

7 August 2020

Rainer Korte
Group Executive Asset Management
ElectraNet



Lodged via email: consultation.enet@electranet.com.au

Dear Mr Korte,

Submission to Project EnergyConnect stakeholder update on 24 July 2020

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to ElectraNet's update regarding Project EnergyConnect.

Change in the overall benefit from the project

It is essential that Project EnergyConnect, as a regulated transmission investment, provides an overall net economic benefit. However, given the large cost of the project,¹ it is also essential that the project provides a reasonable return on that investment for consumers.

PIAC expects Project EnergyConnect's net economic benefit to be significantly positive to justify the scale of the investment.

In making its RIT-T determination in January 2020, the AER questioned several assumptions made by ElectraNet and found "the net benefits in the central scenario may be significantly lower (about \$269 million rather than \$924 million) using the alternative inputs and assumptions."² This marked reduction in benefits diminishes the case for the project. It is exacerbated by the general increase in transmission costs currently experienced in the NEM and reflected in AEMO's 30% increase in transmission capital costs used in its Final 2020 Integrated System Plan (ISP).

PIAC is concerned that there has been a material change in circumstances for Project EnergyConnect and considers it prudent to determine whether this would lead to a change in the preferred option. We note ElectraNet's commitment to progress its "updated cost benefit analysis based on a range of expected cost outcomes" ahead of the firmer construction cost estimates expected in September and to share these results at a forum in August.³ We look forward to seeing this analysis and engaging with stakeholders on these matters.

¹ The project has been estimated at \$1.53 billion in ElectraNet's Project Assessment Conclusions Report in January 2019 and more recently modelled at \$1.99 billion in AEMO's 2020 Integrated System Plan.

² AER, *Determination: South Australian Energy Transformation RIT-T*, January 2020, 7.

³ ElectraNet, *Project EnergyConnect Update*, July 2020, 2, 4.

Change in the share of benefits from the project

PIAC has raised concerns throughout the RIT-T process that the primary beneficiaries of Project EnergyConnect are in South Australia while the majority of costs would be borne in NSW:

... as noted in analysis done by The Energy Project, the expected benefits from the preferred option is split approximately 60% to SA consumers and 40% to NSW consumers. This is in contrast to the costs which are borne 27% by SA and 73% by NSW consumers.⁴

This imbalance of benefit accrual and cost recovery may be exacerbated (or at the very least reinforced) by the recent South Australian System Security Requirements. As ElectraNet notes:

AEMO's report to the Government of South Australia recommends PEC proceeds as an "essential foundational measure" to address the system security risks identified. PEC would reduce the likelihood of South Australia islanding from the NEM and alleviate the most challenging system security issues identified in AEMO's analysis.⁵

PIAC recommends that ElectraNet and TransGrid model the division of costs and benefits between different NEM regions as a result of Project EnergyConnect as part of its updated cost benefit analysis

Continued engagement

PIAC would welcome the opportunity to meet with ElectraNet, TransGrid and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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⁴ PIAC, *Submission to the SA Energy Transformation RIT-T PADR*, August 2018, 2.

⁵ *Ibid*, 3.