QUEENSLAND FARMERS' FEDERATION
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Submission

23 December 2016

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Via e-mail: Powerlink2016@aer.gov.au

Dear Mr Roberts

Re: Response to Powerlink Queensland Revised Revenue Proposal for the 2017/18 - 2021/22 Regulatory Period (as resubmitted by Powerlink on 1 December 2016).

The Queensland Farmers' Federation (QFF) is the united voice of intensive agriculture in Queensland. It is a federation that represents the interests of 15 of Queensland's peak rural industry organisations which, in turn, collectively represent more than 13,000 primary producers across the state. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland primary producers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland
- Queensland Chicken Growers Association
- Queensland Dairyfarmers' Organisation
- Burdekin River Irrigation Area Committee
- Central Downs Irrigators Limited
- Bundaberg Regional Irrigators Group
- Flower Association of Queensland Inc.
- Pioneer Valley Water Board
- Pork Queensland Inc.
- Queensland Chicken Meat Council
- Queensland United Egg Producers
- Australian Organic.

QFF welcomes the opportunity to provide comment on 'Powerlink Queensland Revised Revenue Proposal for the 2017/18 - 2021/22 Regulatory Period'. QFF provides this submission without prejudice to any additional submission provided by our members or individual farmers.

AER's Draft Opex Determination for Powerlink

QFF understands that Powerlink has accepted the AER's Draft Decision for a total forecast operating expenditure allowance of $976.7m for the 2018–22 regulatory period.

On 25 February 2016, Powerlink's Customer and Consumer Panel (CCP) meeting involved discussion on the key building-blocks of Powerlink's Revenue Proposal, gaining input on which aspects might be challenged through the regulatory determination process. The CCP emphasised its focus on the efficiency of forecast operating expenditure including the value of benchmarking to inform the AER's assessment. QFF notes that this meeting occurred prior to QFF's participation on the CCP.

QFF is aware that the Economic Insights report (page 6) focused on the current immaturity of the AER's transmission benchmarking, contrasting it with the distribution benchmarking which has been well advanced.

The report articulates the authors frustrations that the Transmission Network Service providers (TNSPs) are purposely delaying the development of the AER's transmission benchmarking by not agreeing on standard definitions nor methods for ensuring the provision of consistent and comparable data.

As a result, they conclude that the benchmarking is not sufficiently mature to enable them to "prove" that Powerlink's opex is "materially inefficient", and that the onus of proof is on the AER. Yet, there does not appear to have been any further scrutiny by the AER on the opex stated by Powerlink in its Revenue Proposal to determine if the opex stated is correct.

- QFF supports the future development of suitable benchmarking for TSNP's and, once again, formally records its concern with the broader framework and rules, including the role of the AER to provide clarity to consumers.

Capital Expenditure

QFF notes the AER's Draft Decision not to accept Powerlink's total forecast capital expenditure of $957.1m and instead to substitute a forecast of $772.6m, a reduction of $184.5m or 19.3%. All of this reduction is in reinvestment capital expenditure.

The AER's Draft Decision made significant changes to the mean replacement lives in the Repex Model for a number of asset categories. These changes reduced the forecast capital expenditure from the Repex Model by 39%. As an offset to this significant reduction the AER has allowed an additional amount equal to 15% of Powerlink's Revenue Proposal forecast for those asset categories the AER has adjusted. This offset is to provide for additional preventative and corrective asset reinvestment.

QFF notes that Powerlink does not accept the AER's Draft Decision for reinvestment capital expenditure and considers the AER's assessment approach and conclusions result in mean replacement lives for assets that are unrealistic. This includes the assessment techniques the AER has applied to form an alternative estimate of the capital expenditure required to reflect the capital expenditure criteria, as well as the manner in which the AER has interpreted and modified Powerlink's Repex Model.

QFF notes the two Energy Market Consulting associates (EMCa) reports which the AER commissioned to provide an assessment on Powerlink's Proposed Non-Load Capex.

- Review of forecast non-load driven capital expenditure in Powerlink's Regulatory Proposal, Report to AER from EMCa, July 2016 (the first report). This report focused on the governance, management and forecasting processes of a sample of projects and programs; and
- Addendum Report to AER from EMCa, September 2016 (the addendum report). This report focused on technical advice to assist the AER with determining a reasonable allowance for Powerlink's replacement capital expenditure.

The reports provide a critical assessment of Powerlink's repex forecasting methodologies and Powerlink's historical asset replacement practices.

QFF also notes that in the Revised Revenue Proposal, Powerlink has identified several issues and concerns with these two reports and their consequential influence on the AER's Draft Decision, including inconsistencies in the EMCa's assessment of the mean replacement lives, between the first report and the addendum report.

- ➢ QFF is not in a position to determine the validity of the report findings nor the counter claim made by Powerlink and, as such, requests that the AER provides further consideration and a written response on its decision making in the final determination.

