

Consumer Advisory Panel Meeting

6 April 2021

Meeting Agenda

Consumer Advisory Panel

Date	Tuesday, 6 April 2021, 2pm to 4pm	
Location	ElectraNet Office: East Terrace and Microsoft Teams	
Item	Agenda Item <i>Responsible Person</i>	Time Allocated
1.	Welcome <i>Rainer Korte, Group Executive Asset Management</i>	5 min
2.	Meeting notes from 23 February 2021 <i>for APPROVAL</i>	
3.	Project EnergyConnect – Update <i>Rainer Korte, Group Executive Asset Management for INFORMATION - followed by Q&A</i>	15 min
4.	Network Vision – Consultation Summary <i>Brad Harrison, Power System Planning Manager for INFORMATION - followed by Q&A</i>	10 min
5.	Revenue Reset – Preliminary Outlook <i>Jeremy Tustin, Regulated Investment Planning Manager for INFORMATION</i>	15 min
6.	Revenue Reset – Engagement Plan/Working Group <i>Simon Appleby, Manager Regulation & Investment Planning for CONSULTATION AND DECISION</i>	10 min
7.	Revenue Reset – Open Discussion <i>Rainer Korte, Group Executive Asset Management for CONSULTATION</i>	5 min
8.	Wrap up and next steps	

Project EnergyConnect Update

Rainer Korte, Group Executive Asset Management

Project EnergyConnect Update

Contingent Project Application and Financeability Rule Change

On 18 December 2020, the AER issued a Preliminary Position on the Contingent Project Applications of ElectraNet and TransGrid:

- The AER largely accepted ElectraNet's Application, with a minor reduction to the proposed capital expenditure forecast (of around 2.5%)
- AER requires the Boards of ElectraNet and TransGrid to commit to proceed with the Project (given concerns raised over financeability) before it will make a final Contingent Project Determination
- The AER's Preliminary Position noted ElectraNet's obligation to satisfy itself there has been no material change in circumstances in the economic case for the project considering recent market developments

On 4 February 2021, the AEMC published a draft determination proposing not to approve the financeability Rule change proposals submitted by ElectraNet and TransGrid, concluding that there is no barrier in the regulatory framework to the financeability of ISP projects such as Project EnergyConnect. A final decision is due by 8 April 2021.

Project EnergyConnect Update

Material Change in Circumstances

- The National Electricity Rules require the RIT-T to be reapplied if there has been a material change in circumstances such that the preferred option identified in the RIT-T is no longer the preferred option
- The AER's Preliminary Position noted several recent policy and market developments that were not reflected in the 2020 ISP that may increase or decrease the net benefits of the project, including:
 - The NSW Government Roadmap and Electricity Infrastructure Bill 2020
 - Proposed 1,000 MW of gas generation in the Hunter Valley by April 2021
 - Victorian Government announcements over the creation of new REZs and tendering of a new battery service
 - The passage of legislation for the Tasmanian Renewable Energy Target
 - AGL's announcement of the development of a 250 MW battery at Torrens Island by 2024
- ElectraNet has considered these and other recent developments and their potential impact on the economic case for PEC in a review of the economic assessment



Project EnergyConnect Update

Review of Economic Assessment

- The assessment considers whether recent developments could result in a material change of circumstances that may lead to the preferred option no longer being the preferred option
- The conclusion of the assessment is that overall the recent policy and other changes considered are likely to have a positive impact on the modelled benefits of PEC and, therefore, it is not reasonably likely that there has been a “material change of circumstances” that would require reapplication of the RIT-T

Firm changes (could be included in a RIT-T assessment)

Potential change in circumstances	Assessed impact on benefits	Planning status - Firm
NSW Government's Roadmap	Positive 0-\$50m	Legislated
Tasmanian Government's Renewable Energy Target	Positive 0-\$50m	Legislation presented to Tasmania parliament
AEMO's IASR updated gas price assumption	Positive 0-\$50m	Draft subject to consultation
AER's preliminary position on CPAs	Positive \$140m	Published
OVERALL	Positive \$140-\$290m	

Non-firm changes (could not be included in a RIT-T assessment)

Potential change in circumstances	Assessed impact on benefits	Planning Status – Non-firm
Federal Government support of Hunter Valley GPG	Zero	Publicly announced
AGL battery	Negative \$50m to Zero	Publicly announced
Coal prices	Positive 0-\$50m	Preliminary
SA Government's Climate Change Action Plan 2021-25	Large >\$100m	Elements of the Plan in various stages of deployment however most significant elements to the benefits of PEC are insufficiently advanced to be considered.
OVERALL	Positive \$50m to >\$150m	

