

## CONSUMER ADVISORY PANEL

### MEETING # 10

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- Date:** Wednesday 8 November 2017
- Time:** 1:00pm to 3:00pm
- Venue:** Pullman Adelaide, Hindmarsh Square (Hindmarsh 2)
- Purpose:**
- Review the AER's Draft Decision on ElectraNet's Revenue Proposal
  - Discuss implications and focus areas for responding
  - Share indicative revised Revenue Proposal estimates for discussion
  - Receive an update on major projects & developments
- Attendees:** Refer Attachment 1
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### MEETING NOTES

#### 1. Introduction

Ann Shaw Rungie welcomed Consumer Advisory Panel members and guests to the meeting, and introduced new company representative Angela Faulkner, Stakeholder Relations Advisor.

The Panel accepted the meeting notes of the previous meeting (CAP meeting #9) held on 17 July 2017 as a true and accurate record.

#### 2. AER Draft Decision outcomes and next steps

Simon Appleby, Senior Manager Regulation and Land Management, provided an overview of the Australian Energy Regulator's (AER) Draft Decision on ElectraNet's Revenue Proposal, released on 26 October 2017. This included the key outcomes of the Draft Decision and the implications and focus areas for ElectraNet in responding in its revised Revenue Proposal based on initial analysis, pending more detailed review.

Key points included the following:

- Most aspects of the Revenue Proposal were accepted by the AER in its Draft Decision, including the method for establishing the Regulatory Asset Base (RAB), Weighted Average Cost of Capital (WACC), regulatory depreciation, capital expenditure forecast, operating expenditure forecast, contingent projects, corporate tax allowance, incentive scheme arrangements, Pricing Methodology and Negotiating Framework.
- It was noted that the contingent projects were accepted in the AER's Draft Decision, not approved. Actual approval of a contingent project by the AER is a separate

decision making and consultation process that occurs at the time a contingent project is triggered.

- The main elements not accepted related to the value of imputation credits (known as gamma) which forms an input to the tax allowance, and the approach to forecasting inflation.
- In relation to gamma, the AER revised the value from 0.25 to 0.40 based on its prevailing method and the outcomes of appeals which followed the Revenue Proposal.
- In relation to inflation, the AER did not accept ElectraNet's proposed method and maintained its prevailing forecasting approach, pending the outcomes of a separate review it is undertaking into its inflation forecast method for regulatory purposes.
- As a result of these changes and updates, the residential customer price impact improved in the Draft Decision from an estimated reduction in the transmission component of the average bill of \$14 per year to \$22 per year.
- Both the AER and Consumer Challenge Panel reflected very positively on ElectraNet's consumer engagement program, including the role of the Consumer Advisory Panel.
- In its focus areas for response to the Draft Decision, ElectraNet was proposing to:
  - accept the Draft Decision outcomes in relation to WACC and gamma
  - maintain its proposed approach to forecasting inflation, pending the outcomes of the AER's separate review
  - update the operating expenditure forecast in response to the Draft Decision.
- In relation to the operating expenditure forecast it was noted that:
  - the AER had accepted ElectraNet's proposed forecast (\$440m) and found it to be well below its own efficient benchmark forecast (\$474m)
  - the AER expected changes to ElectraNet's forecast based on reviews that have occurred since submission of ElectraNet's Revenue Proposal, following the advice ElectraNet provided to the Panel and wider stakeholders on 6 October 2017
  - ElectraNet's debt raising cost methodology was accepted, but the costs (\$0.8m) were found to be calculated incorrectly, being based on input data contained in the AER's Post Tax Revenue Model.
- In relation to debt raising costs, ElectraNet was proposing to apply the debt raising cost that was correctly calculated by the AER in its Draft Decision (\$6.3m) based on its accepted benchmark methodology using updated input assumptions.
- As highlighted in the Revenue Proposal, SA is at the forefront of system security challenges being faced by power systems throughout the world due to increasing levels of non-synchronous generation (e.g. wind) compared with synchronous generation (e.g. conventional plant). As advised to stakeholders in October 2017, ElectraNet now faces a range of recently imposed obligations as a result. These include requirements for national grid planning, maintaining levels of inertia and system strength in the power

system, and additional reporting and disclosure obligations. These new requirements are expected to have an indicative net cost impact of around \$2m per annum, after allowing for costs that can be absorbed within existing resource limits.

