

CONSUMER ADVISORY PANEL

MEETING # 11

- Date:** Tuesday 23 January 2018
- Time:** 1.00pm to 3.00pm
- Venue:** Pullman Adelaide, Hindmarsh Square (Executive Boardroom)
- Purpose:**
- Brief the Panel on the revised Revenue Proposal
 - Provide an update on major projects and developments
 - Explore focus areas and priorities for 2018 and beyond
- Attendees:** Refer Attachment 1
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MEETING NOTES

1. Introduction

Ann Shaw Rungie welcomed Consumer Advisory Panel (Panel) Members and guests to the meeting.

The Panel accepted the meeting notes of the previous meeting (Panel meeting #10) held on 8 November 2017 as a true and accurate record.

Steve Masters, Chief Executive Officer thanked the Panel for its work to date, acknowledging the time commitment for Members over the past couple of years. He noted the Panel's continuing strong support and guidance which has allowed ElectraNet to raise the bar of consumer engagement, and that effective ongoing engagement with consumer representatives and broader stakeholders remains a high priority for ElectraNet.

2. Revised Revenue Proposal

Simon Appleby, Senior Manager Regulation and Land Management, provided an overview of ElectraNet's revised Revenue Proposal, lodged with the Australian Energy Regulator (AER) on 22 December 2017. It was noted that the final revised Revenue Proposal involved no material changes to the preliminary positions shared at the last Panel meeting on 8 November 2017.

Key points included the following:

- As the AER accepted most aspects of the Revenue Proposal in its Draft Decision, there are few outstanding issues to respond to in the revised Revenue Proposal.
- ElectraNet accepted all of the AER's positions on the Weighted Average Cost of Capital (WACC), including gamma. The AER's settled approach to forecasting inflation was also applied.

- The capital expenditure forecast remains essentially unchanged, as the AER accepted the full forecast in its Draft Decision, with some minor project timing and escalation updates. ElectraNet also proposed some further refinements to the triggers of the contingent projects.
- The operating expenditure forecast was the main area of change in response to the Draft Decision. As noted at the last Panel meeting, key updates included the AER's correction to the calculation of the debt raising cost, the resource impacts of new requirements imposed on the business, and minor updates to escalation and the network support forecast.
- The updated operating expenditure outlook remains well below the AER's efficient benchmark estimate (by approximately \$21m over 5 years).
- The revised Revenue Proposal has minimal impact on the overall revenue path, with the updated revenue forecast being within around 1% of the AER's Draft Decision.

The remaining steps in the Revenue Determination process are as follows:

Milestone	Timing
Submissions on Draft Decision & revised Revenue Proposal due	29 Jan 2018
AER to publish Final Determination	30 Apr 2018

Members were encouraged to contact ElectraNet if they require any further information or clarification in preparing submissions on the Draft Decision and revised Revenue Proposal. Rebecca Knol, Chief Executive, SACOME, flagged that the Chamber would be lodging a submission.

3. Update on major projects and developments

Rainer Korte, Executive Manager Asset Management, provided an update on the following major projects and developments.

Eyre Peninsula Electricity Supply Options

ElectraNet continues to investigate future transmission supply options for Eyre Peninsula through the Regulatory Investment Test for Transmission (RIT-T) assessment process.

A Project Assessment Draft Report (PADR) was published on 16 November 2017 and submissions were due on 19 January 2018. As of 22 January 2018 ElectraNet had received 11 submissions.

The economic assessment undertaken for the PADR found that a new transmission line solution would provide the greatest net benefit of the available options.

A variety of views had been expressed by stakeholders to date, ranging from a call for higher capacity line options to 'do nothing'. ElectraNet is working towards the release of a final report in the next few months.

Q. Are there any funds for the Eyre Peninsula project in the approved capital expenditure forecast?

A. Yes. As previously advised, approximately \$80 million of capital expenditure has been included in the approved capital expenditure forecast for conductor replacement on the existing transmission line. In the event that the option of a new transmission line is found to deliver greater net value through the RIT-T process, the costs exceeding \$80m would be sought through a contingent project application. As noted in the revised Revenue Proposal, a full rebuild solution at an indicative cost of \$300 million would represent an additional cost of around \$220m and avoid the substantial ongoing cost of network support payments, the net result of which would be an estimated increase of less than \$3 per annum in the transmission component of the average residential bill.

Q. Are the submissions about reliability of supply to the region or about exporting power?

A. Both. There is keen interest from stakeholders in local supply reliability, but also a lot of interest in higher capacity transmission options to harness more wind energy out of the Eyre Peninsula.

Q. What happens after the release of the PADR?

A. Following the conclusion of the RIT-T assessment process, there is a 30 day notice period for parties to lodge a dispute. The AER is also separately required to conduct a review into the application of the RIT-T, and this process can take up to 120 business days. Following this, ElectraNet will be required to lodge a contingent project application to secure the required expenditure to undertake the project. In the spirit of its early engagement approach, ElectraNet continues to work closely with the AER in the lead up to these formal steps to ensure there are no surprises and to assist in a more streamlined process for all stakeholders.

