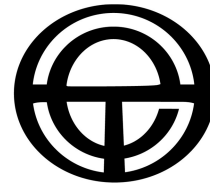


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Total Environment Centre

Submission to the AER

**Powerlink Revenue Determination
2013-2017**

**TEC Response to Powerlink's Response to
Stakeholder Submissions**

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Introduction

Total Environment Centre (TEC) welcomes the opportunity to provide comment to the AER on Powerlink's response to stakeholder submissions regarding its *2012/13-2017/18 Revenue Proposal*.

While we acknowledge that Powerlink has noted some of the issues raised in these submissions, it has not satisfactorily addressed the key problems with its proposal. Additionally, Powerlink has suggested that there are material errors in the stakeholder submissions, but fails to actually identify any such errors in its comments.

TEC's response to Powerlink's comments is set out below.

Mixing of dollar bases when comparing historical and future expenditures

TEC reasserts that the use of different dollar bases throughout Powerlink's Revenue Proposal is misleading and misrepresents the reality of Powerlink's proposal. As stated in TEC's submission, Table 1.3 suggests that Powerlink's total proposed capex is \$3,488.3M, when the true figure in real terms is \$3,946.8M.

Powerlink's defence of this mixing of dollar bases is that it is following guidelines that "all future expenditure forecasts be presented in 2011/12 real dollars". However, Powerlink is not consistent in this usage: for example, Table 11.4 is a forecast of future expenditure, but it nonetheless uses nominal dollars.

Beyond Powerlink's inconsistent adherence to the guidelines, the use of differing dollar bases can create a misleading impression of trends. It is TEC's position that nominal dollars should be used in *all* forecasts in order to provide a true and transparent indication of the level of proposed expenditure.

Revenue and price paths

In our submission, TEC noted that Powerlink presented its proposed price increases in terms of their impact on domestic retail prices. As transmission accounts only for approximately 8-10% of the domestic retail price, Powerlink's own price increases appear heavily diluted. While Powerlink states that it has followed the AER guidelines, its response to the stakeholder submissions has not addressed this concern.

Furthermore, based on the proposed doubling of revenue and publicly available energy consumption trends, TEC also noted that Powerlink's charges are likely to increase by approximately 97%. Powerlink has made no attempt in its response to the stakeholder submissions to further elaborate on how it reached its stated figure of 37%.

Demand and energy forecasting

TEC reiterates that Powerlink's projected energy growth estimate is 30 times the trend rate of the past 5 years.

While TEC acknowledges that anomalous weather events and the Global Financial Crisis have affected electricity demand in the short-term, it is clear that Powerlink's estimates are well above the long-term trend. Moreover, Powerlink has not acknowledged any other impact on demand, such as increased uptake of energy efficiency, consumer reactions to

climate change and higher electricity prices, increased demand management in Queensland distribution networks, or increasing market saturation of air-conditioners. As stated previously, “Powerlink over-emphasises and exaggerates its network growth drivers and deliberately ignores drivers that will reduce the need for network expenditure”.

Other organisations have noted the longer-term trend of reducing demand across the NEM. For example, Ausgrid in NSW has experienced a fall in residential energy consumption by 2% per annum for the past four years. Likewise, AEMO is expected to announce a fall in average demand of 5 to 6% in the next decade.

Opex Benchmarking

Powerlink claims a high level of efficiency, based on the International Transmission Operations and Maintenance Study (ITOMS) in its Revenue Proposal. In our submission, TEC criticised Powerlink’s use of the ITOMS results as an indicator of overall efficiency on three grounds:

1. They only benchmark the direct labour costs of selected maintenance activities, which accounts for less than 10% of Powerlink’s controllable opex;
2. They do not include indirect costs (if they did, it is likely that Powerlink would benchmark very poorly as their overhead and corporate support costs are much higher than other Australian TNSPs); and
3. There are large discrepancies between the cost allocation methodologies applied by the ITOMS participants.

Powerlink has not addressed these criticisms in its response. It simply attempts to reinforce the validity of their ITOMS benchmarking by stating that it has always been their practice to use it, and that the regulator has historically used opex/asset value as a benchmark measure.

Furthermore, instead of explaining why its opex/RAB ratio will increase during the 2012-13-2017/18 regulatory period, Powerlink has selected an 8 year period (2008/09 — 2015/16) over which the ratio is projected to decrease — yet another instance of creative accounting on Powerlink’s behalf.

Assessment of replacement capex

TEC agrees that there is some validity in Powerlink’s assertion that forecast replacement capex reflects the cost of modern engineering equivalent equipment, and that the assets being replaced are depreciated. However, this does not change the fact that Powerlink has proposed excessive replacement expenditure for the forthcoming regulatory period, nor does it explain the magnitude of its proposed replacement expenditure over the last 2 regulatory periods.

Issues remaining to be addressed

Demand-side alternatives to network augmentation, such as demand management, energy efficiency, smart grids, and distributed generation, have not been genuinely and thoroughly considered by Powerlink in its Revenue Proposal, despite it being under an obligation to do so. Powerlink’s response to stakeholder submissions offers no justification for the 90% reduction in network support expenditure from the previous regulatory period.

Indeed, Total Environment Centre raised many important issues in its submission to Powerlink's Revenue Proposal and the majority of these are not addressed in Powerlink's response. TEC hopes that the AER will continue to investigate the other issues discussed in TEC's submission, including:

- Powerlink suggests that the proposed capex is “following a similar trend to the current period”, yet its proposed capex is 50% greater than the average annual spend in the current regulatory period and 360% higher than the average capex spend approved in the previous period.
- Powerlink suggests that its “forecast controllable operational expenditure follows the trend of the actual operating expenditure in the current period”, yet its annual proposed opex is approximately 50% more than the average annual opex in the current regulatory period and almost 3 times the average annual opex of the previous regulatory period.
- Powerlink introduces ‘new operational expenditure requirements’ in Figure 1.6, but does not explain what these are.
- Powerlink over-emphasises and exaggerates its network growth drivers and deliberately ignores drivers that will reduce the need for network expenditure.
- Powerlink suggests that that “the age profile of its network will not materially change over the next regulatory period” despite the fact that it proposes a capital expenditure of around \$4 billion — equivalent to the average Regulated Asset Base of the current period.
- Rather than selecting an efficient base year from the current determination period as the reference from which to forecast future operating expenditure, Powerlink has selected 2009/10, where expenditure at twice the level of 2005/06.
- Many of the future ‘one-off’ items listed by Powerlink are actually ongoing/recurring expenditure items or ‘one-off’ items for the current regulatory period.
- Powerlink makes many statements which claim it faces ‘unique circumstances’, yet all other TNSPs and DNSP's also claim to have unique circumstances in their regulatory submissions. All of these “unique” factors have a cost increasing impact. Powerlink does not provide any quantitative justifications for the cost impacts of these “unique circumstances” in the Proposal.
- Powerlink states that it supports ‘a lower emissions NEM’ on the front cover of its proposal, as well as throughout the body of the document. However, the content overwhelmingly deals with the use of fossil fuel gas generation, makes no mention of energy efficiency and mentions ‘renewables’ only once.
- The document constantly references ‘Powerlink Data’ as its data source and makes only limited reference to public data. This provides us with no further context or reference to be able to assess its validity.

Overall, Powerlink has provided a weak response to the serious issues identified with its proposal. TEC remains concerned that Powerlink's proposal is an attempt to ‘game the system’ through creative accounting, which deviates from the spirit of the Rules and works against the long-term interests of consumers of electricity. We look forward to advising the AER throughout the course of this process.