Project EnergyConnect Update

Economic Assessments to Date

- Cost benefit analysis for Project EnergyConnect
 - Project Assessment Draft Report (PADR) – June 2018
 - Project Assessment Conclusions Report – February 2019
 - Additional modelling and sensitivity analysis – January 2020
 - Updated Cost Benefit Analysis – September 2020
 - Review of economic assessment (DRAFT) – February 2021
- Each cost benefit analysis undertaken has Project EnergyConnect as the preferred option delivering positive net market benefits
- Separate independent reports into the broader economic benefits of PEC show significant additional savings to customers, both residential and businesses (small and large)



Project EnergyConnect Update

Next Steps

- The Boards of TransGrid and ElectraNet to consider and provide (subject to Board approval) a commitment to proceed with the project to the AER for the purposes of a final contingent project decision – April 2021
- ElectraNet to conclude and publish its review of the economic assessment of the project – April 2021
- The AER to formally consult on the ElectraNet and TransGrid contingent project applications and issue a final decision – May/ June 2021
- Early Works on the project continue under an Early Works Agreement with the South Australian Government – ongoing
- Current estimated timing to complete AER regulatory approvals and TransGrid and ElectraNet final investment decisions is June 2021

Network Vision – Consultation Summary

Brad Harrison, Power System Planning Manager

Network Vision Consultation

- Stakeholder Forum held 2 February 2021 and Discussion Paper released for consultation
- Notes from stakeholder forum published on 24 February
- Consultation submissions closed on 12 March (extended from 28 February)
- Five submissions received from
 - ENGIE (Retailer – Simply Energy, owner of Pelican Point in South Australia)
 - NEOEN (Owner's of Hornsdale Power Reserve and wind farms, large renewable developer in South Australia with Goyder South and Crystal Brook)
 - Tesla (Virtual Power Plant operator, battery supplier)
 - South Australia Chamber of Mines & Energy (SACOME: major customer representative)
 - SA Power Networks Consumer Consultative Panel (CCP)

Stakeholder Forum – Key Themes

- 1. Have we appropriately identified the key changes since the 2016 Vision that should be considered in updating the Network Vision?**
 - ☐ High level identification of trends supported
 - ☐ Uncertainty itself identified as a major trend – Engie comment that the regulatory arrangement is not well suited to uncertainty
- 2. Are there any other emerging trends or developments that should be considered?**
 - ☐ None raised
- 3. Do you agree with the amended directions and priorities that ElectraNet has proposed?**
 - ☐ Key themes are appropriate (NEOEN, SACOME)

Stakeholder Forum – Key Themes

4. Are there any other directions and priorities that should be identified?

- ☐ Alignment across SA Power Networks, AEMO's ISP, SA Government, Murraylink and energy users (SAPN CCP)
- ☐ 'Long term market signals' for many support services is lacking in existing frameworks (Tesla, Neoen and SACOME raised this for services such as frequency, voltage, inertia and system strength)
- ☐ Importantly SACOME states 'member companies will be placing greater value on these services ...' stating that market interventions are 'unknown, unbudgeted' and are making it more difficult for commercial operation

As Australia's energy transition continues, SACOME member companies (in particular our large C&I members) will be placing greater value on these services given the importance of energy reliability to their operations.

SACOME member companies have stated that these market interventions add costs which are unknown, unbudgeted, and place pressure on large energy users at the time of receipt, further compounding an unsustainable operating environment for industry.

5. What are the most important directions and priorities for the transmission network over the next 5-10 years?

- ☐ Customers are seeking material price reductions (SACOME)
- ☐ Actively engage with emerging service providers (Tesla, SACOME, Neoen, SAPN CCP)
- ☐ Deliver Project EnergyConnect (SACOME)
- ☐ Investigate the role of storage and new technologies – increase transfer capability (Neoen, Tesla)

