

# Consumer Advisory Panel Meeting 26

Monday, 17 October 2022

# Welcome

**Leanne Muffet**  
Independent Facilitator

# Acknowledgement of Country

We acknowledge the Traditional Owners of the land on which we meet and pay our respects to their Elders past and present. We extend that respect to other Aboriginal and Torres Strait Islander people who are present today.

Welcome

- Welcome
- CAP input to Revised Revenue Proposal
- AER Public Forum
- Next Steps

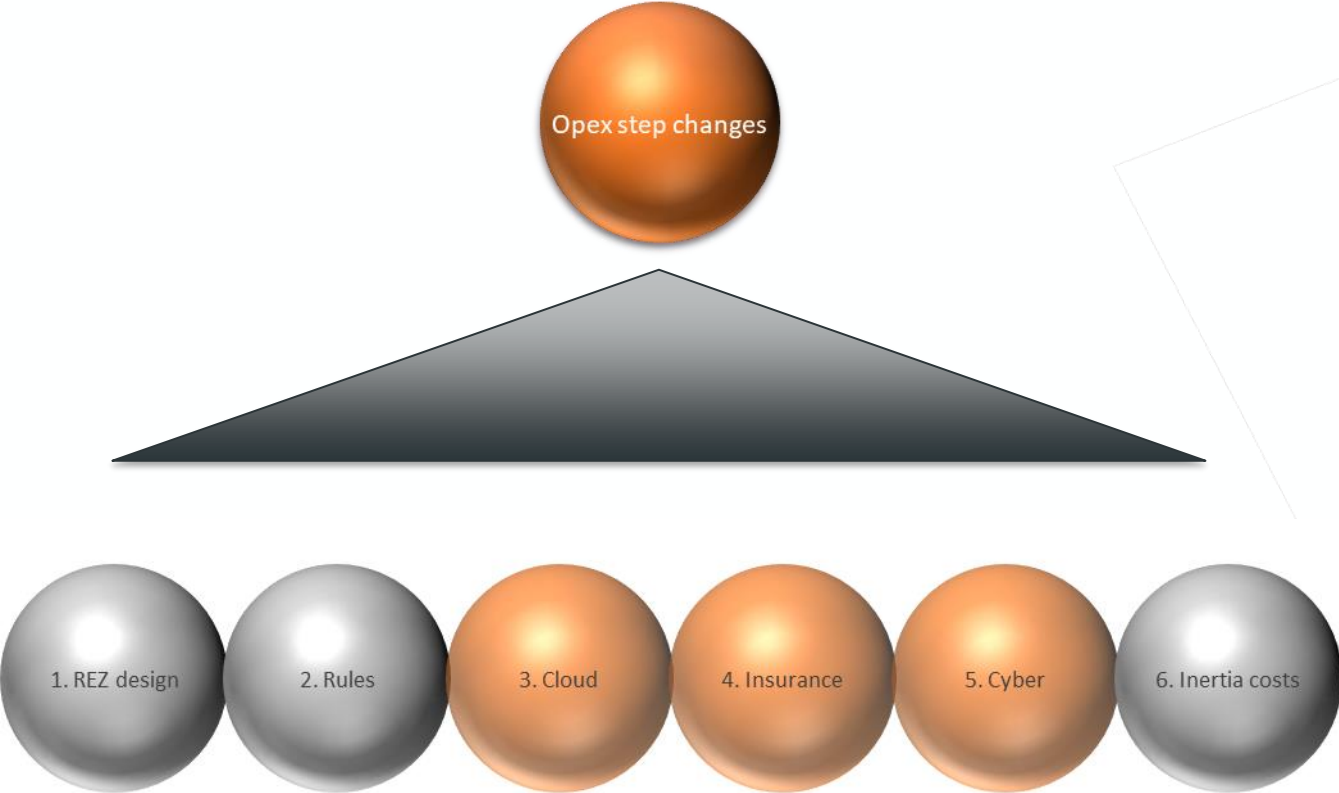
# Revised Revenue Proposal

## Outstanding issues

**Jeremy Tustin**

Regulated Investment Planning Manager

# For discussion



- 1. What are the customer considerations?
- 2. What role should the CAP have in this issue?
- 3. What other information do you need to fulfil that role?

