

CONSUMER ADVISORY PANEL

MEETING # 7

- Date:** Tuesday, 17 January 2017
- Time:** 2:00pm to 4:00pm
- Venue:** Crowne Plaza, Hindmarsh Square (Hindmarsh 1 – Level 15)
- Purpose:**
- Inform the Panel of the latest stakeholder feedback
 - Update the Panel on the status of the Revenue Proposal and agree next steps
 - Update the Panel on recent developments, including the South Australian Energy Transformation Project
- Attendees:** Refer Attachment 1
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MEETING NOTES

1. Introduction

Rainer Korte, Executive Manager Asset Management, welcomed members and guests to the meeting and provided an outline of the agenda. Consumer Advisory Panel members David Headberry (ECCSA) and Peter Dobney (Energy Users Association of Australia) joined the meeting by phone.

Ann Shaw Rungie introduced the new members and guests attending the meeting:

- Rebecca Knol (Member) – Chief Executive, South Australian Chamber of Mines
- Peter Dobney (Member) (by phone) – Energy Users Association of Australia
- Bev Hughson, Eric Groom and Andrew Nance (Guests) – representing the Consumer Challenge Panel of the AER.

The Panel accepted the meeting notes of the previous meeting (CAP meeting #6) held on 31 October 2016 as a true and accurate record.

2. Latest stakeholder feedback

Simon Appleby, Senior Manager Regulation and Land Management, spoke to the draft document *Preliminary Revenue Proposal Feedback and Response Summary*. This provided the Panel with an overview of the feedback received on ElectraNet's Preliminary Revenue Proposal (PRP), based on written submissions and responses to a follow-up phone survey, and ElectraNet's proposed responses to the key issues raised.

Overall, it was noted that the feedback received indicated that customers and stakeholders were broadly supportive and that there was general agreement with the content and directions proposed in the PRP. This feedback also reinforced the comments and themes of earlier engagement that price relief and balancing reliability and cost outcomes remain high priorities for customers.

In discussion, the Panel provided the following feedback on the document:

- The proposed responses in a number of areas referred to further information to be provided in the Revenue Proposal. Members suggested that further specific details be provided in the response document. ElectraNet clarified that in the majority of areas the final Revenue Proposal would provide more detailed information, rather than new information (in relation to proposed contingent projects, for example).
- It was queried whether ElectraNet was proposing a specific productivity improvement factor in its operational expenditure forecast. ElectraNet responded that the base year reduction applied in its trend forecast and overall reduction of 10% relative to the trend allowance built into the forecast would already result in a challenging drop in operating expenditure allowance. For this reason it did not propose an additional specific productivity adjustment.
- Given the number of assets approaching the end of their standard life, it was queried how ElectraNet intends to manage network reliability moving forward. In response it was clarified that ElectraNet applies a risk based approach to its asset replacement decision making and has proposed a targeted unit asset replacement program and substantial line refurbishment program to efficiently extend the operating lives of its ageing assets, while avoiding the costs of wholesale replacement.
- It was noted that the Essential Services Commission of South Australia had recently applied a labour cost growth assumption of CPI in its water pricing determination. ElectraNet confirmed that it is applying the standard labour escalation methodology adopted by the Australian Energy Regulator which involves taking the average of two independent expert estimates on projected movements in electricity sector labour costs.

It was noted that in total 14 written responses to the PRP were received from stakeholders, comprising 3 written submissions and 11 survey responses. The Panel discussed whether this was a sufficiently large or representative sample size. In response, the Panel noted that:

- The feedback received during this engagement and at the public forums and workshops generally indicated that there were no major concerns overall with the proposals contained in the PRP.
- The original guidance from the Panel was to target engagement at key stakeholder groups and representative organisations rather than individual small customers, with the Panel itself also providing direct input and feedback from its respective member organisations.
- ElectraNet appears overall to have made a solid and reasonable effort to engage with and seek feedback from a representative range of stakeholders, and this has also assisted in building relationships and establishing a foundation for future engagement.

3. Revenue Proposal Update

Rainer Korte, Executive Manager, Asset Management, provided an update on the development of the Revenue Proposal and highlighted the key changes emerging to the headline forecasts presented in the PRP, and the key drivers for these changes.

It was explained that the only material change is an expected increase in the capital expenditure forecast in the order of 10%-20% from the indicative forecasts contained in the PRP. For comparison, it was noted that an increase of 20% from the PRP forecasts would still involve a reduction from current capital expenditure levels of around 35%.

It was noted that the capital expenditure forecast increase is being driven by the impacts and implications of the extreme weather event of 28 September 2016 which resulted in a state-wide blackout and significant damage to the transmission network. This was having a twofold impact:

- Priority line restoration activities, the associated reallocation of resources, and reduced ability to secure necessary outages has delayed progress of capital projects in the current period and deferred expenditure on these projects into the upcoming period.
- ElectraNet is investigating prudent economic measures to reduce the risk of major disruption from extreme weather events and to reduce restoration times, which is also leading to new expenditure priorities in the current and upcoming period.

As an example of this, it was noted that transmission businesses across Australia have an agreed arrangement to share temporary transmission towers that are used to restore immediate supply following major network events such as storm damage. ElectraNet called upon this arrangement following the event of 28 September 2016. ElectraNet has also moved to purchase more of these temporary structures as a prudent measure to ensure access to sufficient towers should further network events occur across Australia.

ElectraNet also noted that investigations were continuing into prudent measures to improve resilience to extreme weather events, focused on the Mid North of the network in particular, where most events impacting on the network have occurred, and that the outcomes of this work are not yet clear.

