

CONSUMER ADVISORY PANEL

MEETING # 8

- Date:** Monday, 10 April 2017
- Time:** 9:00am to 11:00am
- Venue:** Crowne Plaza, Hindmarsh Square (Grenfell Room, Ground Floor)
- Purpose:**
- Update the Panel on the final Revenue Proposal and next steps
 - Discuss the implications of the SA Government Energy Plan
 - Update the Panel on recent developments
 - Agree next steps
- Attendees:** Refer Attachment 1
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MEETING NOTES

1. Introduction

Rainer Korte, Executive Manager Asset Management, welcomed members and guests to the meeting and provided an outline of the agenda. Consumer Advisory Panel member David Headberry (ECCSA) joined the meeting by phone.

The Panel accepted the meeting notes of the previous meeting (CAP meeting #7) held on 17 January 2017 as a true and accurate record.

2. Revenue Proposal Update

Simon Appleby, Senior Manager Regulation and Land Management, provided an update on the final Revenue Proposal as lodged with the Australian Energy Regulator (AER) on 28 March 2017, with reference to the following information sheets tabled at the meeting:

- Revenue Proposal Summary
- Capital Expenditure Program
- Operating Expenditure Program

It was noted that this information remained confidential to Panel Members until such time as the AER had publically released the Revenue Proposal. [The Revenue Proposal was subsequently published by the AER on 12 April 2017.]

Panel Members were also reminded that financial information is presented on a real basis (i.e. excluding inflation) for expenditure forecast inputs, to enable comparison with long term trends, and in nominal terms (i.e. including inflation) for revenue and price outputs, consistent with the conventions and models used by the AER.

In discussion, it was noted that the permanent line restoration works following the extreme weather event of 28 September 2016 are largely complete, with the final works due for completion by mid-2017. The damaged line sections have been restored to equivalent or higher wind rating, based on Australian design standards.

Panel Members were interested to understand the potential implications and impacts of the contingent projects included within the Revenue Proposal. A detailed discussion followed about the potential costs of these projects, and concerns over whether this could erode most of the savings outlined in the Revenue Proposal should they progress. There was concern at how difficult this was to assess from a consumer point of view, with a need for more information on the potential impacts on costs.

The following specific points were noted:

- Each of the 5 contingent projects is subject to the application of the Regulatory Investment Test for Transmission (RIT-T). At present, the RIT-T process is under way for both the South Australian Energy Transformation (SAET) project, which is examining the scope for increased interconnection, and Eyre Peninsula Electricity Supply Options project, which is investigating improved electricity supply options for the Eyre Peninsula.
- It was noted that the Revenue Proposal contains information on the indicative price impacts of these two projects. Were both projects to proceed, with the approval of the AER, the level of capital expenditure in the forthcoming regulatory period would potentially be at or slightly above the level of the current regulatory period.
- The transmission tariff impacts of any contingent projects that proceed would be determined at the time in accordance with ElectraNet's approved Transmission Pricing Methodology. For example, the costs associated with a new interconnector development would be recovered from customers generally, whereas a large proportion of the cost of any new transmission line built to serve a new mining load would be expected to fall to that customer once connected.
- All dedicated connection assets required to serve directly connected transmission customers would be customer funded through negotiated or unregulated charges. These services and associated costs fall outside the Revenue Proposal and contingent project approval process, which covers only the costs of regulated (i.e. prescribed) services provided by the shared network.
- While approved separately to a Revenue Determination process, contingent projects provide for an even greater level of participation and input by stakeholders given the consultation requirements and timeframes of the RIT-T process and AER contingent project approval processes.

Panel Members agreed that the information sheets provide useful summary details of the Revenue Proposal. It was noted that further summary information in this form would be useful covering other key topics such as contingent projects and system security issues.

A listing of the 5 proposed contingent projects contained in ElectraNet's Revenue Proposal is provided for reference in Attachment 2, together with the indicative information provided in the Revenue Proposal on the potential price impacts of these developments.

It was also noted that the Working Group of the Consumer Advisory Panel had met on 14 February 2017, as agreed at the last meeting of the Panel, for a deep dive workshop session together with representatives of the AER and Consumer Challenge Panel to review in greater detail expected changes to the Preliminary Revenue Proposal capital expenditure forecast.