# Key topics nominated by the CAP

- Price impact
- Capital Expenditure Sharing Scheme
- Insurance step change
- Cyber step change
- Contingent Projects

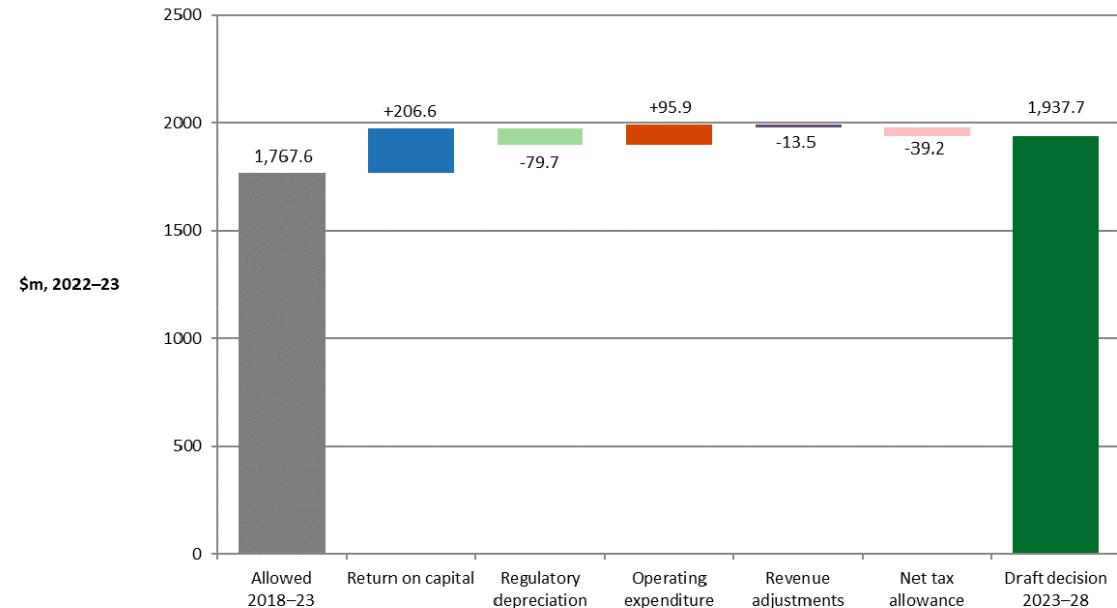
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# Price impact

## AER Decision:

- *...it may seem peculiar that we are determining a revenue allowance that is higher than ElectraNet initially proposed.*
- *Our draft decision accepts ... capex but includes a lower forecast opex.*
- *...we have seen increases in interest rates.*
- *... we have employed current interest rates rather than the placeholder values in ElectraNet's proposal.*
- *It is important that we update for the latest market data so that ElectraNet's determination reflects current financial market conditions.*

Figure 2 Change in building block revenue 2018–23 to 2023–28 (\$million, 2022-23; unsmoothed)





# Price impact

## What ElectraNet heard from Customers

- *With increasing inflation and interest rates since the Revenue Proposal was lodged, revenue has increased by 15 per cent.*
- *It may be worthwhile for the CAP to reflect on the total Draft Decision impact on customers.*
- *Review other parts of the ElectraNet proposal to consider potential reductions elsewhere to offset the Rate of Return and further potential increases*