- Based on these proposed updates to the operating expenditure forecast, the estimated household price reduction is indicatively estimated to be around \$21 pa, compared with \$22 in the AER's Draft Decision.
- With these updates, the operating expenditure forecast would still remain well below the AER's efficient benchmark forecast.

The following issues were raised by Panel members in discussion:

- Q. Why was the asset life for line refit projects extended from 27 to 48 years?  
A. The AER determined that the asset components being replaced in the coming period have a longer asset life than those that have been replaced in the current period with a standard asset life of 27 years.
- Q. Why was the proposed synchronous condenser asset class not accepted?  
A. As there is no expenditure proposed on such assets in the approved capital expenditure forecast, the AER determined that this new asset class could be introduced as and when needed if investment was required in synchronous condensers during the coming period through a contingent project.
- Q. Why aren't debt raising costs based on actual (i.e. historic) revealed costs?  
A. The AER applies a benchmark forecast approach which is based on an independent estimate of debt raising costs incurred by an efficient business. It applies an established methodology developed by external experts which has been updated for recent market data, and is applied consistently across network revenue determinations. Setting a benchmark allowance based on the efficient level of debt raising cost a business should incur is also consistent with the benchmark approach to the cost of capital, and provides additional incentive for businesses to fund their debt efficiently and reduce their costs.
- Q. Will AEMO make an assessment of any gaps in inertia and fault levels? How is ElectraNet looking at fast frequency response?  
A. AEMO has already declared a shortfall in the SA region in relation to system strength services which ElectraNet must now act upon, and continues to assess any shortfall in relation to inertia services in SA, which help to manage power system frequency.
- Q. How much renewable generation can be allowed in SA before breaching any guidelines?  
A. ElectraNet's responsibility is to offer to connect any generation applicants to the network provided the plant meets the applicable technical requirements. In practice, the viability of new generation will be limited by the commercial return that can be achieved in the market, including the impact of current limits on non-synchronous generation output being imposed by AEMO (1,200 MW) to ensure stability of the power system.

- Q. If wind farms are pared back are they compensated? How can we be sure consumers are not paying twice?
  - A. No direct compensation is payable to affected wind generators by AEMO when constraints are applied to limit the total amount of wind generation output in South Australia. Only generators directed to come or remain online are compensated for their costs.

The next steps in the Revenue Determination process are as follows:

Milestone	Timing
Revised Revenue Proposal due	2 Jan 2018
Submissions on Draft Decision & Revised Revenue Proposal due	29 Jan 2018
AER to publish Final Determination	30 Apr 2018

ElectraNet undertook to distribute the revised Revenue Proposal to the Panel at same time it was lodged with the AER, with a target date of 22 December 2017.

### 3. Update on major projects and developments

Rainer Korte, Executive Manager Asset Management, provided an update on the following major projects and developments.

#### ESCRI – battery storage project

The ESCRI battery storage project involving the installation of a 30MW, 8MWh battery at Dalrymple on Yorke Peninsula continues to progress, and remains on schedule for full commissioning by 30 April 2018.

AGL will operate the battery under a leasing arrangement to provide unregulated generation services, while the battery will also provide regulated network services in the form of (1) fast frequency response capability to improve inter-regional power flows and (2) the ability to operate when the line is out of service to maintain supply to the local ‘island’ together with the nearby wind farm output and local solar generation output, improving reliability outcomes to customers in the area.

Knowledge sharing obligations under the funding arrangements with ARENA will ensure the outcomes of this demonstration project continue to be shared over time.

- Q. Will people be able to tour or see the battery?
- A. The battery system will be housed inside a shed with little to see from the outside. Consideration is being given to conducting an open house for those interested to see the battery installation.

### Response to System Strength Gap

AEMO formally declared a system strength gap in SA on 13 October 2017, which ElectraNet is required to address on a reasonable endeavours basis by end March 2018.

AEMO is presently managing this shortfall by requiring three synchronous generators to be operating at all times, and directing units online as needed.

To meet the requirement in the short term, the only available option is for ElectraNet to seek to contract with generators to provide the service. An invitation to tender for this service is expected to be issued in December 2017.

In the longer term, it is expected that network solutions (i.e. synchronous condensers) may be a more efficient option. ElectraNet is separately undertaking an economic evaluation of these options. This is being undertaken as an expedited process as the urgent timeframes do not require or enable a full RIT-T process to be undertaken under the Rules.

- Q. Will the National Energy Guarantee impact on this requirement?
- A. The proposed National Energy Guarantee remains to be agreed at this point and will not impact on the immediate requirement. If implemented, any interactions with the system strength gap will be worked through at that time.