Next Steps

- Final Network Vision update to be published April 2021

Revenue Reset – Preliminary Outlook

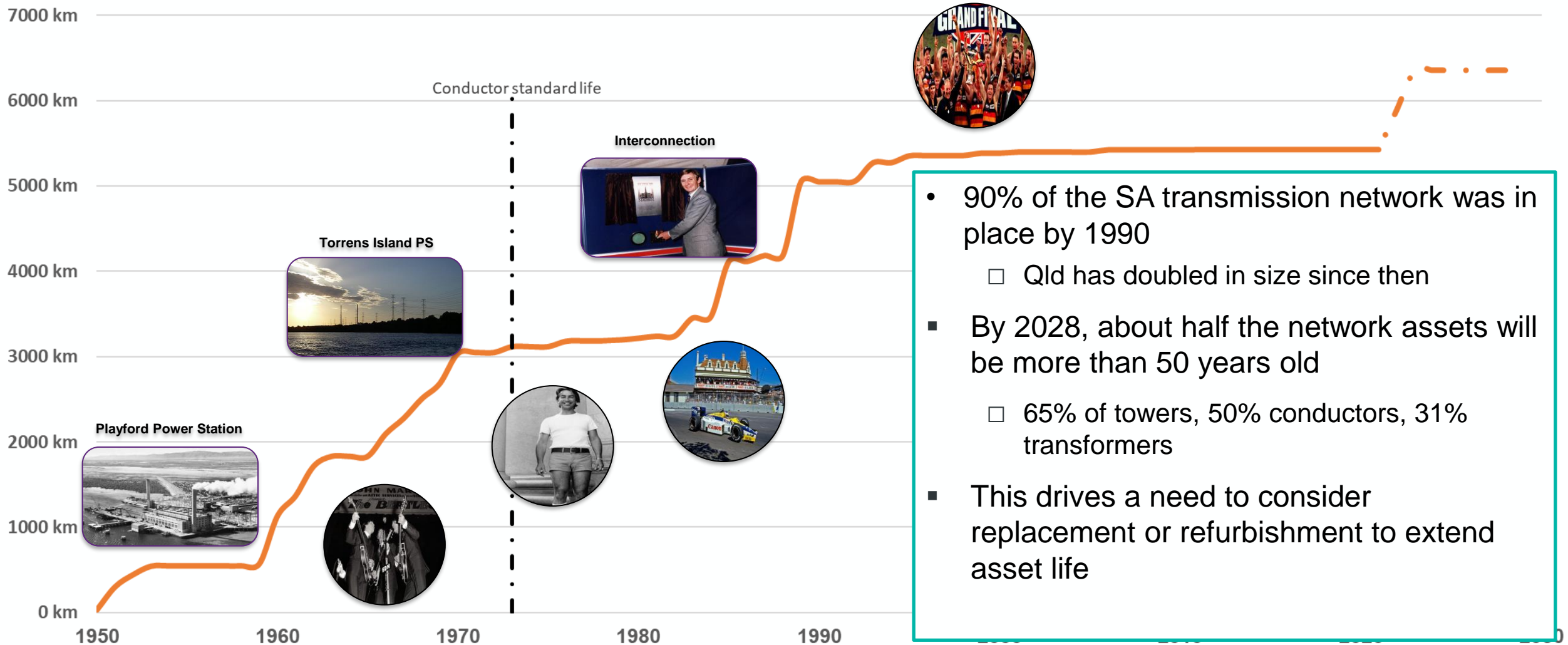
Jeremy Tustin, Regulation Investment Manager

