

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001



Marjorie Black House
47 King William Road
Unley SA 5061

P. 08 8305 4222
F. 08 8272 9500
E. sacoss@sacoss.org.au
www.sacoss.org.au

ABN 93 197 662 296

By email ElectraNet2018@aer.gov.au

13 July 2017

Dear Mr Roberts,

RE: ElectraNet Determination 2018-23 – Revenue Proposal

As the peak body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) has an established history of interest, engagement and provision of proposed advice on the supply of essential services including electricity. We thank the AER for the opportunity to make a submission on the ElectraNet 2018-23 Revenue Proposal. SACOSS also thanks the AER for the opportunity of extended consultation provided through the stakeholder workshop which SACOSS attended, and also through meetings with AER staff.

SACOSS research shows that the cost and supply of basic necessities like electricity have significant and disproportionately greater impacts on vulnerable people. SACOSS advocacy is informed by our members and direct consultations with consumers and other consumer organisations: organisations and individuals who witness and experience these impacts in our community.

Stakeholder Engagement Approach

In the lead up to lodgement of their Revenue Proposal, ElectraNet adopted what they termed an “Early Engagement Approach” (EEA) with various consumer representatives. The key elements of this approach were the engagement of an independent facilitator, publication of a Preliminary Revenue Proposal, and a series of deep dive meetings to examine detailed aspects of ElectraNet’s early proposals with a small group of consumer representatives and the AER.

New Regulatory Process

According to ElectraNet, the EEA was intended to test and focus the Revenue Proposal:

“The primary objective of the early engagement approach was to ensure that the Revenue Proposal submitted to the AER was thoroughly tested by stakeholders and focused on the needs of customers. This engagement was not intended [to] replace the formal revenue determination process, but rather to improve and better inform it through a collaborative approach to develop a more fully tested and understood set of proposal, with the aim of ensuring a more effective and efficient review process built on a level of shared understanding with stakeholders.”¹

The EEA placed significant additional expectation on consumer representatives. Arguably already stretched consumer representative resources were requested to extend to numerous meetings with the business and independent facilitator, in addition to participation on the ElectraNet Consumer Advisory Panel which also met regularly over the consultation period.

¹ ElectraNet (2017) Customer Engagement Outcomes Report at <https://www.aer.gov.au/system/files/ElectraNet%20%E2%80%93%20ENET049%20%E2%80%93%20ElectraNet%20%E2%80%93%20Customer%20Engagement%20Outcomes%20Report%20%E2%80%93%20March%202017.pdf> p.8

SACOSS understands that invitation to participate in the deep dive meetings was extended to all members of the ElectraNet Consumer Advisory Panel. The expectation was that there would be a limited number of participants. SACOSS elected not to nominate due to resource limitations. While SACOSS understands that the consumer representatives who did participate in the deep dive process were largely satisfied with the process, SACOSS believes that the process raises the question of to what extent a small group of consumer representatives can adequately represent the views of all consumers. Given the diversity in the consumer sector, SACOSS firmly believes that it cannot. This therefore raises questions about what the outcomes of the process can reasonably be said to be.

The suggestion that the Revenue Proposal was “thoroughly tested by stakeholders”² needs to be moderated by the actual outcomes. Written and verbal feedback on the Preliminary Revenue Proposal was provided by 14 stakeholders. There were around four consumer representatives who participated in the deep dive sessions. While the aim of providing additional opportunities for stakeholder feedback is to be commended, given the limited numbers participating, care must be taken when interpreting the results.

It is also important to consider what are the responsibilities of the group nominated to represent consumers and who are they accountable to. This is a particularly important question in the context of the deep dive sessions. Do the participants represent their own organisations, or are they expected to represent a wider group of consumers? If the latter, what steps did the group members take to seek broader input in to their considerations? SACOSS understands that the organisations that participated in the deep dive process represented their own organisations and did not take steps to represent a wider group of consumers. Therefore, the caution about interpreting results given limited participation remains. Furthermore, insights and critiques of the ElectraNet proposals post the consultation process are still valid and it is in this context that SACOSS makes this submission.

