

Emailed submission on the Draft Decision received from St Kitts Associates

From: Andrew Nance
Sent: Friday, 21 October 2011 10:14 AM
To: ESCOSA; McPherson, Stuart (ESCOSA)
Cc: 'David Swift'; 'Jo De Silva'; 'Mark Henley'; Tom Stead
Subject: Review of the Electricity Transmission Code - Draft Decision

Dear Stuart,

Please accept this as a brief submission to the DRAFT Decision on the Review of the Electricity Transmission Code.

I would like to reiterate my concerns (please see my previous email below) about the use of VCR figures in this project. As you would be aware, a number of submissions to the AEMO review of VCR expressed concerns about the validity of the methodology used (www.aemo.com.au/planning/vcr.html). In fact AEMO's own consultants on that project have expressed a view that AEMO's chosen approach (extrapolation from previous VIC surveys) was not the best solution (updated nationwide surveys).

I would also draw your attention to the figure quoted in the DRAFT Decision (para 2.1 page 8) of "\$45,767 with sensitivities of +/- 20%". I recommend that that the commission (and AEMO staff for that matter) consider training in numerical precision, significant figures and uncertainty. It should also reference the source of this figure as it is different to those appearing in the AEMO review.

Further I believe it is important to acknowledge that the VCR methodology that derives the AEMO figure also showed a residential figure of \$15-20,000 and therefore the ESCOSA methodology for the review provides a sensitivity test that does not include the residential figure.

The implication of this is that significant transmission investment will exceed the willingness to pay of the most numerous customer class. This represents a significant challenge to the economic efficiency of these investments. ESCOSA should reconsider the weightings used to derive an statewide VCR for transmission – one that better acknowledged customer numbers not just sales volumes might be more equitable.

I have attached my two submissions to the AEMO VCR Review process (which is still yet to be finalised) and respectfully request the Commission to reflect on the importance of the VCR figures and the lack of robust evidence for their application.

Given the significance of the investments that will flow from the setting of exit point reliability standards and the impending Regulatory Review of Electranet it is consider to be a very significant issue for consumers.

I note that the only submissions received to the earlier ESCoSA Issues Paper were from ETSA Utilities and Electranet and that they seem to support anything that will lead to more investment. I believe that this can lead to unbalanced results and the flaws associated with the use of VCR in this and by AEMO are exacerbated by this lack of consumer input.

Yours sincerely,

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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,

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