

Consumer Advisory Panel Meeting

19 November 2020

Meeting Agenda

Consumer Advisory Panel

Date	Thursday, 19 November 2020, 2:30pm – 4:30pm	
Location	Microsoft Teams	
Item	Agenda Item Responsible Person	Time Allocated
1.	Welcome Rainer Korte, Group Executive Asset Management	5 mins
2.	CAP Member Update Chris Hanna, Senior Advisor Government & Stakeholder Relations	10 Mins
3.	Project EnergyConnect Update Rainer Korte, Group Executive Asset Management	10 Mins
4.	Financeability Rule Change Proposals Simon Appleby, Manager Regulation & Investment Planning	10 Mins
5.	Revenue Reset and Customer Engagement Simon Appleby, Manager Regulation & Investment Planning	40 Mins
6.	Network Vision: Directions and Priorities Hugo Klingenberg, Manager Network Group	40 Mins
7.	Wrap up and next steps Rainer Korte, Group Executive Asset Management	5 mins
8.	Next Meeting	

Consumer Advisory Panel – Update

Chris Hanna, Senior Advisor Government & Stakeholder Relations

Consumer Advisory Panel – Update

- Consumer Advisory Panel Charter – Update
- General Feedback
- Annual schedule
- Membership and Appointments
- Advisory Members
- Chairperson, Deputy Chairperson & CAP Secretary
- Other suggestions?

Project EnergyConnect Update

Rainer Korte, Group Executive Asset Management



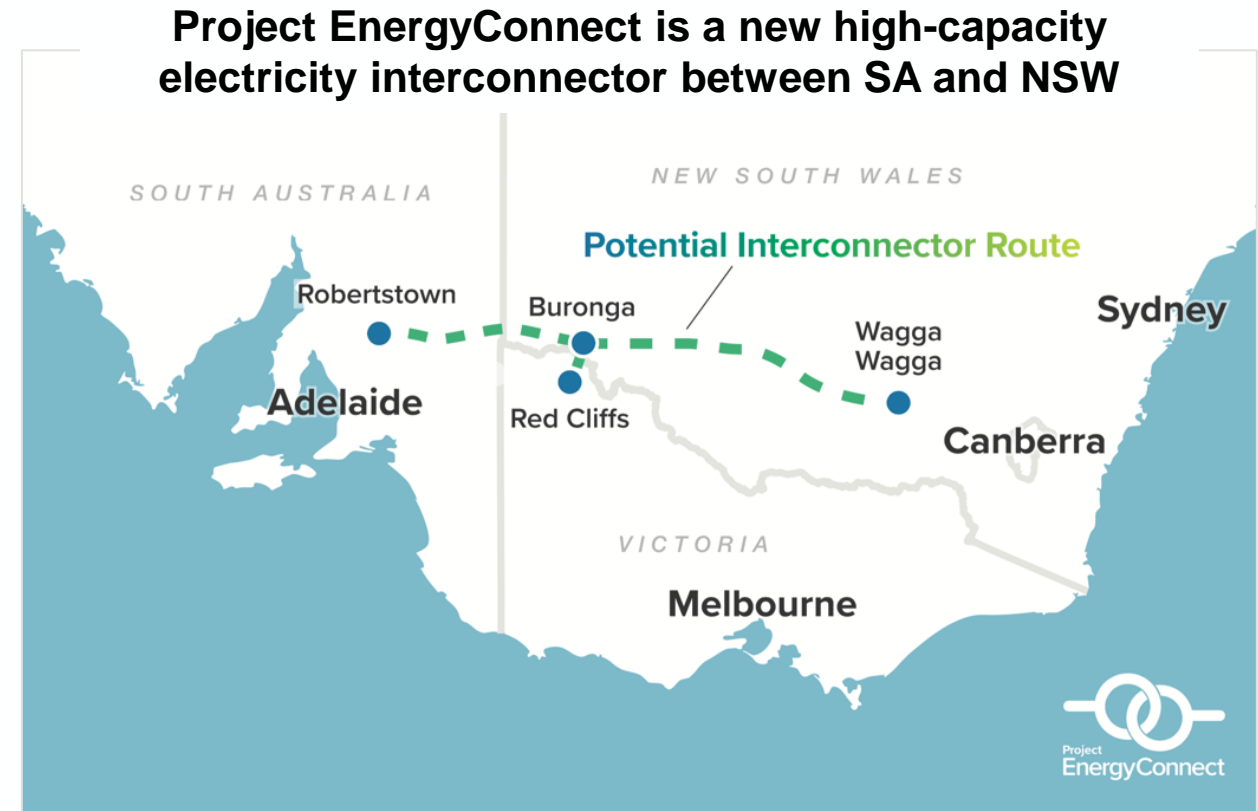
Overview

Introductory PEC video (3:03 mins) at:

