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28 August 2007

Australian Energy Market Commission  
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Sydney NSW 1215

By Post

Dear Sir

**APA Comment on AEMC Paper “National Transmission Planning Arrangements”**

APA (APA) Group welcomes the opportunity to comment on the AEMC Scoping Paper “National Transmission Planning Arrangements” (the Paper). An APA response to this Paper is attached.

APA is an ASX-listed energy transmission company which owns the Murraylink and Directlink electricity transmission interconnectors and substantial gas infrastructure assets. APA acquired these interconnectors within the previous two years. They are scheduled to undergo revenue determinations in 2013 and 2015 respectively.

APA would welcome the opportunity to comment on further AEMC papers on this topic.

Yours Faithfully

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## **APA Group Response to the AEMC Scoping Paper “National Transmission Planning Arrangements August 2007”**

### **1. Overview**

COAG is establishing an enhanced planning process for national electricity transmission, and has directed the AEMC to undertake a review of the development of an implementation plan for this planning process.

The review addresses three issues:

- development of an implementation plan for national transmission planning;
- assessment of whether regulated transmission provider’s revenue caps should be determined sequentially or concurrently; and
- development of a revised network planning process which amalgamates the reliability and market benefits criteria of the current “regulatory test”.

APA comments on these issues, with a focus on scope, are outlined below

### **2. National Transmission Plan**

Following the establishment of AEMO, its functions will include development of a national plan for the national electricity transmission grid. This plan is intended to

- achieve an a balance between a national and local planning requirements; and
- inform network and generation investment decisions, but not to bind industry participants.

In short the plan should act to facilitate investment rather than direct investment. It should be recognised that planning in itself will not lead to investment. Investment is driven by expected returns – the role of planning is to provide some certainty and objectivity to the assessment of expected returns. In using the plan APA seeks that the plan be used as a tool to facilitate appropriate investment – the goal should not be meeting the plan or ensuring the industry conforms to the plan.

#### *Governance and Consultation*

In relation to the governance of the planning body APA believes that the governance should be consistent with AEMO governance.

Similarly, consultation practices should be consistent with AEMO consultation practices (when finalised), and ideally should align with consultation practices of bodies such as the AEMC and the AER. Consultation and public processes should aggregate information to a level where individual asset commercial positions cannot be identified and / or any

contract confidentiality cannot be breached. This is unlikely to be a major issue for assets with regulatory revenue decisions.

#### *Jurisdictional Issues*

In relation to the need for special “carve-outs” for various state or jurisdictional bodies, APA takes the view that the planning system should be national if it is to be effective. Allowing such “carve-outs” for some jurisdictions but not others establishes a potential for contradiction between planning bodies, and establishes a precedent whereby other jurisdictions may seek similar “carve-outs” in the future. (APA notes that the two “carve-outs” identified are for jurisdictions which have privately owned electricity industries – if in future other jurisdictions sought to privatise their industries they may seek similar “carve-outs”).

APA appreciates that there may currently be bodies such as Vencorp and ESPIC with specific planning roles which cannot be simply transferred. The planning roles of these bodies should be shifted to AEMO and / or the national planner (as appropriate) over time. These roles should have an agreed and established timetable for transfer to the national bodies. While-ever these planning roles remain with state based entities the national scope of the proposed planning body is open to question.

#### *Focus of planning*

The scoping paper (p 10) indicates that planning options could range from a narrow focus on interconnectors to a wide focus on all transmission assets. The paper indicates that a wide focus would result in duplication of planning effort. APA believes that transitioning jurisdictional planning work to the national planner would reduce this duplication.

The focus of planning should be wider rather than narrower, it is preferable that there be some duplication of planning work rather than have planning work not undertaken and as a consequence potential economic benefits of increased investments are lost.

More specifically, in order to facilitate investment, planning should present multiple future options rather than a preferred option.

### **3. Aligning transmission regulation timetables**

Currently the AER undertakes regulatory revenue decisions on a rolling program of reviews. There is a view that by undertaking these reviews sequentially the AER cannot take a national view of the investment requirements, and as a consequence regulatory timetables should be aligned so all transmission revenue decisions are undertaken concurrently.

#### *Costs and Benefits of Alignment*

APA believes there may be substantial hidden costs to alignment. In particular, if financing of assets has been undertaken based on the current regulatory timetable, then any changes to this regulatory timetable remove financing certainty and may result in additional financing costs as assets must be re-financed. Any move to overturn a pre-

determined regulatory timetable is likely to increase regulatory uncertainty and consequently discourage any investment.

Given this, any alignment of regulatory timetables must be signalled well in advance of any move towards enforcing the alignment.

The Directlink interconnector next regulatory revenue decision is not due until 2015<sup>1</sup>. This is probably the most obvious time frame for any alignment.

Other potential costs of alignment include:

- the potential for the AER to adopt a “one size fits all” approach to regulation in the year when the regulation is undertaken. While many of the transmission assets have some similarities there are also differences. For example, in contrast to many other transmission assets, Murraylink and Directlink are:
  - point to point transmission assets, rather than networks;
  - substantially located underground, rather than aboveground
  - relatively short distances (Murraylink is approximately 180 kilometres long, Directlink is approximately 50 kilometres long).

These factors, and similar factors which will be unique to each regulated asset, may impact on operating cost, capital cost, risk profiles etc. There is a danger that the AER will seek to remove consideration of the circumstances of individual assets and move towards a “lowest common denominator” approach, with the lowest cost for each regulated asset being used – such an approach is unlikely to encourage new investment in regulated assets.

- The lack of the development of regulatory specialists in the AER (and the industry participants). Alignment of electricity transmission revenue decisions may, for reasons of human resource management, result in the AER aligning the regulatory decisions for other regulated assets such as electricity networks, gas networks and gas pipelines. Thus AER staff will work on all assets and while they will have a broader overview of the different assets and industries there will be a reduction in specialised knowledge of the asset type being regulated. For example, no one employee could work on electricity transmission for 2 to 3 consecutive years and thus build up more detailed knowledge and understanding. This lack of depth of knowledge is unlikely to result in better decision making.

APA acknowledges there may be some benefits in aligning regulatory decisions but any move to align these decisions should only be undertaken if there are demonstrated benefits, and if the alignment occurs over a long time frame so as not to shorten any current regulatory decision time frames.

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<sup>1</sup> The AEMC Paper’s Figure 1.1 (on page 12 of the Paper) omits the Directlink 2015 regulatory review date from its timetable. The AEMC’s timetable only extends to 2013.

APA does not believe that there is any justification for modifying pre-determined and agreed regulatory time frames. Any change to these time frames puts financing of these assets at risk.

#### **4. Conclusion**

Overall, the planning process should act to facilitate investment rather than direct investment. The role of planning is to provide some certainty and objectivity to the assessment of expected returns.

APA has some concerns with the proposal that transmission revenue decisions be undertaken concurrently. The financing of transmission assets has been undertaken based on the current regulatory timetable, thus any changes to this timetable remove financing certainty. Any move to overturn a pre-determined regulatory timetable is likely to increase regulatory uncertainty and consequently discourage any investment.

Any move to shift regulatory timetables should be signalled well in advance and should not impact current dates already determined.