Overall Outlook

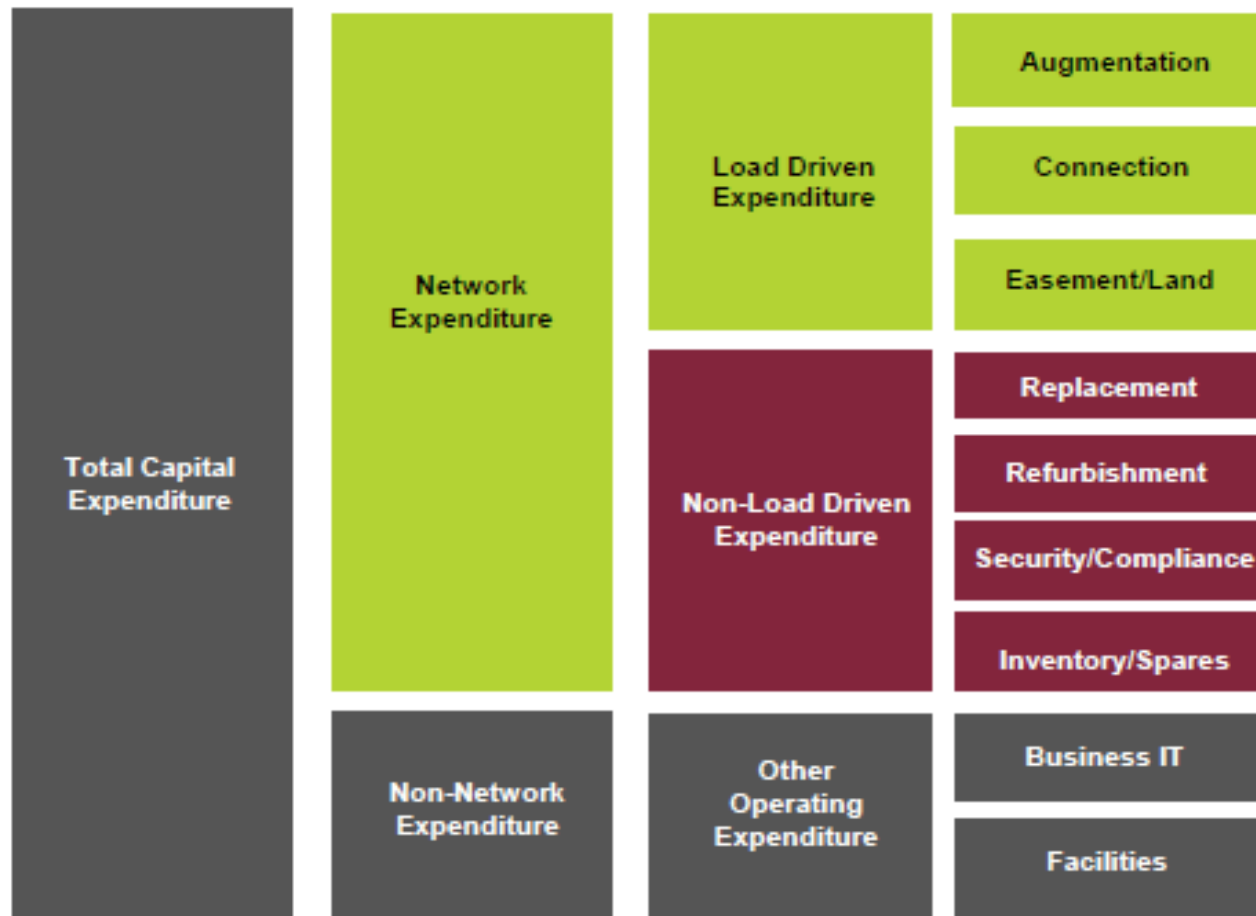
1. The transformation of the power system is accelerating
2. World leading solar PV uptake in SA continues to drive reductions in energy throughput - zero demand imminent
3. Synchronous generation continues to decline replaced by renewables and energy storage - increased need for system services
4. The role of the transmission network continues to evolve - now includes system strength and inertia
5. Underlying cost challenges remain - SA's network is old, small with sparse population and poor load profile – transmission costs more here



