

DIRECTLINK REVENUE PROPOSAL 2025-30

15 MAY 2024

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to provide the following comments on the Directlink revenue proposal for 2025-30.

Consumer engagement

The EUAA participated in most of the stakeholder meetings and engaged with APA at all stages of their preparation of the proposal. This was a considerable and very welcome improvement in stakeholder engagement compared with that which was done for the current regulatory period reset. There was a genuine effort put into ensuring wide stakeholder representation, their involvement in designing the engagement process, providing comprehensive information to stakeholders a reasonable time prior to meetings, ensuring the right company experts were available at each meeting, following up issues that arose and presenting those in this document.

There was a willingness to engage on a range of issues of concern to EUAA members and provide the information required to help us assess our level of support for various aspects of their proposal. We agree with the AER in the Issues Paper when it concluded (p.7):

“Our observation was that, although short and targeted, Directlink’s consumer engagement was broadly in line with expectations in the Handbook, particularly when the size of the business and the forecast bill impacts for consumers are considered.”

We provide specific comments below how Directlink captured and acted on consumer preferences in the proposal.

Long term role of Directlink in the NEM

In discussing the Future of Directlink, the proposal says (p.12):

“Directlink held a number of meetings with AEMO during the development of the revenue proposal to understand future demand for the Directlink Interconnector, with AEMO confirming the continued value the asset provides.”

The proposal provides a letter from AEMO that says¹:

¹ <https://www.aer.gov.au/system/files/2024-02/Directlink%20-%20Attachment%2003a%20-%20Letter%20from%20AEMO%20to%20APA%20-%20The%20future%20role%20of%20Directlink%20-%20231221%20-%20Public.pdf>

“While AEMO has not conducted modelling to evaluate the benefits of Directlink, a key assumption in the ISP is the continued operation and maintenance of the existing NEM interconnectors – including Directlink.”

And goes on to discuss the technical benefits of maintaining Directlink which seems to fulfil a role as an insurance policy to back-up QNI. What is not provided in the AEMO letter is how often and what proportion of that capacity is forecast to be required over the period to 2042. Further there is no commercial assessment of whether there are net benefits from maintaining Directlink until 2042.

Proposed Capex

We have no way of assessing whether the proposed capex meets the AER capex criteria – we leave that to the AER. Our main concern is the uncertainty on the economic life of the asset and looking to get a better understanding of the stranded asset risk.

We agree with studying the master controller project more thoroughly and it is up to the AER to assess what the study cost allowance should be. We were surprised to see APA’s ability to forecast this allowance at \$136,488 as we were to see the accuracy of the forecast capex to mitigate land slip risk \$179,368. We look forward to the results of the master controller project to comment further.

We made many comments during consultations on the approach to spares – including that we only support spares acquisition to reach the end of the next regulatory period in 2030, not for end of life in 2042. We look forward to seeing the results of the strategy study to enable further comments on this issue.

The site security business case presented to stakeholders seemed to be based more on the risk of a breach rather than actual breaches at Directlink. We doubt the relevance of evidence of breaches from Dimantina Power Station in Mt Isa is relevant to breaches in a line that is mostly in very remote locations.

Opex

We leave the AER to assess base and trend. Our comment focus on the step changes.

We do not support the step change related to labour resilience. Apart from wondering whether it meets the materiality threshold, we consider the addition of one apprentice should be covered in base year costs.

We do not support the insurance step change:

- we understand that the insurance step change was based on the existing risk sharing between asset owners and customers; we have seen other networks recognise the immense affordability pressure on consumers and seen insurance as one, albeit small, way of reducing those pressures through the asset owners taking on more risk and reducing or eliminating an insurance step change (in this sense, insurance costs are not fully outside of Directlink’s control which is claimed on p.16), and

- the AER's recent final decision on Ausgrid did not support their proposed insurance step change²

We agree with the concept of current consumers contributing to end of life costs. We look to the AER to assess the level.

Incentive schemes

We do not support the removal of the CESS from the IGBT replacement project. We did not support that for Transgrid's Waratah battery proposal³ and the AER agreed concluding⁴:

"With the support of our stakeholders, we maintain our position that Transgrid is likely to have enough influence over the capex of the project, that if the opportunity for a capex underspend arises, it's more likely to be achieved with Transgrid's actions than without it. As such, we consider applying the CESS to this project creates the best chance of reducing the cost of the project to consumers and is consistent with the capex objective."

Pricing methodology

We are happy to follow the AER's advice in the Issues Paper that the proposed pricing methodology is capable of acceptance.

Do not hesitate to be in contact should you have any questions.



Andrew Richards
Chief Executive Officer

² See p.21 <https://www.aer.gov.au/system/files/2024-04/AER%20-%20Final%20Decision%20-%20Overview%20-%20Ausgrid%20-%202024%E2%80%9329%20Distribution%20revenue%20proposal%20-%20April%202024.pdf>

³ https://www.aer.gov.au/system/files/EUAA%20-%20Submission%20on%20Transgrid%202024-29%20Revenue%20Proposal%20Waratah%20Super%20Battery%20-%2026%20July%202023_Redacted.pdf

⁴ See p. 32 <https://www.aer.gov.au/system/files/2024-01/AER%20-%20Transgrid%202024-29%20-%20Final%20Decision%20-WSB%20non-contestable%20Dec%202023%2816204576.1%29.pdf>