## ElectraNet's initial thoughts

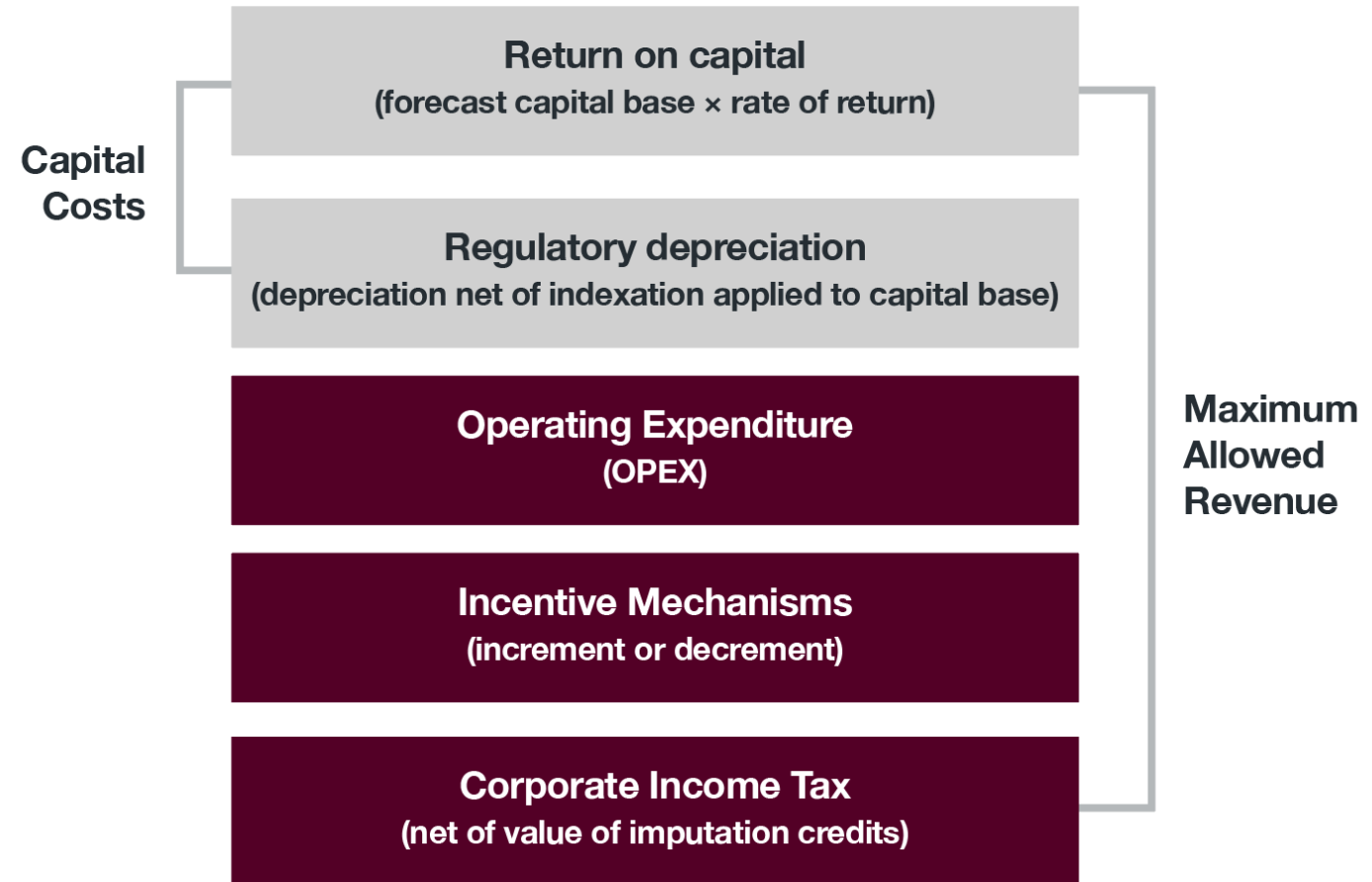
- Key issue is balance between cost and risk
- Existing capex forecast
  - balances cost, security and reliability
  - optimised for the long-term interests of customers
- Deferring capex will increase cost to customers
  - Reliability risks in the short term
  - Price impact in the long-term
- While developing Revenue Proposal with customers, we reduced our capex forecasts 12%
- Concerned that further reductions would increase risk unacceptably
- New capex requirements have arisen since

# Price impact

## Key factors influencing revenue & price

- Rate of return
- Capex
  - Past and proposed
  - Contingent projects
- Opex
  - Step changes
- Revenue adjustments (incl. CESS and other incentive mechanisms)
- Energy consumption (price only)

Where can real customer impacts be found?