Obligations of AER

SACOSS believes that the EEA places additional burdens of engagement on consumer representatives. It also arguably enhances the responsibilities of consumer representatives, to mean that they represent a wider range of consumer perspectives than that of their own organisation. The EEA also presupposes adequate technical and economic capacity, detailed understanding of the industry and transmission and in particular understanding of the unique and particular circumstances of the transmission business – all of these cannot be guaranteed in any given revenue determination. It is therefore foreseeable that an EEA type approach will place consumer representatives in an untenable role in current and future scenarios, and particularly in jurisdictions with multiple networks.

If the AER thinks there is a benefit to approaches like the EEA, SACOSS believes it is incumbent on the AER to explain why consumers and their representatives need to be part of extended processes like these. What is the consumer benefit that the AER perceives and why does this necessitate extended consultation? If the AER is actively promoting approaches like the EEA, it can undermine the AER position with broader consumer organisations where consultation has not occurred about the impact on these organisations of extended processes. SACOSS therefore believes that if the AER is to promote approaches like the EEA, the AER must provide detailed guidance notes about process – these should be in the form of formal guidelines and engagement should be undertaken with the AER’s own Customer Consultative Group and Consumer Challenge Panel before their approval.

In meetings with the business, SACOSS understood that one aim of the Early Engagement Approach was to have the Proposal fast tracked through the AER processes, so that the Draft Decision was as close to a Final Decision as possible. SACOSS understands that fast tracking of a proposal would be a new feature of the regulatory process. SACOSS is not supportive of fast tracking as we believe that a revenue determination

² ElectraNet (2017) p.8

requires a consultation process of dialogue and discussion and as a deliberative process, it needs to run its course.

Capital Expenditure

SACOSS sought the advice of Carbon + Energy Markets in relation to ElectraNet's proposed capital expenditure. That advice is contained as an attachment to this submission. SACOSS fully supports the reasoning and findings in that advice.

Specifically, SACOSS does not support expenditure of around \$80m to replace the conductors and earth wire at four sections along the 132 kV line that extends from Cultana near Port Augusta to Port Lincoln near the southern tip of the Eyre Peninsula. We believe that it is in the consumer interest for the decision on this reconductoring to be deferred until evidence that failing to do this reconductoring will have significant and imminent impact on reliability and/or public safety, as outlined in the attached Carbon + Energy Markets advice.

Further, SACOSS does not support Electranet adding \$6m to the regulated asset base for the 30 MW, 8 MWh battery project its it developing as part of a consortium (with AGL and Advisian). As outlined in the Carbon + Energy Markets advice, we consider it is not appropriate for this expenditure to be included within Electranet's RAB since this establishes a conflict of interest. SACOSS believes that it should be expensed in the same way as the network service agreements Electranet has with generators.

We thank you in advance for consideration of our comments. If you have any questions relating to this submission, please contact Jo De Silva on jo@sacoss.org.au or 08 8305 4211.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ross Womersley', written over a light grey rectangular background.

Ross Womersley
Chief Executive Officer



carbon + energy
markets

PO Box 875
Camberwell South
3124
Victoria

Mobile: 0405 505 060
bruce.mountain@cmeaustralia.com.au

13 July 2017

Jo de Silva
Senior Policy Officer
South Australian Council of Social Service
Marjorie Black House |
47 King William Rd,
Unley SA 5061

By email

Dear Jo

Review of Electranet's capex proposal

You asked us to review Electranet's proposed capital expenditure for the regulatory period from 2018 to 2023. This letter responds to that request.

Electranet has proposed a capital program of \$458m over the regulatory period. This program is broken down into a variety of items. One of the largest single items is expenditure of around \$80m to replace the conductors and earth wire at four sections along the 132 kV line that extends from Cultana near Port Augusta to Port Lincol near the southern tip of the Eyre Peninsula.