www.projectenergyconnect.com.au

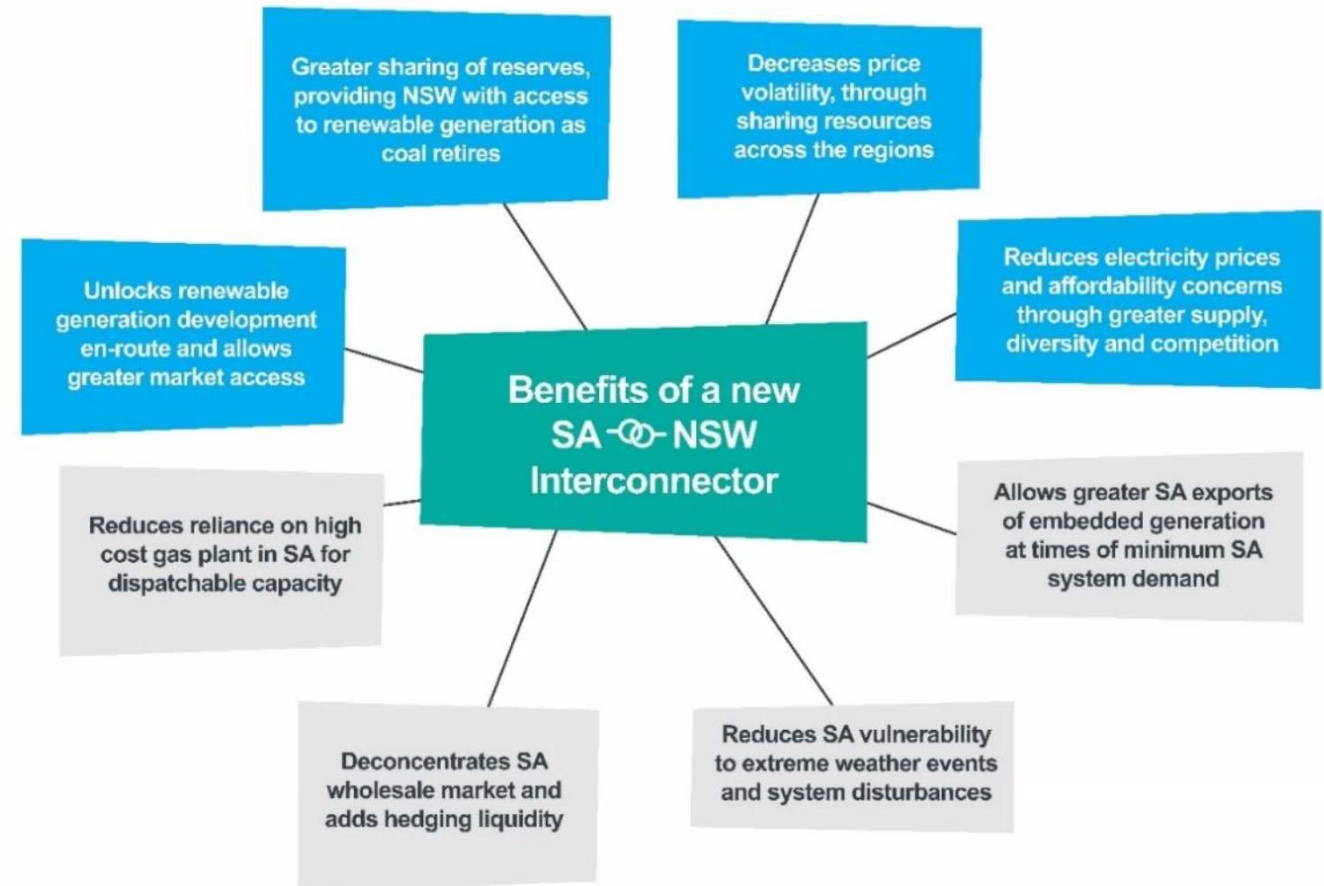
Channel 10 News clip from 8 October 2020
(1:28 mins):