This session was provided with an update of the capex forecast, network resilience investigations being undertaken and a number of case study examples of new proposed projects. Participants agreed that the workshop had adequately covered off on the required issues, and there was no need to meet again prior to the lodgement of ElectraNet's Revenue Proposal, provided there were no material changes prior to submission.

Members also noted the forward timetable for the revenue determination process and upcoming Consumer Advisory Panel meetings, with next steps to include:

- Release of the AER's Issues Paper on the Revenue Proposal – 25 May 2017
- AER public forum on the Revenue Proposal – 7 June 2017
- Submissions close on the Issues Paper and Revenue Proposal – 7 July 2017

3. State Government Energy Plan

Rainer Korte, Executive Manager, Asset Management, provided an overview of the policy initiatives contained within the State Government's Energy Plan *Our Energy Future*, and the potential implications from a transmission perspective, with reference to a summary sheet extracted from the Plan.

Discussion of the key policy initiatives and measures in the Plan covered the following:

- Battery storage – this measure involves the provision of funding to support the installation of grid scale battery storage, with an initial target of 100 MW of connection by end 2017. An Expression of Interest process is being undertaken, with the possibility that a number of separate development locations and proponents may be shortlisted. ElectraNet would be required to connect any such plant to the transmission network. General information on likely connection locations to the network for new developments is available in ElectraNet's Transmission Annual Planning Report. It was noted that battery storage developments could potentially assist in firming up intermittent generation and promoting competition, but the primary driver for this measure is energy security.
- Gas power plant – this involves the development of a Government-owned gas-fired power plant to provide stand-by emergency generation. The plant is expected to generate only in shortfall situations, and not to participate in the market. It is also expected that this plant would be able to provide ongoing technical services to increase system strength on the grid (specifically by operating as a synchronous condenser). An Expression of Interest process is being undertaken. ElectraNet would again be required to connect any such plant to the transmission network.
- Local powers – the State Government is legislating to extend and streamline the ability for Ministerial directions to be issued in emergency shortfall situations.

- New generation – this measure involves using the State Government’s buying power as a major electricity customer to incentivise more competition in electricity generation and supply.
- Gas incentives – this involves a series of modest measures intended to increase exploration and production of gas in South Australia.
- Energy security target – this measure is designed to require greater local sourcing of synchronous generation in South Australia. While primarily aimed at improving energy security, this target is designed to transition ultimately to a national emission intensity scheme or lower emissions target, once established. This measure has implications for the potential for increased interconnection from South Australia to the eastern states, to the extent that this measure places ongoing restrictions on the level of imports.

4. Update on recent developments

Rainer Korte provided the Panel with an update on the status of current developments, covering the following.

South Australian Energy Transformation Project

It was noted that a total of around 35 submissions had been received in response to the Project Specification Consultation Report and associated material released as part of the RIT-T process for the South Australian Energy Transformation Project, offering both potential solutions from proponents and feedback and comment on the assessment process.

Modelling is currently underway to undertake an initial assessment of the potential net benefits of the various interconnector and non-network solution options. It was noted that the State Government’s Energy Security Target impacts on the level of potential benefits that can be delivered by a new interconnector option or non-network alternative, depending on whether the requirement for greater local sourcing of generation is transitional or ongoing in nature.

The RIT-T process will provide the Panel and stakeholders with further opportunities for input and participation as it progresses.

Other Developments

- Northern South Australian Region Voltage Control – as foreshadowed at the previous meeting of the Panel, it was confirmed that this RIT-T process had now been discontinued based on more recent information on the technical characteristics of major customer load in the vicinity which has eliminated the need for the project.

- Eyre Peninsula Electricity Supply Options – it was noted that a project Specification Consultation Report was nearing finalisation, and was expected to be issued by end April 2017 to formally commence consultation on the RIT-T assessment for this project. Options to be considered include a new double circuit line, separate single circuit lines following diverse routes, and higher voltage lines (275kV) which potentially provide greater option value. A range of market benefits will be assessed, including the potential facilitation of new generation developments on Eyre Peninsula. It was noted that the cost of this project, if it were to proceed, would be funded by customers generally to the extent it expanded the shared network, with any dedicated connection assets required for individual customers or generators to be funded by the connecting party.
- Energy Storage for Commercial Renewable Integration (ESCRI) - work continues on this proof of concept project, with the aim of trialling a grid scale battery storage solution as an option to improve power system security in South Australia. Discussions are ongoing with the AER on the appropriate regulatory treatment of the project under the National Electricity Rules, including whether the application of the RIT-T is required in this case. This project is being pursued separately to the State Government's battery storage initiative, with support from the Australian Renewable Energy Agency (ARENA).