Development of SA's transmission network



Capital Expenditure categories

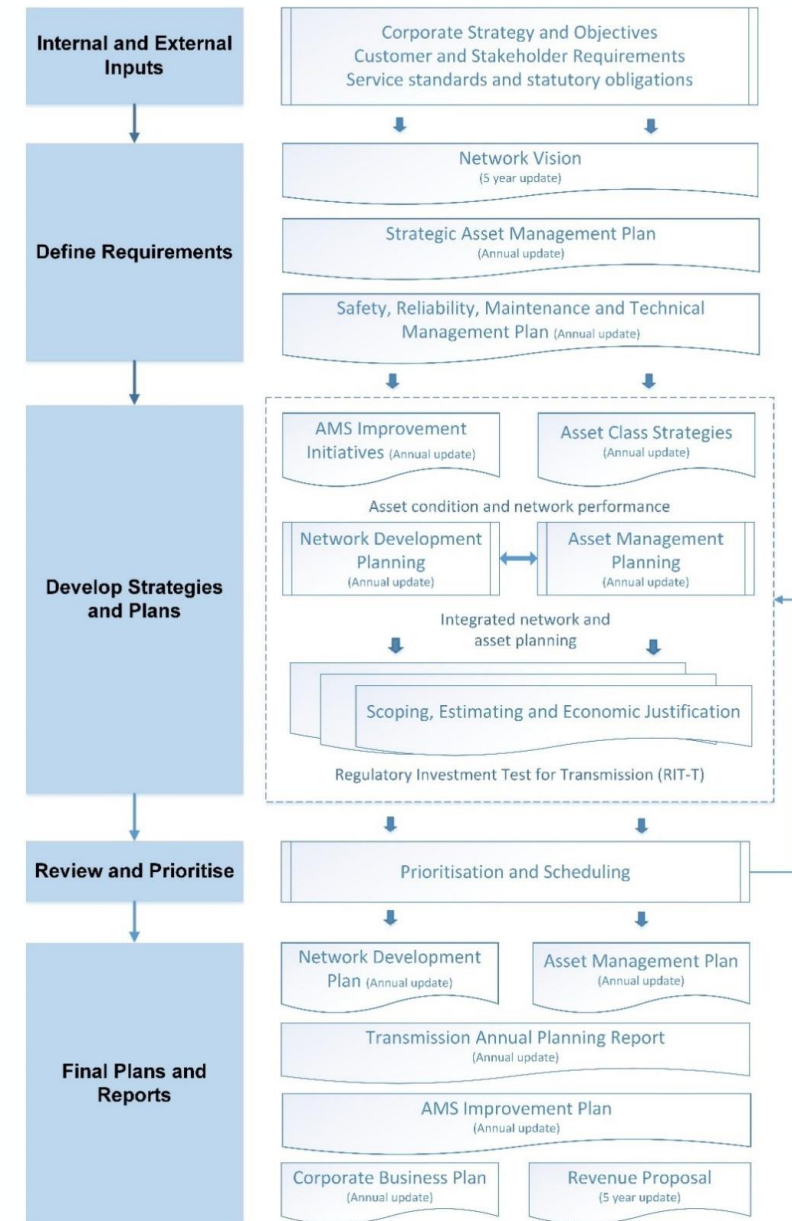


■ Capex identified through strategic planning approach

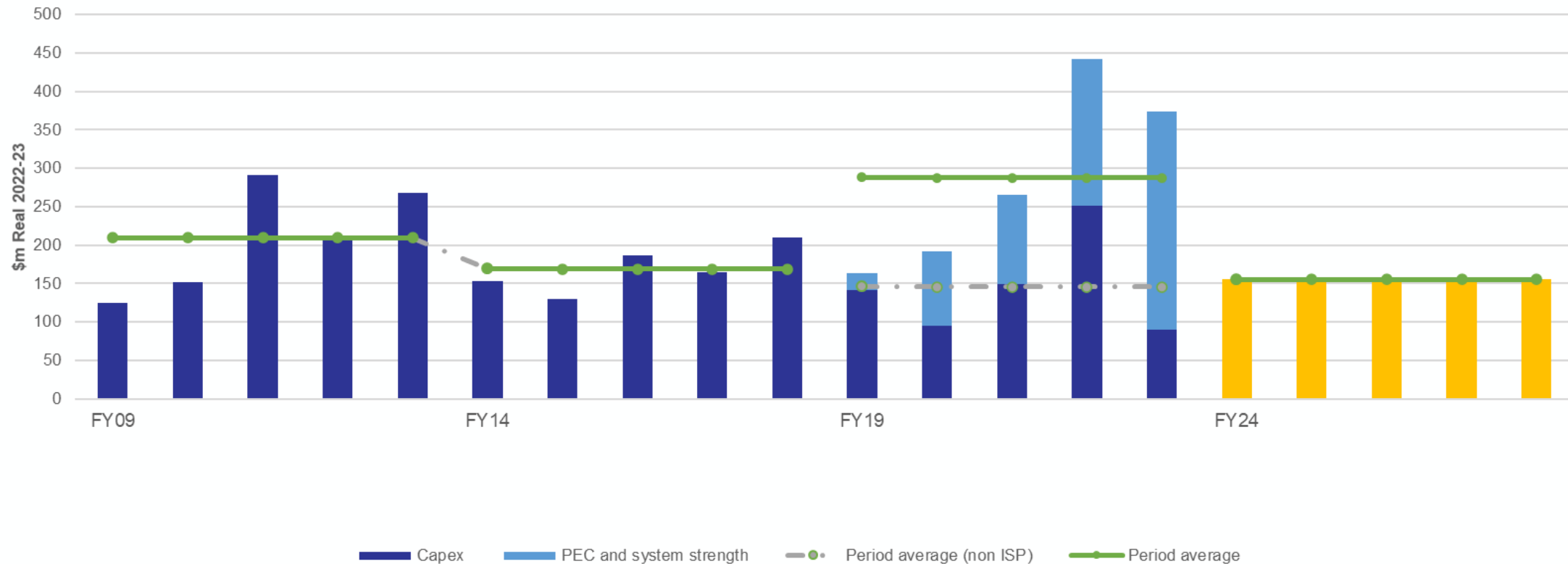
- ☐ Load driven – expect little or none
- ☐ Non-load driven
 - Replacement & refurbishment – substantial
 - condition based asset replacement
 - transmission line refurbishment works
 - Security/compliance – substantial,
 - system strength & security
 - physical security
 - cyber security
- ☐ Non-network
 - Business IT – evolving technology needs
 - Facilities – minor works

Strategic Planning Framework

- Strategic Asset planning begins with Network Vision
- Flows through Strategic Asset Management Plan to define requirements
- Strategies and plans
 - Developed at the asset class level
 - Detailed project scoping and estimating process coupled with economic assessment
 - RIT-T for larger projects
- Prioritisation and scheduling are ongoing
- Key Plans include Transmission Annual Planning Report, the Revenue Proposal and Business Plan



