SA Transmission Revenue Cap

Public Forum

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Outline

- Pursuing efficiency gains
- Capex allowance
- Contingency amounts in capex
- Capex/opex definitions
- Opex allowance

Pursuing efficiency gains

Pg 3. The Commission states it has adopted a regulatory process that *inter alia*:

"...creates incentives for managers to pursue ongoing efficiency gains through cost reductions."

$$Efficiency = \frac{Outputs}{Inputs}$$

Capex allowance

The Commission excluded projects to facilitate distributed generation because:

(1) The high cost of such projects while their benefits are unclear

Pre-emptive assessment of whether projects will pass the regulatory test - if they do they should be included in the RAB.

The Commission excluded projects to facilitate distributed generation because:

(2) The code is unclear about who is to actually pay for such augmentations

Setting revenue vs customer pricing

The code is clear - beneficiary pays (currently customers)

The Commission excluded projects to facilitate distributed generation because:

(3) Locational signals may be lost if generators are not required to pay

Shallow entry vs Deep entry

Beneficiary pays (currently customers)

The Commission excluded projects to facilitate distributed generation because:

(4) The overall size of the program… provides ElectraNet with the ability to re-prioritise...

The real issue is the uncertainty… project probabilities should be adjusted

Contingency amounts

"...allowance for contingency amounts is inconsistent with the probabilistic planning approach."

- Alternative is therefore to include all possible scenarios of the future (including those with extremely low probabilities)?
- Contingency amount a practical compromise

Capex/opex definition

- Commission should not get overly prescriptive
- Any treatment should be cost neutral in the long term

Opex allowance

"… the Commission prefers to focus on the total opex rather than individual cost components"

Must take business conditions into account :

- Energy density
- Load factor (demand side & supply side)
- Scale
- Reliability

Need a rigorous approach to benchmarking evaluation