



Consumer Advisory Panel Working Group

Preliminary Customer Engagement Outcomes

Introduction

The Preliminary Revenue Proposal was published on 14 July 2021, containing indicative expenditure forecasts forming the basis of engagement.

ElectraNet has found its engagement with the CAP Working Group (and the AER) to be very valuable in helping shape its expenditure plans for the Revenue Proposal to be submitted in January 2022.

As outlined below, the CAP Working Group has directly and indirectly impacted decisions in the Revenue Proposal, with the most substantial impact from the feedback themes of the CAP Working Group, particularly in putting downward pressure on costs and further exploring alternative project proposals.

Lowest Possible Costs

What we heard

Feedback from CAP Working Group was clear:

- ElectraNet should be doing everything possible to keep its costs as low as possible – ElectraNet’s high comparative operating costs compared with other Electricity Transmission Network Service Providers (TNSPs) based on AER benchmarking was highlighted.
- Are we keeping costs as low as possible?
- Is this a ‘nice to have’ project or a ‘must have’ project?
- Could the project be deferred or partially deferred?
- Are there lower cost solutions?

Our Response

The feedback from the CAP Working Group has directly fed into ElectraNet’s line by line Management review of the entire capital program resulting in a net reduction in the capex forecast from \$832m in the Preliminary Revenue Proposal to \$736m (a reduction of \$96m or about 12%), prior to making accounting adjustments to remove the cost of cloud-based technology services that must now be treated as operating expenditure. The review led to following changes in the proposed capital program:

1. Several projects have been cancelled:

- Substation strung bus insulation replacement (-\$19m)
- Local High Voltage Management (-\$14m)
- Bungama-Port Pirie line refurbishment (-\$12m)
- Digital substation design standard (-\$3m)
- Wide area protection scheme expansion (-\$3m)

CAP Working Group – Preliminary Customer Engagement Outcomes

2. A range of project scope changes have been made, including:

- Reduced scope of the tower anti-climb project (-\$15m)
- Reduced scope of power quality management project (with remaining scope transferred to a contingent project) (-\$53m)

3. Several project cost reductions have been made, including:

- Reductions on the Brinkworth-Waterloo bearer project (-\$12m)
- Design improvements on the substation security program (-\$9m)

In relation to opex, ElectraNet maintains a strong focus on reducing its costs, including restrictions on recruitment, external consultancy, travel and training costs, as reflected in the FY21 base year on which the forecasts are based.

We have also considered further opportunities to reduce forecast costs in response to the Working Group's feedback, including sharing of risk between customers and the business in areas such as insurance and cyber security, and options for cost pass-through.

Realistically, there are no further opportunities to sustainably reduce operating costs given known cost pressures, without placing at risk the ongoing ability of ElectraNet to efficiently manage and operate the network to deliver the services customers expect.

Our updated opex outlook is a realistic reflection of our expected costs and remains consistent with the AER's base step trend approach. We believe the opex outlook reasonably satisfies the National Electricity Rules operating expenditure objectives and is reasonable for the purpose of establishing an efficient ex-ante opex allowance.

Customer Centric Approach

What we heard

The Working Group provided clear feedback on the need to strengthen the link between the identified need of projects and customer benefits, particularly for technology projects. We heard that delivering a strategy is not sufficient, and increasing data to be managed does not necessarily require greater investment. Customer benefits should be central to development of projects and value to customers must be clear.

Response

In reviewing the capital expenditure forecasts, ElectraNet has revisited the case for projects to better define customer benefits and reprioritise accordingly. This was most relevant in the technology capex portfolio, where ElectraNet has:

- Reconsidered the benefits to be delivered to customers for all non-recurrent projects;
- Reviewed the priority of each project in the program;
- Cancelled two projects based on this review.

More broadly across the capital program, where a project didn't have a strong apparent link to clearly defined customer benefits, either more work was done to clarify the expected benefits, or the project was reduced in scope or cancelled.