<https://twitter.com/10newsfirstadl/status/1314094343234387973?s=21>



Benefits of stronger interconnection

- PEC is a central part of the Australian Market Operator (AEMO)'s roadmap for the transition of the National Electricity Market (NEM) and has a broad range of benefits
- For SA customers, benefits include access to additional capacity when needed to replace expensive gas generation and improved resilience and security of the power system
- For NSW customers, benefits include improved diversity of supply and access to cheaper renewable energy sources as the coal fleet progressively retires – it also unlocks significant renewable energy development along the route
- Customer price impact modelling shows price reductions are expected in both regions which outweigh the additional transmission costs by a factor of 6 – 7 times or more

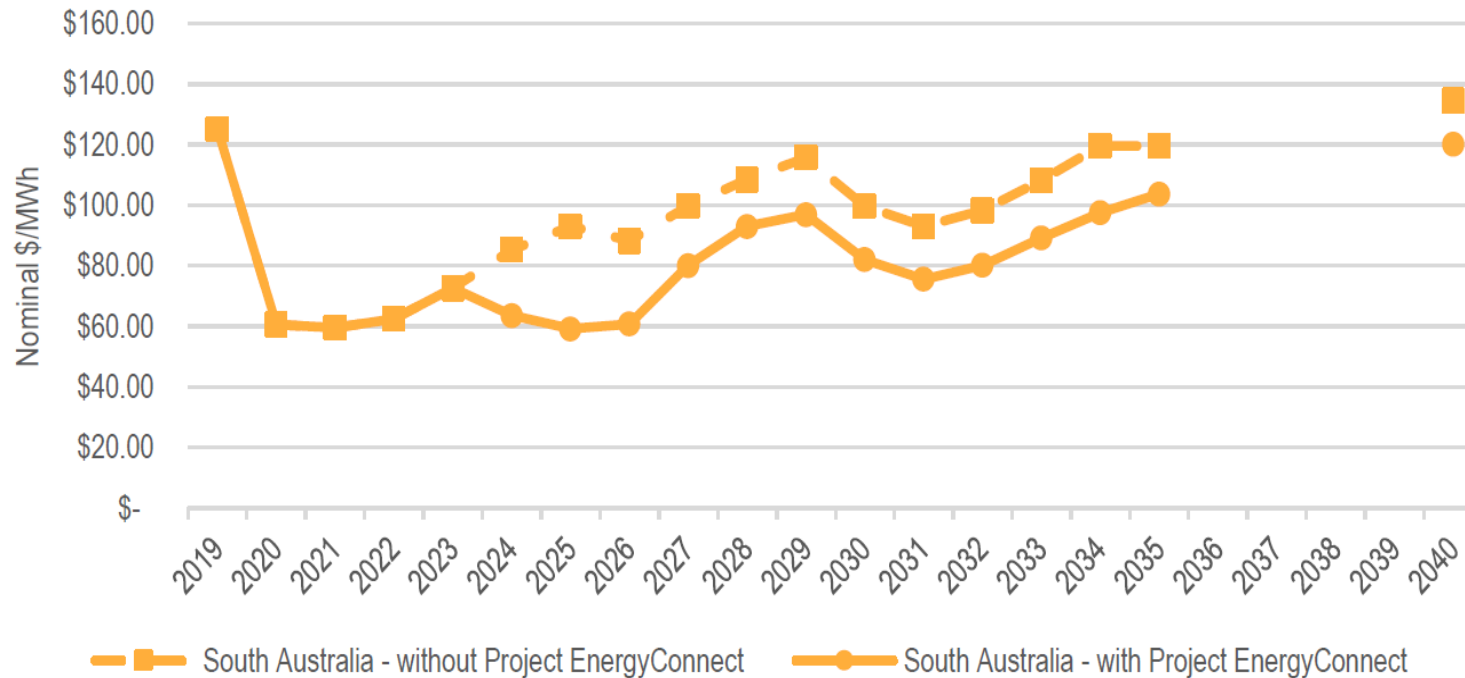


Project at a glance

Route	From Robertstown to Wagga Wagga via Buronga with short line between Buronga and Red Cliffs, Victoria
Cost	\$2.4 billion (\$474m for SA) (\$2017-18)
Capacity	800 MW
Voltage	330 kV
Works required	Construction of new double-circuit transmission line New sub-station at Bunday (near Robertstown) Approx. 375 new transmission towers (SA)
Line length	Approximately 860 km (190 km in SA and 670 km in NSW)
Construction start date	Late 2021 (October)
Construction completion date	December 2023, however working towards bringing forward an earlier completion date
Net market benefits	\$148 million over 20 years
Total market benefit	Gross benefits have risen to \$1,866m (up from \$1,246m in 2019)

Annual residential customer savings	Approx. \$100 savings in SA	Approx. \$58 - \$64 savings in NSW
Annual residential customer costs	Approx. \$10 costs in SA	NSW figure not available
Annual business customer costs and savings	Businesses can expect higher savings, proportional to their energy use	
Transmission charges on 'typical' customer bill	ElectraNet's transmission charges represent less than 7% of a typical residential customer's annual power bill of \$2,086.	
Job creation ACIL Allen analysis Feb 2019	Over 200 regional jobs in South Australia Over 800 regional jobs in NSW Ongoing jobs 250 in SA and 700 in NSW	

Impact of PEC on market prices - SA



- PEC improves supply diversity and access to cheaper supply sources for SA
- This is projected to result in reduced SA wholesale prices across the forecast period
- This places downward pressure on retail prices for customers
- These reductions have increased from earlier estimates through access to lower prices in NSW