Capex outlook



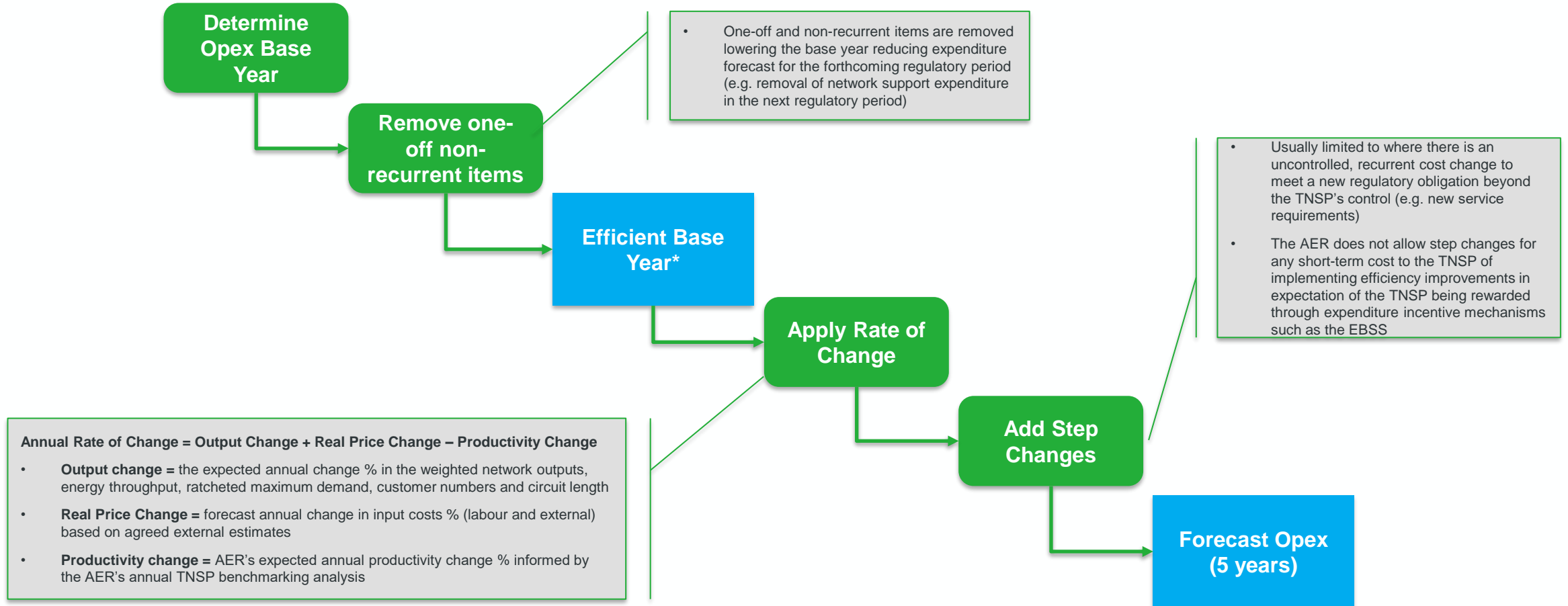
- We are completing major strategic investments in the current period to deliver customer benefits and support the transformation of the power system
- Underlying capital expenditure levels continue, reflecting optimised network replacement