### Eyre Peninsula Electricity Supply Options

ElectraNet continues its investigation into future transmission supply options for Eyre Peninsula through the RIT-T process. Following the release of the Project Specification Consultation Report in April 2017 and public forums held in June 2017, a Project Assessment Draft Report is being finalised for release in the coming days. This will be followed by public forums later in November in Adelaide and Port Lincoln.

Five broad options have been assessed, including full line rebuild solutions, higher capacity 275kV options and diverse route options. These options also consider the future need for any network support arrangement at Pt Lincoln following the expiry of the existing contract in December 2018. This is also the first RIT-T assessment in the NEM which explicitly includes option value for developments that could happen in the future.

In its Draft Decision, the AER has accepted around \$80m of expenditure for conductor replacement on the transmission line. Should a larger scale line rebuild proceed, it would replace the need for this work and the additional expenditure would be sought separately as a contingent project.

- Q. How will Renewable Energy Zones be taken into account in the analysis?  
A. Eyre Peninsula may be identified as a renewable energy zone, and the main driver of the most economic option is the ability to unlock additional wind generation capacity, and broader market benefits. .
- Q. What value of customer reliability has been assumed?  
A. The values of customer reliability published by AEMO have been used in the assessment. However, reliability outcomes do not have a large bearing on the assessment, and the most economic solution is not dependent on major new step loads (e.g. mining developments) proceeding.

- Q. Do the options involve any Scale Efficient Network Extensions (SENEs)?  
A. The options evaluated are limited to rebuilding the existing transmission network on the Eyre Peninsula, and do not include potential extensions of the network to reach new wind generation sources. Connection to the network would need be funded by generation proponents

#### South Australian Energy Transformation Project

ElectraNet continues its investigation into the feasibility of new interconnector options and non-network alternatives through the South Australian Energy Transformation Project. This assessment formally commenced in November 2017 with the release of a Project Specification Consultation Report.

Extensive feedback has been received through the consultation to date, including significant interest from non-network proponents. ElectraNet continues to undertake additional modelling work and assess the credible options in the context of the changing external environment, in consultation with AEMO and other regional planning bodies.

A further update will be released in due course as this work progresses.

- Q. How long would it take to deliver a new interconnector?  
A. Actual build times could be as short as two years (on an aggressive schedule) from the time that all necessary development approvals and easements had been secured.
- Q. How would the costs of any new interconnector be recovered?  
A. The costs would be funded by the customers of the respective States in which the new transmission assets are located. Inter-regional TUOS (Transmission Use of System) charging arrangements provide for a level of sharing of transmission costs between adjoining regions.

#### **4. Wrap up & Next steps**

The next Panel meeting is scheduled for 23 January 2018, and will focus on the final revised Revenue Proposal lodged by ElectraNet, the status of major projects and developments, and focus areas and priorities for 2018.

## ATTACHMENT 1 – Attendees

<b>Member</b>	<b>Organisation</b>
Peter Dobney*#	Director, Energy Users Association of Australia
David Headberry*	Public Officer, Energy Consumers Coalition of SA (ECCSA)
Mark Henley	Mark Henley Manager Advocacy and Communication, Uniting Communities
Andrew McKenna	Senior Policy Advisor, Business SA
Jo De Silva	Senior Policy Officer, SACOSS
Vivienne Smith	COTA SA
Graham Pratt*	Consumers Association of South Australia
Tim Kelly	Nominee, Conservation Council of South Australia
<b>Independent Facilitator</b>	
Ann Shaw Rungie	Independent Facilitator, Ann Shaw Rungie Consulting
<b>Consumer Challenge Panel</b>	
Bev Hughson#	Member, Consumer Challenge Panel #9
Andrew Nance	Member, Consumer Challenge Panel #9
<b>Australian Energy Regulator</b>	
Adam Petersen	Director
<b>Company Representatives</b>	<b>ElectraNet</b>
Rainer Korte	Executive Manager, Asset Management
Simon Appleby	Senior Manager, Regulation and Land Management
Angela Faulkner	Stakeholder Relations Advisor

\* Attended by phone

# Part attendance

### Apologies:

Sandy Canale - Energy and Water Ombudsman, Energy and Water Ombudsman SA

Hon Robert Kerin - Executive Chairman, Primary Producers SA

Rebecca Knol - Chief Executive, South Australian Chamber of Mines

Taryn Sexton, Chief Executive Officer, Local Government Professionals Australia