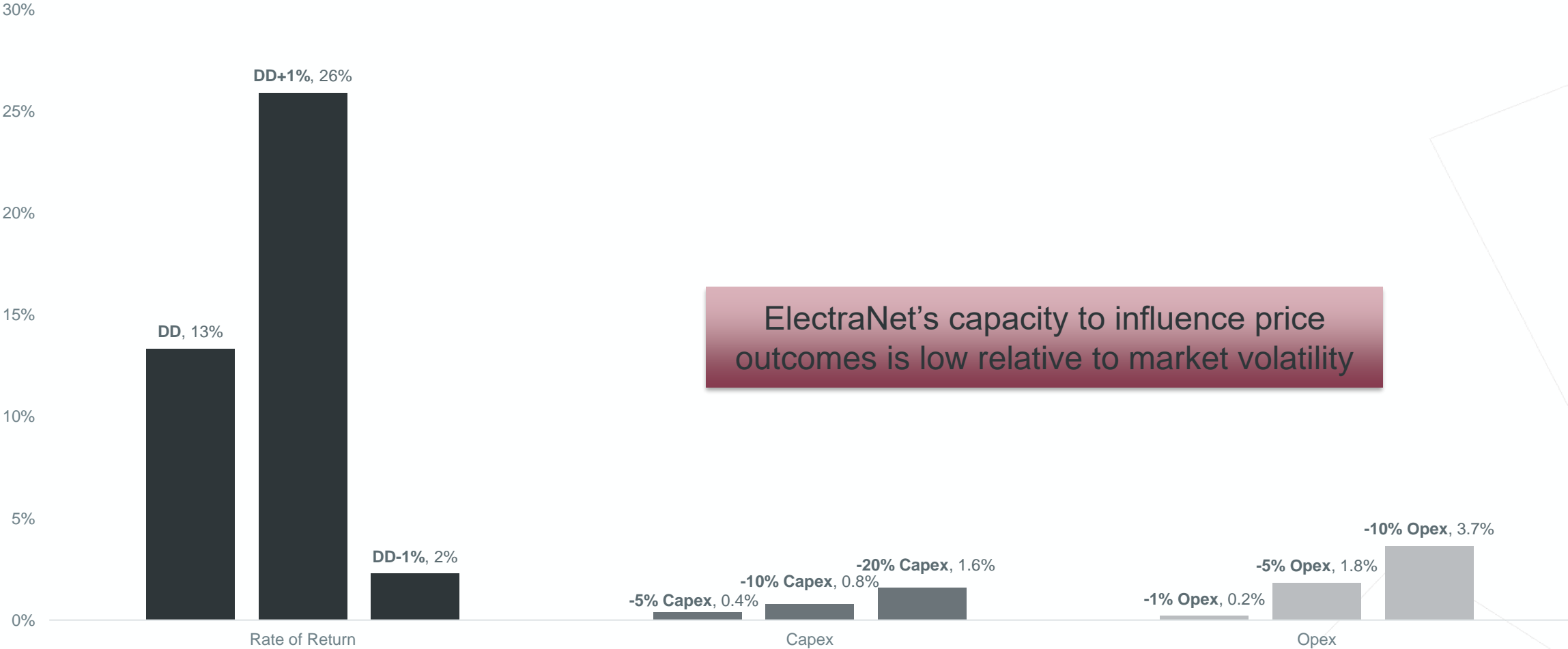


# Contingent Projects

Project	Description	Indicative cost (\$m)
<b>Accepted Contingent Projects</b>		
Eyre Peninsula Upgrade	The project allows for the upgrade of the northern section of the Eyre Peninsula line from 132 kV to 275 kV to serve higher loads, which is accommodated in the design and/or augmentation of power transfer capacity between Davenport and Cultana.	50-150
Network Power Quality Remediation	This project allows for the installation of the relevant equipment to maintain power quality standards across the transmission network in relation to voltage harmonic requirements	30-60
<b>Declined Contingent Project</b>		
Future interconnector upgrade (currently subject of a planning study for the SA Government)	Triggered by future generator closure interstate	

An actionable ISP project or system strength investment required by AEMO under the Rules is also automatically deemed a contingent project if required