Opportunities for CAP input to development of capex forecast

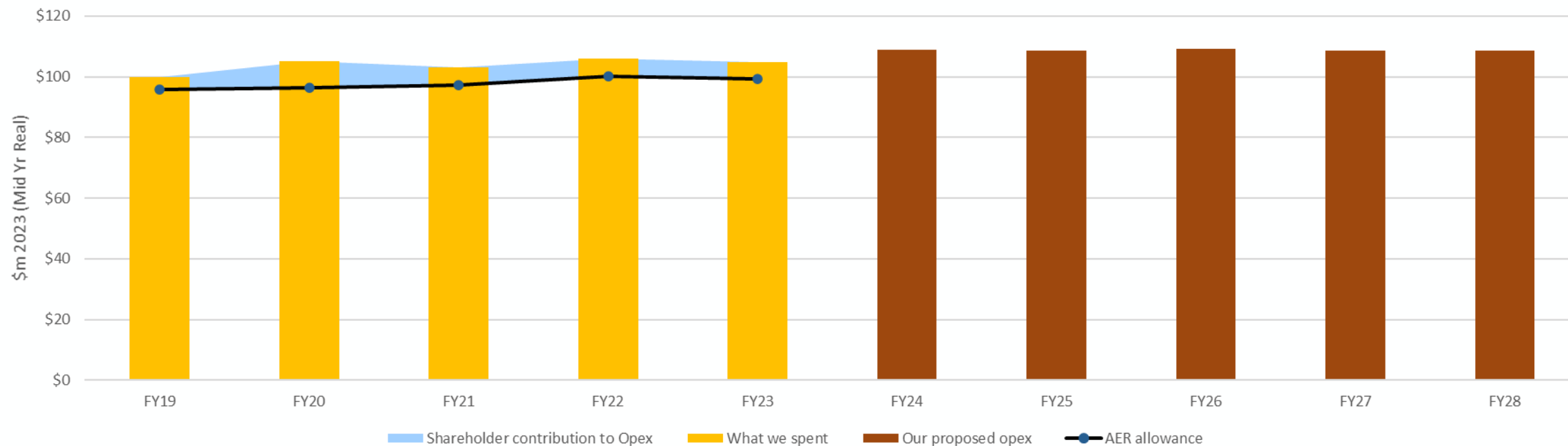
Potential 'deep dive' focus areas

- Network Vision (largely complete)
- Strategic planning framework (for understanding)
- Review of overall capex forecast/ projects
 - Are we proposing to pursue the 'right' projects at the 'right' time?
 - Asset failure modes and potential consequences
 - Risk-cost assessment process
 - Economic cases for key capital projects
 - Network risks and mitigation
- Information technology strategy and program
- Example of forecast projects
 - Tower anti-climb equipment
 - Scope of project and appropriate 'speed' of delivery?
 - Substation drainage repair
 - Repair or maintain?
 - Major line refurbishments
 - Substation replacement
 - Grandfather's axe
 - Information technology projects

