



22 August 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street,
SYDNEY NSW 2000

570 George Street
Sydney NSW 2000
All mail to GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
F +61 2 9269 2830
www.ausgrid.com.au

Dear Mr Pierce,

Supplementary submission - Review of Distribution Reliability Outcomes and Standards – NSW Workstream Draft Report (EPR0027)

Ausgrid notes that the Australian Energy Market Operator (AEMO) has provided a recent submission on the NSW reliability review draft report. As the report makes a number of references to Ausgrid, we take this opportunity to provide some clarifying comments in this supplementary submission.

We note that the AEMO submission provides an example of a probabilistic cost-benefit assessment of two of Ausgrid's past regulatory test projects. An extract of this assessment is provided below.

Both projects considered require the construction of a new 132/11 kV zone substations; one at Charlestown with a project cost of \$40 million and the other at Warringah with a project cost of \$25 million. Both areas breach the N-1 criteria in 2010-11. Using a strict deterministic N-1 approach and the same augmentation option proposed by Ausgrid, results suggest that the benefits required to justify the augmentations requires consumers to value their electricity at just under \$1 million/MWh, which is 10 times the NSW value calculated as part of this review. Applying the review's VCR of approximately \$100,000/MWh showed that the augmentation at Charlestown is not cost-effective for another 10 years, while the augmentation at Warringah is not cost-effective for another five years.

Ausgrid was not involved in compiling the AEMO submission so we have no knowledge of all the assumptions their analysis relied upon. However, we would submit that the use of apparent simplifying assumptions and the conclusions that can be drawn from them should be viewed with some caution.

As a network provider, Ausgrid needs to take a holistic area planning view, which means that capital projects often address asset condition constraints as well as load constraints. For example, the Balgowlah 33kV substation was replaced with a new 132kV substation which not only addressed the condition issues at Balgowlah but also reduced the load at Warringah sub transmission substation and other neighbouring 33kV substations. A high level probabilistic cost-benefit assessment such as that undertaken by AEMO of an individual project would not pick up this subtlety.

We note that AEMO states that Ausgrid's Charlestown and Warringah areas would breach the N-1 criteria in 2010-11. The configuration of the sub transmission substation at Warringah means that it is unable to carry a load greater than the N-1 rating at any time and as a result,

it would not be possible to delay expenditure for another 5 years. This consideration would impact on the results of AEMO's probabilistic cost-benefit assessment.

In contrast, Charlestown is capable of operating above its firm (N-1) rating when all network elements are in service. Under schedule 1 of the NSW Licence Conditions this would mean it would not be considered load constrained until the forecast demand reaches 120% of its firm (N-1) rating. Charlestown was load constrained in 2010-11.

In terms of other assumptions AEMO did not source Ausgrid equipment failure rate data so any failure rate assumptions may not accurately reflect the equipment used on Ausgrid's network. Moreover, we note that AEMO made simplifying assumptions on the duration of load excursions that are unlikely to accurately reflect the load profile of the substations in the projects identified above.

As a general conclusion, the AEMO submission also makes the following statement:

We understand the Ausgrid augmentation program for 2012-13 and 2013-14 is approximately \$1 billion. If they applied a probabilistic approach it is likely that many of these projects will be delayed beyond the start of the next regulatory period. This translates to a reduction in the starting RAB of \$1 billion and therefore a reduction in MAR of approximately \$100 million. This translates to a \$50 reduction for customers in Ausgrid's distribution network area if Ausgrid does not undertake any augmentation capital expenditure in 2012-13 and 2013-14.

Ausgrid submits that the \$1 billion figure quoted for the augmentation program for the 2012-14 is not accurate. The forecast estimate for Ausgrid's load driven capital expenditure over the remainder of the current period is significantly lower owing to our demand forecasts which show slower growth similar to those in the AEMO 2012 National Forecasting Report. The AEMO estimate of a \$50 bill savings for customers would be lessened as it does not represent the likely outcome of change in the capital expenditure program.

If you have any queries or wish to discuss this matter in further detail please contact Mr Keith Yates, A/Executive Manager Regulation & Pricing on (02) 9269 4171.

Yours sincerely



Peter Birk
Executive General Manager System Planning and Regulation.