In our review of Electranet's capex proposal we have focussed mainly on this particular item although we also comment briefly at the end of this letter on Electranet's proposal to recover \$6m from consumers for Electranet's involvement in a battery project.

In preparing advice on this issue we have reviewed Electranet's proposal and their supporting attachments. We also spoke to representatives from Electranet, the AER, the Consumer Challenge Panel and the Essential Services Commission of South Australia (ESCOSA), to seek additional information and clarification of specific points and to understand prior discussion and review of this proposed expenditure.

Context

There seems to be significant public concern about the reliability and quality of grid-supplied electricity on the Eyre Peninsula. In this regard, the Treasurer of the South Australian Government asked Escosa to review this in an inquiry referral on 9 March 2017.

Electranet owns and operates the 132 kV transmission line that extends to Port Lincoln and then to Uley South before terminating near the coast. SA PowerNetworks owns and operates 66kV and 33 kV distribution and sub-transmission lines that connect to this 132 kV spine. Electranet also has a network support agreement with Synergen, an entity within Engie, for back-up supply from three diesel fired turbines with a total capacity of 75 MW, located at Port Lincoln. In addition to this, there is a 66 MW wind farm at Cathedral Rocks south of Port Lincoln and a 70 MW wind farm at Mount Millar which is connected to the 132 kV network at roughly the mid-point between Cultana and Port London via a 132 kV spur line.

The Escosa Report says that there are 24,000 electricity customers on the Eyre Peninsula serving a population a little over twice that. We understand the simultaneous peak demand on the 132 kV line (presumably measured at Cultana?) is around 50 MW. This compares to South Australia's simultaneous peak demand of around 3,000 MW

The Escosa Report examines the historic reliability of supply on the Eyre Peninsula, measured as indices of the frequency and duration of minutes off supply, and distinguishing between failures attributable to "generation/transmission" and distribution outages. The duration index shows distribution outages account for most minutes off supply while the frequency index points to generation and transmission outages as being more significant. Since generation is not distinguished from transmission it is not clear how many minutes off supply is explained by transmission outages on the 132 kV line versus generation

outages. It is however obvious that the spike in “generation/transmission” outages in 2016/17 is attributable to the South Australia-wide black out on 16 September 2016.

We asked Electranet for the history of outages attributable to conductor failure at any of the four sections that they propose to replace but at the time of writing we have not yet received a response.

Escosa’s report says that the replacement of sections of the 132 kV line (which we presume corresponds to Electranet’s proposal to the AER) will make no difference to the reliability of supply on the Eyre Peninsula.

Electranet’s proposal and rationale

In its proposal (in Attachment 6) Electranet describes the Yadnarie to Port Lincoln and Cultana to Yadnarie 132 kV Line Conductor and Earth Wire Refurbishment projects. They propose to include \$38.2m and \$35.5m respectively in their Regulated Asset Base for expenditure on these two projects between 2018 and 2023. A further project also on Line Conductor and Earth Wire Refurbishment but with an unknown location is proposed, costing \$17.7m.

For all three of these projects, Electranet has provided the same rationale which is repeated below:

“The identified need for this project is to replace sections of transmission line conductor and earth wire that are in poor condition and at risk of failing and dropping a conductor to ground with consequential risks to public safety, including from bushfires, and customer reliability.

This project is required to refurbish the sections of line conductors and earth wire in poor condition, and in so doing achieve a life extension of the overall asset.

The failure modes of the conductors and earth wires have been identified. Corrosion of aged conductors and earth wires is the dominant failure mode. The loss of cross section or mechanical integrity of the conductor / earth wire can result in a conductor breaking and falling to ground with consequential risks to public safety, including from

bushfires, and customer reliability.

A detailed conductor/ earth wire visual inspection and non-destructive testing program has been conducted for lines exhibiting signs of worsening condition and has identified a statistically valid failure rate, via prioritised sample based testing, that poses unacceptable risk of failure.