5. Next steps

Members agreed to receive a short presentation at the next Panel meeting from Tim Kelly on best practice environmental commitments and reporting.

Focus areas for the next meeting are therefore expected to include:

- Progress on the formal Revenue Determination process
- Status of current developments
- Best practice environmental commitments and reporting

The **next meeting** of the Panel is scheduled for:

2.00pm to 4.00pm
Tuesday, 18 July 2018
Crowne Plaza, 16 Hindmarsh Square, Adelaide

Future meetings will be held as per the forward meeting schedule.

ATTACHMENT 1 – Attendees

Member	Organisation
David Headberry*	Public Officer, Energy Consumers Coalition of SA (ECCSA)
Tim Kelly	Conservation Council of South Australia
Andrew McKenna	Senior Policy Advisor, Business SA
Jo De Silva	Senior Policy Officer, SACOSS
Independent Facilitator	
Ann Shaw Rungie	Independent Facilitator, Ann Shaw Rungie Consulting
Consumer Challenge Panel	
Bev Hughson	Member, Consumer Challenge Panel #9
Andrew Nance	Member, Consumer Challenge Panel #9
Australian Energy Regulator	
Adam Petersen	Director
Company Representatives	
ElectraNet	
Rainer Korte	Executive Manager, Asset Management
Joanne McDonald	Executive Manager, Corporate Governance
Simon Appleby	Senior Manager, Regulation and Land Management

*Attended by phone

Apologies:

Sandy Canale - Energy and Water Ombudsman, Energy and Water Ombudsman SA

Peter Dobney - Director, Energy Users Association of Australia

Mark Henley - Manager Advocacy and Communication, Uniting Communities

Hon Robert Kerin - Executive Chairman, Primary Producers SA

Rebecca Knol - Chief Executive, South Australian Chamber of Mines

Graham Pratt - Consumers Association of South Australia

Taryn Sexton - Chief Executive Officer, Local Government Professionals Australia

Vivienne Smith - COTA SA

ATTACHMENT 2 – Proposed Contingent Projects

The contingent projects proposed in ElectraNet’s Revenue Proposal are as follows¹.

Contingent Project	Drivers	Indicative cost (\$m)
Eyre Peninsula Reinforcement	Sufficient benefits to customers to justify the full replacement of the Cultana to Port Lincoln transmission line. The total cost of this project is estimated to be approximately \$200m, but if this project goes ahead it would replace the approximately \$80m of expenditure in our current forecasts for conductor replacement, resulting in a net \$120m increase in capital expenditure.	200*
South Australian Energy Transformation	Sufficient benefits to customers from addressing network limitations and system security challenges due to changing generation mix.	200-500
Upper North West Line Reinforcement	Mining load increases triggering the need for augmentation to address network limitations on the Davenport – Pimba 132kV line.	110
Upper North East Line Reinforcement	Mining load increases triggering the need for augmentation to address network limitations on the Davenport – Leigh Creek 132kV line.	60
Main Grid System Strength Support	Confirmation by AEMO of the existence of a Network Support and Control Ancillary Services (NSCAS) gap relating to system strength, or other requirement for ElectraNet to address a system strength requirement, in the South Australian region.	60-80

* Noting that the differential cost over the alternative partial replacement option included in the ex ante forecast would be around \$120m, for which funding would be sought should the contingent project be triggered

The indicative price impact of the most advanced of these projects (currently subject to the Regulatory Investment Test for Transmission process) is as follows²:

- Eyre Peninsula Reinforcement - a full rebuild of the transmission line serving the Eyre Peninsula at an additional cost of approximately \$120m would add approximately \$4 to the average annual residential customer bill from the time of commissioning, which would be expected to be towards the end of the forthcoming 2019–2023 regulatory period
- South Australian Energy Transformation - the development of a new interconnector to New South Wales at an indicative cost for the South Australian portion of the link of \$250m would add approximately \$8 to the average annual residential customer bill from the time of commissioning, which would be expected to be towards the end of the forthcoming 2019–2023 regulatory period.

¹ ElectraNet Revenue Proposal Overview p55

² ElectraNet Revenue Proposal Overview p43