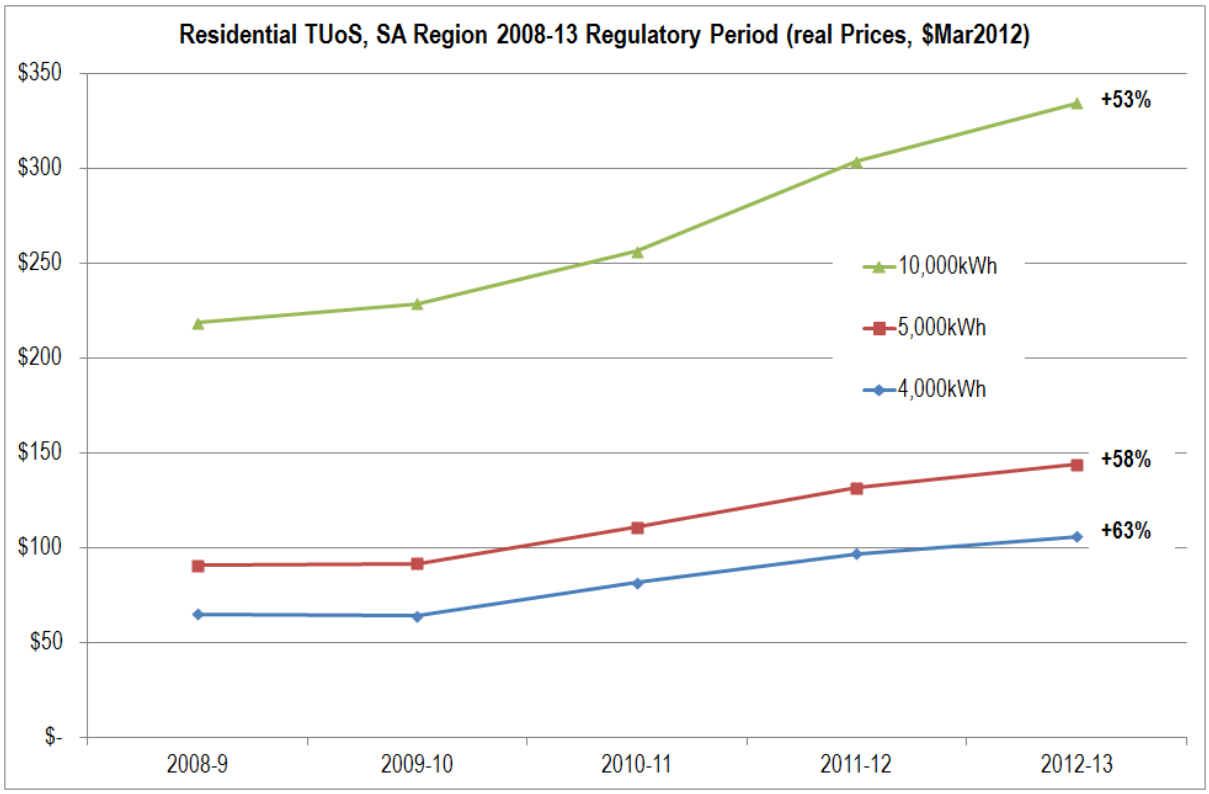


Figure 1 – Residential Transmission Charges 2008-13

ElectraNet's Table 12.1 shows how the RAB is projected to increase to a closing $2,860m – a doubling of the RAB over the two regulatory periods – for a compound annual growth rate (CAGR) of 7.5% per annum.

While growth is projected to be slower in the forthcoming period it represents continuation of a trend that does not appear to be justifiable in the contemporary economic climate. This is especially true since at least some percentage of the Contingent Projects list can be expected to enter the Capex program.

Focus on the RAB

With limited resources, SACOSS has decided to focus this submission on those aspects of the proposal that relate to the RAB and, in particular, the growth of the RAB.

ElectraNet has based expenditure forecasts on AEMO's 2011 South Australian Supply Demand Outlook (SASDO). Subsequent information updates from AEMO have all indicated a clear softening of demand and indicate that existing aggregate system capacity is enough for the Regulatory Period in question (2013-18). What is not yet clear is how these reduced forecasts manifest at Transmission Connection Points.

The revised documents include:

- The South Australian Electricity Report (SAER) [which partially replaces the 2011 SASDO]
- 2012 Electricity Statement of Opportunities (ESOO)
- 2012 National Electricity Forecasting Report (Chapter 6: SA)

We note that this revised information has been published since ElectraNet prepared and submitted their regulatory proposal. SACOSS urge the AER to ensure that only the most up-to-date demand projections are used for this regulatory process.

Capital Expenditure

Of note is the inclusion of the $180m Adelaide Central Reinforcement (ACR) project during the current regulatory period. The project was introduced as a contingent project during the regulatory period and " … represents the largest project undertaken to date by ElectraNet …"

Despite this 'abnormal' expenditure item, the nominal $880m Capex budget for the current regulatory period is forecast to continue as a $890m Capex program ($2012-13) in the 2013-18 period (see ElectraNet Table 5.12, p76).

Key characteristics in the Capex program include a shift from Augmentation projects (41% down to 14%) but an increase in refurbishment and replacement expenditure from 27% to 54% and a more than doubling of strategic land acquisitions (from $29m to $66m).

SACOSS finds it hard to believe that the headline budget figures between the periods can be so close yet the compositions so different. It appears, superficially at least, that the process started from a position of maintaining the Capex budget and then justifying inclusions after that.

Further, the contingent Project List (Table 5.14) includes some $2.5bn in projects: a value greater than the entire current Regulatory Asset Base (RAB). Even 10% of this contingent expenditure will have a very material impact on costs for consumers.

Operating Expenditure

We note the reclassification of Operating Expenditure by ElectraNet (Chapter 6) but also note that the combined Opex budget has grown from $324m to $478m – an increase of 47% across the two periods.