Q. Once the approval processes are concluded, how long before construction can start?

A. Assuming a line rebuild were to proceed, ElectraNet already has the majority of the easements in place and development approvals would also need to be obtained. Once the required approvals are complete, it is expected construction could be completed in around two years.

Q. What are the impacts of the Iron Road project if it proceeds?

A. The solution the Draft Report recommends would accommodate Iron Road's proposal as it involves a higher capacity 275 kV line from Cultana to Yadnarie. Further line works would also be needed to connect the new load to the network at Iron Road's cost. Additional load would also complement the development of more wind farms or solar plants on the Eyre Peninsula.

South Australian Energy Transformation Project

ElectraNet continues its investigation into the feasibility of new interconnector options and non-network alternatives through the South Australian Energy Transformation Project. This assessment formally commenced in November 2016 with the release of a Project Specification Consultation Report.

While the market modelling underpinning this assessment is progressing, one of the complicating factors in getting to a draft report stage has been the continual change in the external environment, including new policy announcements. It is also critical that this exercise is coordinated with national planning processes that are underway. In particular:

- Victorian network planning - as the transmission planner for the Victorian network, the Australian Energy Market Operator (AEMO) has commenced a RIT-T process looking at the Western Victorian network where there are significant renewable resources. The Victorian Government has legislated certain renewable energy targets and AEMO is considering how these targets can be achieved.
- National system planning – a key recommendation of the 2017 'Finkel' review into the Future Security of the National Electricity Market was for AEMO to develop a national grid plan (now referred to as an integrated system plan). In late 2017, AEMO released a consultation paper for its integrated system plan setting out the analytical work it plans to do to test where the priority renewable energy zones are across the NEM, and to identify priority transmission developments that would support those zones.

ElectraNet continues working closely with AEMO and other regional planning bodies to progress the RIT-T assessment in an integrated manner with these broader national planning processes. ElectraNet expects to release a Draft Report in mid-2018, with the timing partly dependent on the progress of these broader processes.

Q. Is the National Energy Guarantee likely to influence the outcomes of the RIT-T?

A. Potential implications are being factored into the assessment, but are not expected to have a material impact. The analysis to date already assumes that Australia will meet its international emission reduction targets, which is a key focus of the proposed National Energy Guarantee. Together with its Draft Report, ElectraNet intends to provide a full description of its modelling methodology and key assumptions to help stakeholders understand the thinking behind the analysis. The analysis relies on the assumptions adopted by AEMO in its National Transmission Network Development Plan, and departs from these only where justified by new or updated information. For example, gas prices are critical to the assessment, so ElectraNet has obtained more detailed and up to date expert advice on the projected gas price outlook.

Q. With the increasing uptake of renewables and battery storage by customers, is the level of energy being taken off the grid being forecast?

A. This is taken into account in the development of the forecast of peak demand on the grid. The latest forecast from AEMO would suggest in the long term demand will be flat or somewhat in decline.

Upper North reinforcements

There is nothing new to report at this time in relation to new load developments that might trigger the need for shared augmentation of the northern network.

Response to System Strength Gap

As the level of renewable generation increases and the level of synchronous generation declines, management of some of the important services traditionally provided by synchronous generation sources such as system strength becomes more challenging.

AEMO formally declared a system strength gap in SA on 13 October 2017, which ElectraNet is required to address on a reasonable endeavours basis by 30 March 2018.

The only potential solution in the short term is to contract with existing synchronous generators to operate when needed. On 19 December 2017, ElectraNet released a request for pricing to the existing synchronous generators, with responses due by 24 January 2018.

ElectraNet will work through the tender responses and evaluate the most cost effective solution to address the identified gap over the short and medium term. Options being considered include generator contracting, installation of synchronous condensers as a potential network solution, and ongoing reliance on generator direction by AEMO as the operational fall-back solution being applied in the meantime.

ElectraNet is moving to implement a sustainable solution as quickly as possible given the costs and risks associated with the current generator direction process. While under the Rules ElectraNet is exempt from applying the RIT-T to the identified need given the urgency of this issue, a detailed economic assessment is being undertaken to identify a preferred solution.

Q. What are the cost impacts of the generator direction process?

A. Generator direction has a twofold impact on the market. Firstly, it requires compensation to be paid to the affected generators for their additional running costs when directed, which is funded by market participants and ultimately customers. Secondly, it distorts wholesale price outcomes under the intervention pricing process applied under the Rules, typically increasing wholesale prices which also ultimately impacts on customers.

Q. Would synchronous condensers be connected directly to the transmission network or be located within an existing generation facility?

A. System strength could be provided from either source. ElectraNet can invest in synchronous condensers to meet the declared gap as a network solution. Alternatively, another party could also install and operate synchronous condensers under contract to ElectraNet as a system strength service, but would be sourcing these from the same manufacturers, so any material cost saving is unlikely.