# Price impact (% real terms)



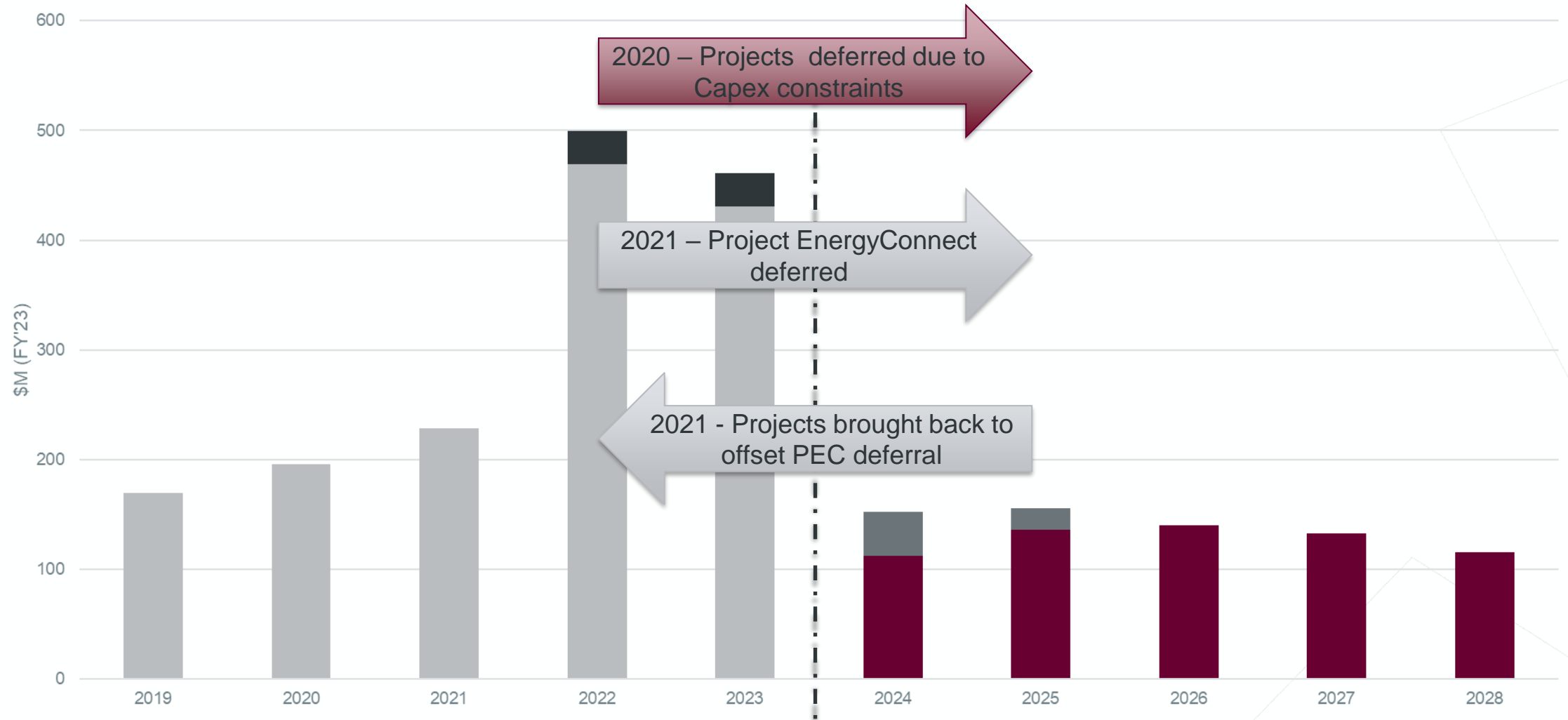
ElectraNet's capacity to influence price outcomes is low relative to market volatility

*If both accepted Contingent Projects were to proceed in the coming period, the estimated revenue impact would be in the order of ~1%*

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# Capital Expenditure Sharing Scheme



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# Insurance cost pressures

Global events have put substantial upward pressure on insurance markets

- COVID-19
- Bushfires
- Qld and NSW floods - may end up in top 4 insurance cost events ever

## Impact on ElectraNet

- Legal obligations to maintain certain level of insurance
  - Transmission licence
  - Financier covenants
  - Leasing arrangements
- Tightening market – reduced choice
- Situation has deteriorated this year
  - Forthcoming cost pass through application
- Consideration as to whether existing forecast is adequate based on latest market movements

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# Cyber security

The Australian Energy Sector Cyber Security Framework sets out a roadmap for improving cyber security

The AER and ElectraNet agree that:

- It is prudent for ElectraNet to increase to Security Profile 3 (SP-3)
- This will place pressure on opex which requires a step change

The AER has not accepted ElectraNet's forecast costs of achieving this

## Impact on ElectraNet

- Significant internal and external resources are needed to address all areas required
- Independent expert advice obtained
- Some preparations already brought forward
- ElectraNet needs to consider position and revisit cost forecasts

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# Update on other outstanding issues (information only)

Topic	Outstanding Issues	Status
Rule changes	<ul style="list-style-type: none"><li>• Resource impact of recent Rule changes</li><li>• REZ Design Report costs</li><li>• System security capability uplift requirements</li></ul>	ElectraNet continues to work through the cost implications of these capability requirements
Inertia services	<ul style="list-style-type: none"><li>• Recovery of inertia service costs to be incurred in FY24 and FY25</li></ul>	Market tendering under way. Costs currently estimated at \$6.7m pa based on historical outcomes.
IT Cloud migration	<ul style="list-style-type: none"><li>• Recovery of additional ongoing operating costs associated with migration to cloud computing</li></ul>	ElectraNet continues to consider the implications of this decision
Escalation	<ul style="list-style-type: none"><li>• Updates for inflation movements</li></ul>	To be updated where needed in forecasts

ElectraNet will continue to keep the CAP informed as it works through these outstanding issues and is happy to engage further on any aspects

# AER Public Forum

Leanne Muffet + Mark Henley

# Wrap up + next steps

**Chris Hanna**

**Government + Stakeholder Relations Adviser**