AER Opex Base Step Trend Approach



Opex outlook

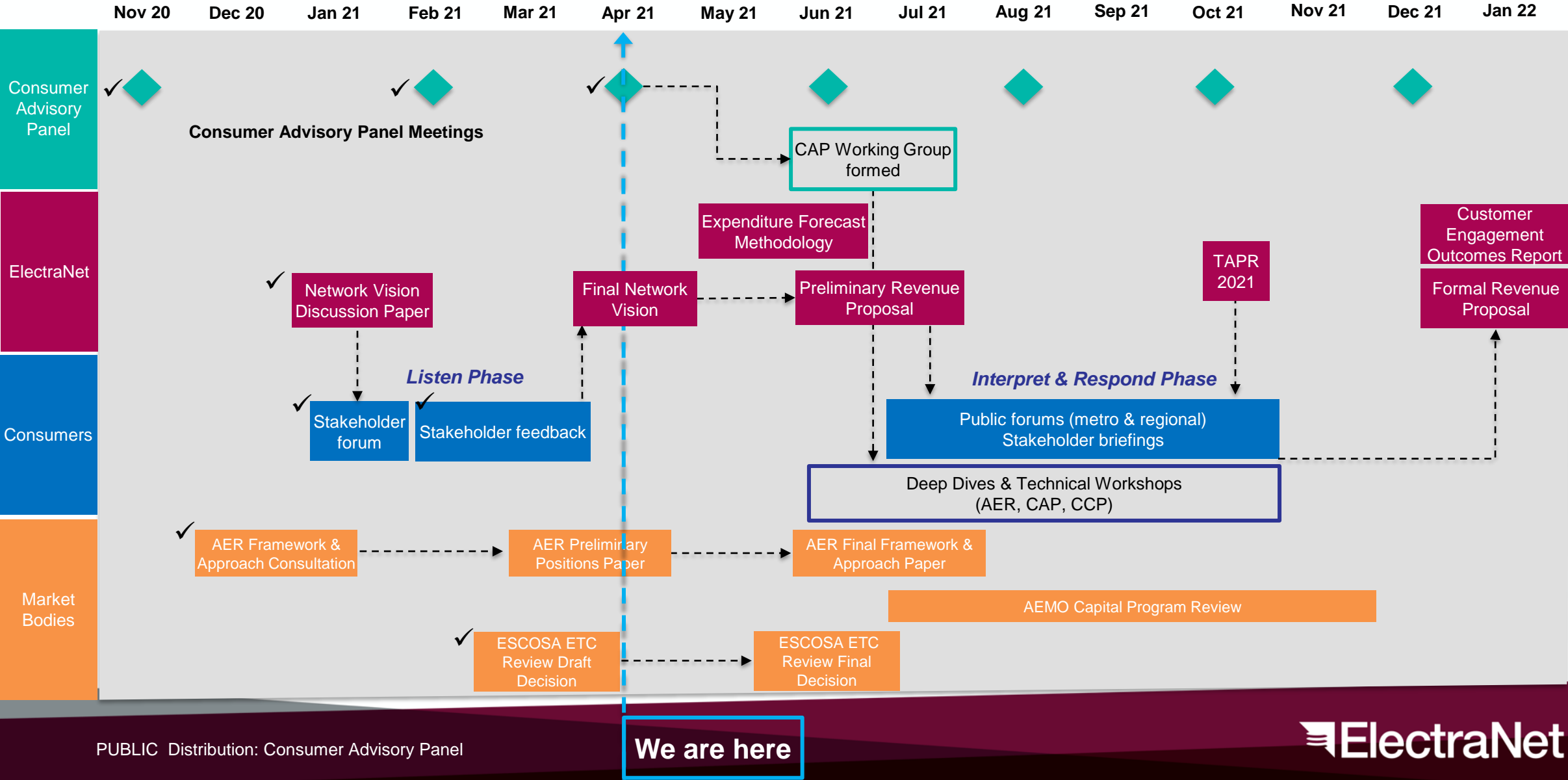


- Increasingly complex operating environment has driven expenditure above allowance (funded by shareholders)
- Overall, stable opex outlook in the coming period
- Substantial increase in network size (~20%) and complexity requires ongoing management and increases costs
 - Inspect lines, manage vegetation, new asset types (synchronous condensers) etc.

Revenue Reset – Engagement Plan/ Working Group

Simon Appleby, Manager Regulation & Investment Planning

Early Engagement Approach



Proposed CAP Working Group

- Purpose would be to review and engage on detailed aspects of the Revenue Proposal
- Key role would involve:
 1. Engaging in “Deep Dive” technical workshops focused on key areas of interest
 2. Reporting back to the wider Panel independently on the findings and outcomes of the workshops
- Expected commitment would involve participation in up to 5-6 workshops of 2-3 hours (indicative)
- Record of workshop outcomes would be maintained
- Confidentiality would be maintained on materials presented and shared
- Could combine with AER technical workshops, proposed to be attended by:
 - ☐ AER Technical Advisers
 - ☐ Consumer Challenge Panel representatives
 - ☐ Consumer (CAP) representatives

2017 Engagement Approach

Approach involved:

- Overview of PRP
- Identify key areas for further review
- “Deep dive” workshops into key areas of interest

Key areas covered included:

- Network Vision
- Forecasting approach
- Economic and risk assessment frameworks
- Project case studies
- IT program

Session	Topics Covered	Date	Attendees
CAP WG Meeting #1	<ul style="list-style-type: none"> • Overview of the PRP • Identify areas for further review • Agree next steps and meeting schedule 	25 Jul 2016	<ul style="list-style-type: none"> • CAP Working Group representatives • ElectraNet • Independent Facilitator
CAP WG Meeting #2	<ul style="list-style-type: none"> • Develop an understanding of the PRP • Indicative depreciation forecast • Explore implications of greater interconnection • Review the profile of the Regulated Asset Base 	12 Aug 2016	
AER Technical Workshop #1	<ul style="list-style-type: none"> • Key insights from engagement to date • Network Vision • Overview of the PRP and indicative forecasts 	7 Sep 2016	<ul style="list-style-type: none"> • ElectraNet • Independent Facilitator • AER Technical Advisors • CAP Working Group representatives • AER Consumer Challenge Panel representatives (Workshop #4)
AER Technical Workshop #2	<ul style="list-style-type: none"> • Overview capital expenditure forecasting approach • Detailed breakdown of the capex program • Economic and risk assessment frameworks • Network project case studies 	22 Sep 2016	
AER Technical Workshop #3	<ul style="list-style-type: none"> • Economic and risk assessment frameworks • Operational and IT project case studies 	12 Oct 2016	
AER Technical Workshop #4	<ul style="list-style-type: none"> • Update on the capital expenditure forecast • Update on network resilience investigations • Case studies of security and resilience projects • Update on major project investigations 	14 Feb 2017	

2021 Engagement Approach – For Discussion

1. Is there any feedback on ElectraNet's proposed early engagement approach?
2. Does the Panel again see value in “Deep Dive” workshops to explore and engage on the Revenue Proposal in detail and in forming a Working Group for this purpose?
 - ☐ Which Members would be available to participate in such a Working Group?
 - ☐ Are there any topics of particular interest to flag at this point?

Revenue Reset – Open Discussion



Revenue Reset – Open Discussion

Rainer Korte, Group Executive Asset Management

Wrap up and Next Steps

Rainer Korte, Group Executive Asset Management

If you have any questions, please contact:

Chris Hanna

Senior Advisor Government & Stakeholder Relations

Mob: 0478 181 955

Hanna.Chris@ElectraNet.com.au