Q. Are the locations of any synchronous condensers important for their impact on the grid?

A. The system strength gap is location specific and will need to be addressed on the South Australian transmission network. Potential locations being considered for synchronous condensers include major substations on the 275kV 'backbone' of the transmission network.

Q. Will the National Energy Guarantee override the need to meet the system strength gap?

A. The National Energy Guarantee being proposed is not expected to have a material impact on the system strength gap that has been declared. The declared gap relates to the minimum requirement that must be met in South Australia. Future generators will be expected to bring system strength capability to the network as they connect to maintain minimum system strength requirements. The SA Energy Transformation RIT-T assessment is also looking at the wider benefits of additional system strength on the power system.

Q. Is AEMO currently imposing limits on wind generation development in SA?

A. No. However, AEMO is currently restricting the level of aggregate output from non-synchronous generation sources in South Australia to help maintain the stability of the power system until additional system strength capability in addition to the minimum requirement is provided.

AEMO Integrated System Plan

Progress on the development of the inaugural Integrated System Plan being developed by AEMO was noted as follows:

- A consultation paper was published on 18 December 2017;
- The paper identifies 11 potential Renewable Energy Zones covering parts of South Australia;
- Increasing interconnection from South Australia and expanding transmission capacity on the Eyre Peninsula are included in a list of 8 transmission development priorities identified across the NEM; and
- Submissions on the paper are due in February 2018.

ElectraNet continues to work closely with AEMO in its development of the Plan.

Q. How does system planning consider the allocation of costs to consumers in each jurisdiction, given SA has already delivered more than its share of emission reduction?

A. There has not been a lot of recent national focus on this. Inter-regional transmission charging arrangements introduced a few years ago were designed in part to address this. However, this mechanism effectively shares costs across borders for the use of the network to meet peak demand, not for the overall direction of energy flow. To date, South Australia has been a net importer of peak demand and therefore network capacity. This is also an issue for Tasmania in relation to Basslink and its possible expansion.

ESCRI – battery storage project

The ESCRI battery energy storage project involving the installation of a 30MW, 8MWh battery at Dalrymple on Yorke Peninsula continues to proceed broadly on schedule, and is currently due for commissioning by 30 April 2018.

4. Workshop discussion – focus areas and priorities for 2018 and beyond

Ann Shaw Rungie, Independent Facilitator, led a workshop discussion to explore with Members the forward priorities and focus areas looking beyond the current revenue determination process, reflecting on the ongoing role and objectives of the Panel.

Based on initial input gathered from Members prior to the session, including those unable to attend, the discussion touched on a number of key aspects including the role and purpose of the Panel, key topics and issues, objectives and measures, the desired level of representation from member organisations and meeting frequency.

This discussion covered:

- The ongoing advisory role of the Panel as a sounding board and source of independent consumer input and advice to ElectraNet;
- The primary focus of the Panel on improving the value of transmission services in South Australia;
- The role of ElectraNet in identifying the strategic priorities for the Panel and driving the forward agenda;
- A focus on key issues impacting on transmission service delivery such as the revenue determination process and challenges the energy sector continues to work through, including the major projects and initiatives being pursued by ElectraNet;
- The importance of ongoing engagement with key stakeholders and commentators given the maturing status of the energy debate;
- A suggested reduced meeting frequency of 3 meetings per annum or as needed; and
- The need to maintain the focus and representation on the Panel at a strategic level, with working groups and other forums to be utilised as needed to 'deep dive' into detailed technical matters.

It was agreed that ElectraNet would develop a proposed work program based on this guidance and bring this back for discussion at the next meeting.

5. Wrap up and next steps

The next Panel meeting will be scheduled in consultation with Members for May 2018, and will focus on the outcomes of the AER's Final Decision on the Revenue Proposal and forward priorities for the Panel.

Future meetings will be scheduled as required.

ATTACHMENT 1 – Attendees

Member	Organisation
Peter Dobney*	Director, Energy Users Association of Australia
Andrew McKenna	Senior Policy Advisor, Business SA
Hon Robert Kerin	Executive Chairman, Primary Producers SA
Rebecca Knol	Chief Executive, South Australian Chamber of Mines
Consumer Challenge Panel	
Andrew Nance	Member, Consumer Challenge Panel #9
Independent Facilitator	
Ann Shaw Rungie	Independent Facilitator, Ann Shaw Rungie Consulting
Company Representatives	ElectraNet
Steve Masters	Chief Executive
Rainer Korte	Executive Manager Asset Management
Sylvia Rapo	Manager External Relations
Simon Appleby	Senior Manager Regulation and Land Management
Angela Faulkner	Stakeholder Relations Advisor

* Attended by phone

Apologies:

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

Vivienne Smith - COTA SA

Tim Kelly - Nominee, Conservation Council of South Australia

Jo De Silva - Senior Policy Officer, SACOSS

Mark Henley - Manager Advocacy and Communication, Uniting Communities

David Headberry - Public Officer, Energy Consumers Coalition of SA (ECCSA)

Adam Petersen – Director, Australian Energy Regulator (AER)

Graham Pratt - Consumers Association of South Australia