The Panel noted these potential impacts. In discussion, the following issues were noted:

- The Panel queried the revenue impact of the proposed shortening of new telecommunication standard asset lives from 15 to 10 years – ElectraNet responded that this is expected to result in a small increase in depreciation of approximately \$6m in the upcoming period.
- Given the potential increases identified, the Panel queried the impacts on the overall profile of the capital expenditure forecast – ElectraNet confirmed that the new investment needs brought about by the extreme weather event are being implemented progressively. It was also confirmed that the capital expenditure forecast does not contain any new load driven augmentation works, and excludes the potential impact of contingent projects.

- Given the severity of weather during the event of 28 September 2016 as confirmed by the Bureau of Metrology, the Panel queried what would happen in the event of other natural perils such as floods and/or earthquakes – ElectraNet explained that the network resilience investigations are continuing, and the outcomes of this work are not yet complete. It was noted also that it is not prudent or economic to build transmission lines to withstand the most extreme weather events. However, ElectraNet continues to manage the network to maintain reliability, and pursue prudent economic measures to reduce the risk and impact of major disruption from extreme weather events.
- With ElectraNet's focus on the Mid North where most of the storm events occurred, it was queried whether there was any way to connect to Whyalla across the Spencer Gulf – ElectraNet noted that it is investigating this, however underwater cable options can be cost prohibitive and would need a strong case to demonstrate that this is economically viable. ElectraNet also noted that it is pursuing other lower cost measures to improve network security such as extending DC supply to its own substations to maintain operations for a longer blackout period.

4. Update on major current developments

South Australian Energy Transformation Project

Rainer Korte updated the Panel on the South Australian Energy Transformation Project being undertaken through the application of the Regulatory Investment Test for Transmission (RIT-T) process. The focus of this project is on addressing the following identified need:

- Improve wholesale market competition in South Australia and deliver positive price impacts for customers.
- Improve system security by reducing the risk of widespread loss of supply when South Australia becomes islanded from the NEM (through loss of the Heywood Interconnector).
- Provide access to a more diverse range of supply sources, allowing greater sharing of reserves across regions and improving fuel and supply security for South Australia.
- Open up access to more renewable generation to help Australia meet its renewable energy targets.

The timeframes of the project were discussed, noting that an additional information paper for non-network proponents was due to be issued shortly to further assist the consultation process. ElectraNet undertook to continue to update members on this project through ongoing communications to stakeholders.

Ensuring reliable supply to Eyre Peninsula

Rainer Korte provided an update on ongoing investigations into options to ensure reliable transmission supply to Eyre Peninsula.

It was noted that a partial line replacement project was included in the PRP forecasts at \$56m to replace component assets at end of life (noting the updated cost estimate based

on more recent information is approximately \$80m). However, full line replacement may be a better option than undertaking this partial replacement and renewing the network support contract at Port Lincoln - which currently involves network support payments of approximately \$9m pa - but would only proceed if the benefits to customers exceed the costs. This alternative option was identified in the PRP as a contingent project.

It was noted that ElectraNet was further reviewing the appropriate treatment of this project under the National Electricity Rules in consultation with the AER for the purposes of the Revenue Proposal. ElectraNet also noted its intention to commence the formal RIT-T process in relation to this project in the near future.

Other Developments

Rainer Korte provided a brief update on other current developments noting that:

- The Energy Storage for Commercial Renewable Integration - South Australia (ESCRI-SA) project continues to progress. ElectraNet is engaging with the AER to clarify the regulatory treatment of the project under the National Electricity Rules, including whether application of the RIT-T is required in this case, and will continue to keep the Panel updated on the project. Tim Kelly offered to provide a letter of support for the project on behalf of the Conservation Council of SA.
- The Northern South Australian Region Voltage Control RIT-T process investigating options to address voltage supply issues in the northern part of the transmission network may be cancelled based on the latest information provided on the technical characteristics of major load in the region, which may eliminate the need for the project. An announcement will be made to formally confirm the future of this project shortly.

5. Next steps

It was agreed that the Consumer Advisory Panel Working Group should reconvene to review in greater detail the expected changes to the capital expenditure forecast. It was agreed a deep dive workshop session would again be convened jointly with the CAP Working Group and representatives of the CCP and the AER [subsequently held on 14 February 2017].

The next quarterly CAP meeting is scheduled for Tuesday, 11 April 2017 [subsequently rescheduled to 10 April 2017 to avoid a clash with an AER public forum].

ATTACHMENT 1 – Attendees

Member	Organisation
David Headberry*	Public Officer, Energy Consumers Coalition of SA (ECCSA)
Mark Henley	Manager Advocacy and Communication, Uniting Communities
Tim Kelly	Conservation Council of South Australia
Rebecca Knol	Chief Executive, South Australian Chamber of Mines
Andrew McKenna	Senior Policy Advisor, Business SA
Hon Robert Kerin	Executive Chairman, Primary Producers SA
Vivienne Smith	COTA SA
Graham Pratt	Consumers Association of South Australia
Peter Dobney*	Director, Energy Users Association of Australia
Independent Facilitator	
Ann Shaw Rungie	Independent Facilitator, Ann Shaw Rungie Consulting
Consumer Challenge Panel	
Bev Hughson	Consumer Challenge Panel
Eric Groom	Consumer Challenge Panel
Andrew Nance	Consumer Challenge Panel
Company Representatives	ElectraNet
Joanne McDonald	A/Chief Executive
Rainer Korte	Executive Manager, Asset Management
Simon Appleby	Senior Manager, Regulation and Land Management
Suzanne Paterson	Advisor to the Chief Executive
Evan Krizman	Customer Engagement Officer

*Attended by phone

Apologies:

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

Taryn Sexton - Chief Executive Officer, Local Government Professionals Australia

Jo De Silva – Senior Policy Officer, SACOSS