

Our Ref: D12/44293
Your Ref:



12 October 2012

Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3011

Dear Sir/Madam

Submission on ElectraNet's cost pass through event proposal

Transend welcomes this opportunity to lodge a submission in response to ElectraNet's pass through event proposal for the period 1 July 2013 to 30 June 2018.

ElectraNet has proposed the following cost pass through events in addition to the prescribed events already included in the Rules as amended in August 2012:

- a terrorism event;
- a natural disaster event; and
- an insurance cap event.

Transend supports the acceptance of these events as nominated cost-pass through events given the following:

- the pass-through of these low probability-high impact events is more efficient than seeking commercial insurance or estimating a self-insurance premium for these events as:
 - commercial insurance is often not available or is highly expensive given the thin market; and
 - a relevant self-insurance premium is often difficult to estimate given the lack of commercial insurance available and low occurrence of the events.
- the ability for a TNSP to credibly self-insure for these events is low given the potential magnitude of each;
- given the low probability of these events actually occurring, it is more efficient to deal with them should they arise rather than forcing customers to pay for them now through insurance or self-insurance allowances;
- as discussed in ElectraNet's proposal these events are consistent with the items the AER is required to consider in the new Rules; and
- allowing these events would be consistent with recent distribution determinations which now set an important precedent given the relevant Rules for Transmission and Distribution are now much more closely aligned.

Whilst not seeking to replicate the content of Grid Australia's rule change proposal in relation to this matter, Transend notes that both the Natural Disaster and Insurance Cap events were proposed as prescribed pass-through events and remains supportive of the reasons outlined as to the appropriateness of these items as cost-pass through events. Transend also notes that the Terrorism event was previously a prescribed event under the Rules.

Further, Transend notes that ElectraNet has adjusted its proposed self-insurance premiums to take account for these events now being proposed for cost pass-through with a resultant reduction in proposed operating expenditure. Transend is of the view that this is illustrative of the efficiency of not forcing customers to pay now for events with such a low probability of occurrence.

In summary, Transend considers the AER's acceptance of these proposed events would be consistent with the requirements of the new Rules in relation to cost-pass through events and represents a more efficient outcome for customers.

Yours faithfully



Michael Sward
Revenue Regulation Manager