

**From:** Andrew Nance  
**Sent:** Monday, 20 June 2011 11:02 AM  
**To:** McPherson, Stuart (ESCOSA)  
**Cc:** 'escosa@escosa.sa.gov.au'; 'David Swift'  
**Subject:** ETC Review

Hi Stuart,

Last week, both yourself and David Swift mentioned the Electricity Transmission Code Review underway by ESCoSA. I hadn't picked up on it before now. So I read your issues paper over the weekend.

I am concerned about the use of VCR figures in the AEMO report. It builds on the methodological work they have been consulting on. There is more information here:

<http://www.aemo.com.au/planning/vcr.html>

As you will see there is a submission from me and some consumer advocates in relation to the methodology. I had a call from the AEMO officer in charge of this (Richard Hickling) on Friday to assure me that their next report would be out soon. So, some of my concerns may have been dealt with.

I understand you are preparing your draft report and I will make a submission to that but in anticipation I want you to be aware of the submission made to AEMO and the lack of a universally agreed VCR procedure. I am not convinced that the AEMO calculations adequately acknowledge the uncertainties that exist in the VCR figures ( I am particularly impressed with the precision in which they are presented – to the nearest dollar – give or take \$10,000 or more).

VCR (and willingness to pay as an economic concept) is a critical ingredient to assessing the economic efficiency objective of the ESC Act and the National Electricity Objective but it is determined by assumption upon assumption from a nearly 15 year old survey in Victoria. There are ways of dealing with uncertainty but I am not convinced that the AEMO approach does this. It was interesting to see Electranet seek the use of the Agricultural VCR (Issues Paper p33) for Kadina East – does this imply that they would be happy to use the Residential VCR for other sites where residential loads dominate?

The VCR will be used to underpin millions in investment in the upcoming regulatory reset (and the RIT-T processes foreshadowed in the APR) and I would argue that it is not yet robust enough to fulfil such a role.

I'll be in touch soon to discuss this some more.

Thanks and regards,

Andrew Nance  
Principal  
st.kitts.associates  
14 Tucker St, Adelaide 5000