CAP Working Group – Preliminary Customer Engagement Outcomes

Collaboration between ElectraNet, SA Power Networks and AEMO

What we heard

Customers expect close cooperation and collaboration between ElectraNet, SA Power Networks and AEMO to ensure efficient, coordinated solutions are developed, particularly in response to the challenges of South Australia's energy transition, and to avoid double up or overlapping solutions.

Response

Consistent with this feedback, ElectraNet:

- established a Joint Network Strategy Committee with SA Power Networks to review and discuss the challenges facing South Australia through the energy transformation and to coordinate efforts in the best interests of customers. We have worked with this Committee to provide oversight on network development projects and any other potential projects that may overlap between networks, adding to the pre-existing joint planning processes under the National Electricity Rules.
- continues to work with SA Power Networks in a staged approach to power quality management involving further measurement and investigation of potential solutions, with any major investment to be undertaken subsequently, potentially as a contingent project as indicated above.
- cancelled the local high voltage management project as above, in consultation with SA Power Networks and AEMO.
- actively engaged with AEMO in its review of ElectraNet's proposed network development projects for the purpose of the Revenue Proposal – AEMO's feedback will be provided when available.

Tower Anti-Climb

What we heard

ElectraNet sought feedback from the CAP Working Group in relation to this project. The CAP Working Group expressed broad support for this project and sought clarity on how the sites were chosen and the criteria used, whether the scope of the project could be reduced, and suggested input could be provided from suicide prevention experts.

Response

ElectraNet provided the requested information the Working Group on 10 August 2021 and presented several options for the scope and prioritisation of this project.

We are proposing to adopt a lower cost option, reducing the project scope and cost from \$36m in the Preliminary Revenue Proposal to \$21m largely by adopting a more targeted and staged approach to addressing the public safety risk.

We understand Lifeline is being consulted on one aspect of the safety risk related to the project. Any further advice from Lifeline will be incorporated as the proposal is finalised.

The feedback from the CAP Working Group has directly impacted on the inclusion of this project and its scope in the proposal.

CAP Working Group – Preliminary Customer Engagement Outcomes

Northern REZ Strategic Land Acquisition

What we heard

ElectraNet sought feedback from the CAP Working Group on the opportunity for a strategic land acquisition in preparation for the potential future need for the Northern Renewable Energy Zone in AEMO's Integrated System Plan.

The CAP Working Group recognised the value in avoiding more expensive future solutions and was comfortable with ElectraNet proceeding with the acquisition of the easements in the Proposal, recognising also that any land purchased could be sold in future if not needed.

Response

As a result of the feedback from the CAP Working Group, ElectraNet will include this project in the Proposal. Without support from the CAP Working Group, this project may not have been included in the proposal.

Power Quality Management Project

What we heard

The CAP Working Group sought more information and asked ElectraNet to consider all options on the way forward for this project.

Response

In exploring all the options for this project and considering feedback from the CAP Working Group, ElectraNet will be installing measuring devices to better identify the issues and develop a more targeted and staged approach.

A contingent project will be proposed to respond to the potential outcomes from the monitoring and studies. Based on the feedback from the Working Group and consideration of legal advice on compliance with the National Electricity Rules Schedule 5.1, this was chosen to be the best outcome, and allows distribution and other options to be fully considered.

Cyber Security

What we heard

The CAP Working Group highlighted the uncertainty around the timing of expected legislative obligations related to cyber security maturity levels and asked whether a cost-pass through would be more appropriate.

Response

The feedback from the CAP Working Group has been seriously considered in evaluating the options available to the business in the decision making process. The proposed expenditure for cyber security uplift will be determined by the ElectraNet Board and is currently expected to involve a full compliance solution based on the growing likelihood of firm legislative obligations in the short-term.

CAP Working Group – Preliminary Customer Engagement Outcomes

Substation Security

What we heard

We discussed with the Working Group a review we were undertaking of our substation security program. The Working Group was interested to ensure a coordinated and efficient approach was being taken to these closely related projects.

Response

Our review confirmed these projects as complementary initiatives each with a specific purpose, while also identifying opportunities to reduce the cost of some of these projects through careful design and scope changes, in line with feedback from the Working Group.

The proposed changes result in a reduction to the cost of these projects of around \$10m.

10 November 2021