Northern Territory
Major Energy Users

3 April 2013

The Executive Officer
Utilities Commissioner
NT Utilities Commission
GPO Box 915
DARWIN NT 0801

Dear Sir/Madam

PWC NETWOK REVENUE ALLOWANCE 2009-14
COST PASS THROUGH APPLICATION – CASUARINA SUBSTATION

Thank you for the invitation to comment on the draft determination regarding the revenue adjustment allowance for the repair of the Casuarina Substation works. The NTMEU notes that the Utilities Commission (UC) had provided an avenue for Power and Water Corporation (PWC) to seek additional network revenue as a pass through event with the 2009-14 Revenue Reset based on the results of the investigation made by Mr Mervyn Davies of the failure of the Casuarina substation.

The NTMEU recognises that the UC made no allowance for the repair and restitution works associated with the unexpected failure of the Casuarina substation in the 2009-14 revenue reset determination. This was because the cause of the failure was unknown at the time as were the costs for the restitution. The NTMEU is now fully aware (as is the UC) that the failure of the substation was primarily the result of poor maintenance and poor operational practices (overloading of cables) by PWC. Mr Davies did observe that the substation equipment was elderly but that failure due to age alone could (and should) have been prevented.

This then raises the fundamental issue as to whether PWC should be recompensed at all for the restitution works resulting from their poor maintenance and poor operational processes. The NTMEU considers that, based on the Davies Report, the Casuarina substation failure was symptomatic of more widespread poor maintenance and operations practices that have been noted in other parts of the PWC electricity supply system. Specifically the NTMEU points to the view expressed by the UC regarding the significant unavailability of PWC generation plant.

The 2009-14 revenue reset allowance included provision for capital depreciation based on expected life durations of the plant provided by PWC and for significant operating and maintenance allowances for ensuring the plant is maintained to a level

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and operated appropriately so that it will reach its expected life before it needs to be replaced. That PWC did not do this is not the fault of consumers nor should consumers be responsible for their failure to pay for this care and maintenance work to be done.

NTMEU members are required to properly operate and maintain their capital equipment so that it is available for use as and when it is needed. If they do not do this then they incur the costs and loss of custom from the failures and as they cannot add this cost to their product prices, the shareholders have to accept the losses incurred. In this case, PWC actions (or lack of action) caused not only the costs to reinstate the substation, but also caused their customers to incur considerable expense themselves. The UC is now proposing to allow PWC to increase its charges to consumers (via a pass through adjustment) for the restitution of capital plant that was caused by PWC.

The NTMEU does not consider that this is equitable and nor does it send a message to the PWC and its shareholder that proper maintenance and operation must be of the standard required implied under the regulatory bargain. There must not be any question of consumers placed in triple jeopardy (losses from the outage AND pass through charges for PWC actions or lack of actions AND initial funding of opex costs).

The UC notes at clause 3.11 that:

> "A cost pass through mechanism provides a degree of protection for a service provider from the impact of unexpected changes in costs that are **outside of its control**, which arise during a regulatory period." (emphasis added)

The NTMEU points out that although a cost pass through is intended to insulate a network service provider from "unexpected changes in costs" it is only to provide this protection in the costs are outside its control. In this case, the NTMEU (as is the UC) is fully aware (via the Davies Report) that the failure was not outside the control of the PWC and therefore the NTMEU does not consider that a pass through cost event should apply.

On this basis, the NTMEU does not consider that PWC should be recompensed at all under the pass through provisions.

The NTMEU notes that under the current rules, the capital costs incurred in legitimate network investments (and the NTMEU would see that the restitution of the Casuarina substation would probably fall in this category) are rolled into the Regulated Asset Base and earn a return in future years along with any other legitimate overspend on capital during the current regulatory period. The opex incurred would not be recovered, but neither should it. This means that some of the costs incurred by PWC in restituting the substation will be recovered in future years, but no costs would (or should) be recovered in the current period.

The proposed action by the UC will send a chilling message to industry in the NT (and NT consumers as well) that there are no limits on the extent to which consumers have to pay for the ineffectiveness of PWC into the future. It also signals to PWC that they do not face penalties or accountability for ineffective operations into the future. This sets a very poor regulatory precedence.

Should you wish to discuss in more detail any of the issues we raise above, please do not hesitate to contact me.

Yours sincerely

Michael Williams
Chair