QFF also understands that the EMCa reports did not provide specific figures to address the matters outlined, leaving it to the AER's discretion on how much to reduce Powerlink's repex by. It would appear that the AER has only applied a conservative 23% reduction (substitute an amount of $609.8 million for asset replacement capex instead of Powerlink's forecast $794.3 million).

- ➢ If the matters outlined in EMCa's reports are correct, then QFF would have expected the AER's reduction to be higher.

Incentive Schemes

In its Draft Decision, the AER accepted that Network Support and Debt Raising Costs would be excluded from the 2018–22 Efficiency Benefit Sharing Scheme (EBSS) as they were not forecast on the basis of revealed expenditure in a single year. However, the AER did not accept the additional exclusions Powerlink proposed for insurance and self-insurance, the AEMC Levy and Redundancy Costs.

In response, Powerlink's Revised Revenue Proposal states that
"*In Section 6.6.1 of its Revenue Proposal, Powerlink explicitly identified that it had made an adjustment to its 2014/15 base year operating expenditure related to a workforce efficiency review. This adjustment removed Redundancy Costs resulting from changes in Powerlink's external operating environment that were outside Powerlink's control. By removing this expenditure from the base year, Powerlink's forecast operating expenditure does not include non-recurrent Redundancy Costs. Nevertheless, Powerlink expects to incur these Redundancy Costs during the 2018–22 regulatory period due to similar exogenous factors (in particular due to forecast reductions in the demand for prescribed transmission services*)".

- ➢ QFF supports the AER's decision to exclude the redundancy costs within the EBSS. Redundancy costs do not form an additional 'benefit' for consumers as these should fall within the forecast opex, whilst costs associated with earlier inefficient labour contracting processes or excessive infrastructure should not be borne by consumers.

Contingent projects

Powerlink accepts the AER's Draft Decision to exclude the North West Surat Basin contingent project but does not accept the Draft Decision to exclude the Southern Galilee Basin contingent project. The rationale for contingent project selection must be clear to energy consumers – this is currently no the case.

QFF (as a CCP member) also received notification from Powerlink on 29 November of information on an additional contingent project to support a proposed new Queensland to South Australia Interconnection. As this project could be largely completed by the end of Powerlink's 2018-22 regulatory period, it is considered reasonable that these recent developments, which reflect the industry's response to customer and consumer concerns, be accommodated as a contingent project in its Revised Revenue Proposal.

The Queensland to South Australia Interconnection (Queensland Component) option would require Powerlink to establish new 330kV switch-bays at Powerlink's Bulli Creek Substation and construct approximately 100km of new 330kV double circuit line from Bulli Creek to the Queensland / NSW border area west of Goondiwindi.

The proposed contingent project is estimated to cost approximately $120m. It does not include any costs for works outside Queensland.

QFF understands that the regulatory investment test for transmission (RIT-T) applies to investments in new electricity transmission assets in the National Electricity Market (NEM) where the estimated capital cost exceeds $6 million, subject to certain exceptions. It seeks to ensure that networks consider all viable options, in consultation with stakeholders, before erecting more poles and wires (for example, demand management alternatives).

QFF is aware that the RIT-T is currently under review, running in parallel to the independent review of the National Electricity Market (by Dr Alan Finkel), and ahead of the review of emissions reductions policies in 2017. It is important that the RIT-T process reflects the decisions taken about the strategic direction of the NEM under a broader post-2017 policy framework.

Until these reviews are completed, it is unclear if the RIT-T remains the appropriate assessment of strategic interconnection for the development of a truly national, efficient interconnected NEM and therefore will provide appropriate assessment for the contingent project (Interconnector) proposed by Powerlink in its Revised Revenue Proposal.

When properly implemented, regulatory tools such as the RIT-T are an important part of such an approach which should permit for proper assessment and scrutiny of proposals.

- Whilst QFF acknowledges the issues arising out of the South Australian blackout, the sense of urgency surrounding recent events must not be used to hurry decisions about significant investments that will impact electricity prices for the forecast life of the asset.

Recommend a Framework for Contestability

Should the Queensland to South Australia Interconnection proceed, QFF recommends consideration of a contestable interconnector service provision which could require some independent functions to be established, to enable Powerlink and others to compete fairly.

One approach could be a requirement for Powerlink to assign an independent technically qualified party to conduct the tender process and select a service provider. The National Electricity Rules would need to provide principles to ensure a fair and accountable process. Once a service provider has been selected and commercial terms settled for the provision of the service, then Powerlink would assume contractual and network pricing responsibilities for the interconnector.

A contestable framework for the provision of interconnector augmentation can be practically implemented and may ensure that future infrastructure is designed, constructed and operated at the lowest possible cost to customers.

If you require further clarification or have questions about this submission, please contact Dr Georgina Davis on (07) 3837 4720 or email georgina@qff.org.au.

Yours sincerely

Travis Tobin
Chief Executive Officer