



Major Energy Users Inc.

23 January 2014

Mr Paul Dunn
Director
Australian Energy Regulator
GPO Box 520 Melbourne Vic 3001

By email: AERInquiry@aer.gov.au

Dear Mr Dunn

ElectraNet Contingent Project Application - Heywood Augmentation

The Major Energy Users (MEU) welcomes the opportunity to provide its comments regarding the application by ElectraNet for its part of the Heywood Augmentation between Victoria and SA to be converted from a contingent project to be included in its allowed capex.

The MEU has observed with considerable interest the development and analysis for the proposal to increase electricity flows between Victoria and SA. The MEU has been extremely concerned that the constraints in the networks providing flow of power between the two States (Heywood and Murraylink) have resulted in generators (particularly the Torrens Island Power Station – TIPS – owned by AGL) being able to exercise market power and drive spot prices up to the market price cap frequently and for significant periods of time.

In the period between 2008 and 2011, the MEU saw considerable financial harm to consumers in SA as a result of this exercise of market power by TIPS which resulted in the MEU seeking a rule change to address the issue.

In more recent times, we have seen a different approach in market power being exercised by AGL through it being the largest retailer in SA combined with being the largest dispatchable generator (TIPS) and being a major provider of SA's wind power. AGL's market power has been increased by the closure of Playford power station, the scheduled closure of Northern Power Station for the six winter months. The recent decision by International Power to operate for part of the year its Pelican Point generation at half capacity has further exacerbated this market power issue.

As the MEU sees that this project will act to reduce generator market power in SA, the MEU has been a consistent supporter of the augmentation of the Heywood interconnector to achieve this goal.

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The MEU notes that the AER has approved the RIT-T developed by ElectraNet for this project and that ElectraNet has provided a firm costing for their part of the augmentation works to be included in their allowed revenue.

In its application for the conversion of this contingent project, ElectraNet has identified that the capital works will cost more than was allowed in the approved RIT-T and also sought an increase in its opex allowance that was not part of the RIT-T.

The MEU is concerned that the approved capital works have increased in cost and there is a claim for an opex increase not included in the RIT-T. It is important that the RIT-T should include all costs and there should be no scope for increases when the project is "firmed up" for allowances to be included in the allowed revenue.

The MEU recognises that the increase in capex and the opex allowances sought by ElectraNet are very small in comparison to the overall cost of the project and that their inclusion would not change the decision to approve the RIT-T. However, the MEU considers that the AER must ensure that networks do not use the opportunity to increase costs above that which is approved in a RIT-T or RIT-D. Allowing a small over-run in this instance can lead to claims for larger over-runs in the future.

Despite this concern, because of the importance of this project to consumers, the MEU considers the application from ElectraNet should be accepted.

Equally, the MEU also considers that the AER should make it clear to network applicants in the future, that the costs included in a RIT-T or RIT-D comprise a maximum that is allowed for projects to proceed.

In a partly related issue, the MEU also considers that the AER should encourage ElectraNet to reduce its other capital works program so that the overall impact on consumers of adding this new project does not increase costs to consumers - this approach would replicate what occurs in competitive environments where capital is constrained and changes made in allowances to defer less important projects to incorporate those which are more important.

Should you wish to discuss the MEU views expressed in this response in more detail please contact the undersigned at davidheadberry@bigpond.com or on (03) 5962 3225

Yours faithfully



David Headberry
Public Officer