A full cyclic testing and corrective repair / replacement program is considered cost prohibitive and does not materially reduce the risk of failure.

This project is required to meet the Rules capital expenditure objectives to comply with all applicable regulatory obligations or requirements associated with the provision of prescribed transmission services and to maintain the quality, reliability and security of supply of prescribed transmission services.”

In discussion with the AER’s representatives we understand that Electranet provided additional supporting information on these projects and that there has been extensive prior discussion with the AER and consumer groups. We asked Electranet and the AER for a copy of any written material from this and were referred to the AER’s website. In one presentation from Electranet to the AER there is a brief reference to the project and there are also numerous pro-forma sheets of input data to a model – but many of the sheets however have zero as the relevant entry.

Assessment

Electranet envisages expenditure of around \$80m to re-conductor and replace the earth wire at the four sections of the line. This is an average cost per customer of around \$2,500 or around \$1.5million per MW of peak demand on this 132 kV line.

The rationale for this expenditure raises questions. For example:

- Specifically what conductor tests were undertaken and how has this been used to assess failure?
- What are the consequences of failure, having regard to the network support agreement with Synergen, plausible estimates of the frequency and duration of

outages, the value of lost load and public safety?

- Is there evidence to-date of failure attributable to the conductor deterioration at the four sections that Electranet proposes to replace?

We sought information from Electranet on this but at the time of writing have not yet received a response.

The information in Escosa's Report undermines a claim that reconductoring is urgently needed (not that Electranet seems to be making this claim). As noted earlier, Escosa's calculation – presumably based on data provided by Electranet – is that reconductoring will make no difference to the minutes off supply on the Eyre peninsula.

Electricity demand and supply in the Eyre Peninsula seems to be changing rapidly as it is in the rest of South Australia and also around Australia. Escosa's report refers to proposals by Eye Energy to develop relatively significant distributed generation possibly including battery storage. We would not be surprised if deeper examination found many other such possibilities under consideration, much of it not in the public domain. Continued demand-side production development is surely likely. We are also aware of possibly new mines on the Eyre Peninsula and expansion of wind generation capacity that would affect the value of the 132 kV line and of the appropriate expenditure, if any, on maintenance or expansion of transmission expenditure on the Eyre peninsula transmission capacity. In this regard, Electranet has identified possibilities for additional 132 kV lines that it intends to subject to the Regulatory Investment Test and has included in its application as contingent projects. The value of these additional lines (and the merits of reconductoring sections of the existing line) will be affected by these subsequent developments. In the absence of an urgent need to reductor the existing line, it would be sensible to evaluate the merits of reductoring existing lines at the same time that these substitutes are being seriously evaluated.

Finally we draw attention to Escosa's concern that the pursuit of their respective private interests by Electranet and SA Power may not be delivering the public interest. This concern seems germane considering the respective private interests of these two network service providers, but also the competing interests of existing generators and possibly also future generators, customers and battery owners.

Bringing these concerns together, we suggest that justification for such significant expenditure on reconductoring sections of the existing line rest on compelling evidence that failing to do this will have significant and imminent impact on reliability and/or public safety. The documentation that we have reviewed does not provide any evidence of such risk.

Accordingly we suggest that it would be advantageous to electricity consumers, and the public, for decision on this reconductoring to be deferred until such evidence becomes available.

Battery project

Electranet is part of a consortium (with AGL and Advisian) developing a 30 MW, 8 MWh battery. It is seeking \$6m to be added to the regulated asset base for this project. We understand that Electranet now intends to include this expenditure within its regulatory asset base in this regulatory period.

The information to justify passing this cost on to consumers is not in Electranet's application and so we are unable to assess the merits of this claim. However we consider it is not appropriate for this expenditure to be included within Electranet's RAB since this establishes a conflict of interest. It should be expensed in the same way as for network service agreements Electranet has with generators.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'BRUCE MOUNTAIN', with a long horizontal flourish extending to the right.

Bruce Mountain
Director