Impact of PEC on customer prices - SA

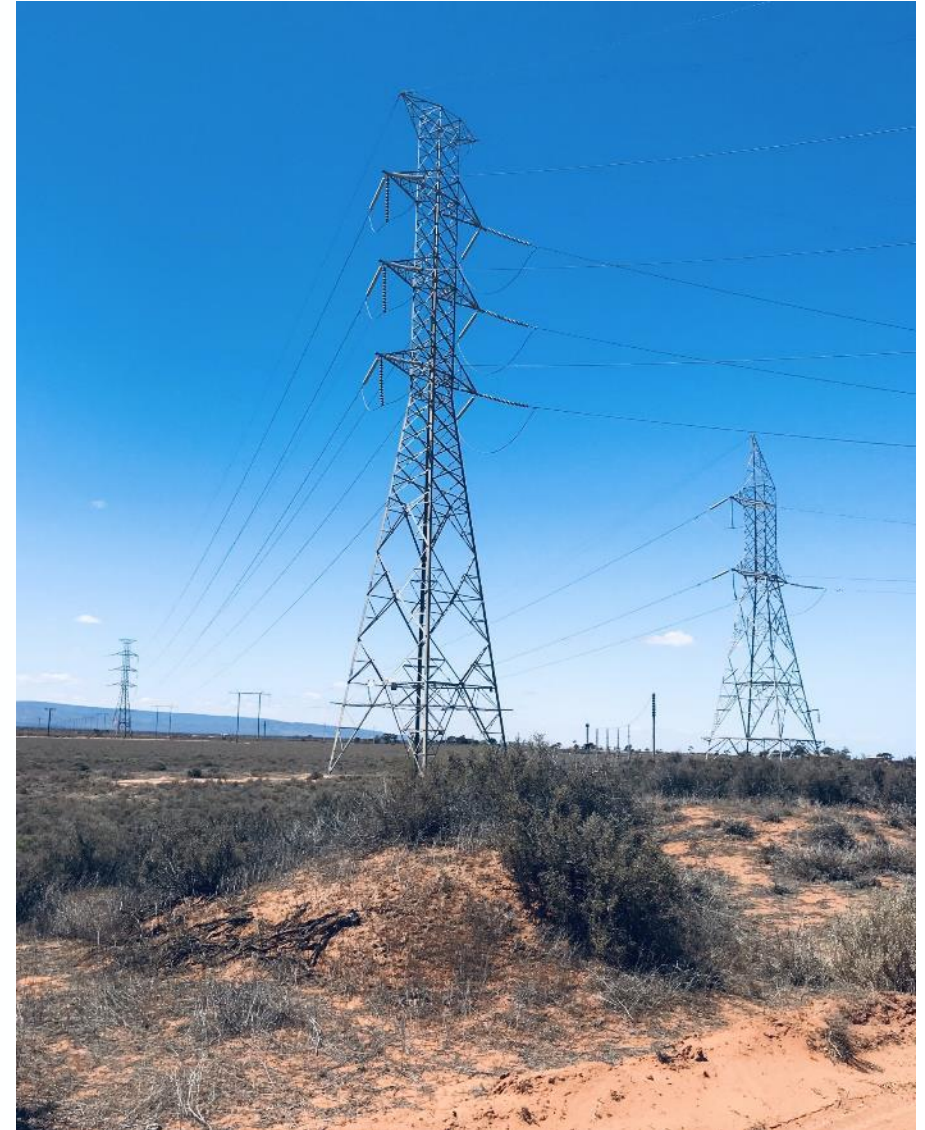


Source: ACIL Allen, September 2020

- ACIL Allen estimates annual average reductions in typical residential customer bills of \$100 per annum in the period to 2030, net of interconnector costs
- Price reductions increase for larger customers based on energy consumption, with net projected savings of \$18/MWh

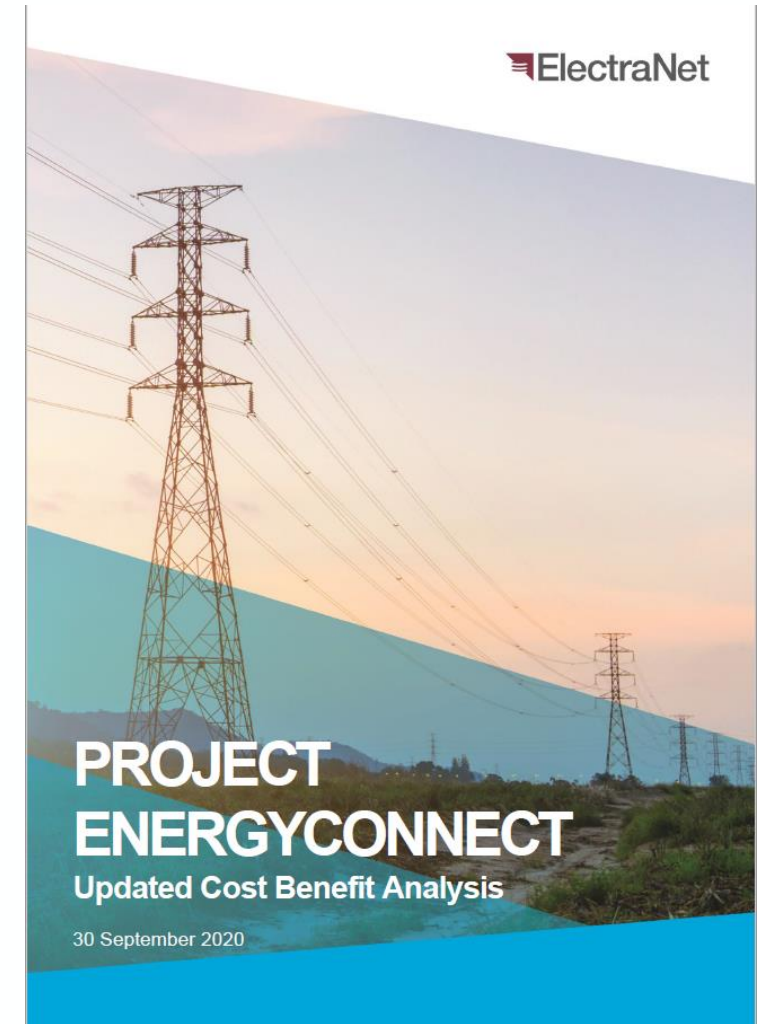
Approval process to date

- ElectraNet commenced consultation on the need for stronger interconnection between SA and the NEM in Nov 2016
- Economic cost benefit test (RIT-T) concluded with a final report in Feb 2019
- The Australian Energy Regulator (AER) approved the RIT-T outcome in Jan 2020 following a detailed review
- ElectraNet concluded an updated cost benefit analysis (CBA) in Sep 2020 to investigate the impact of increased costs and benefits
- The AER again conducted a detailed review and approved the updated CBA in Sep 2020



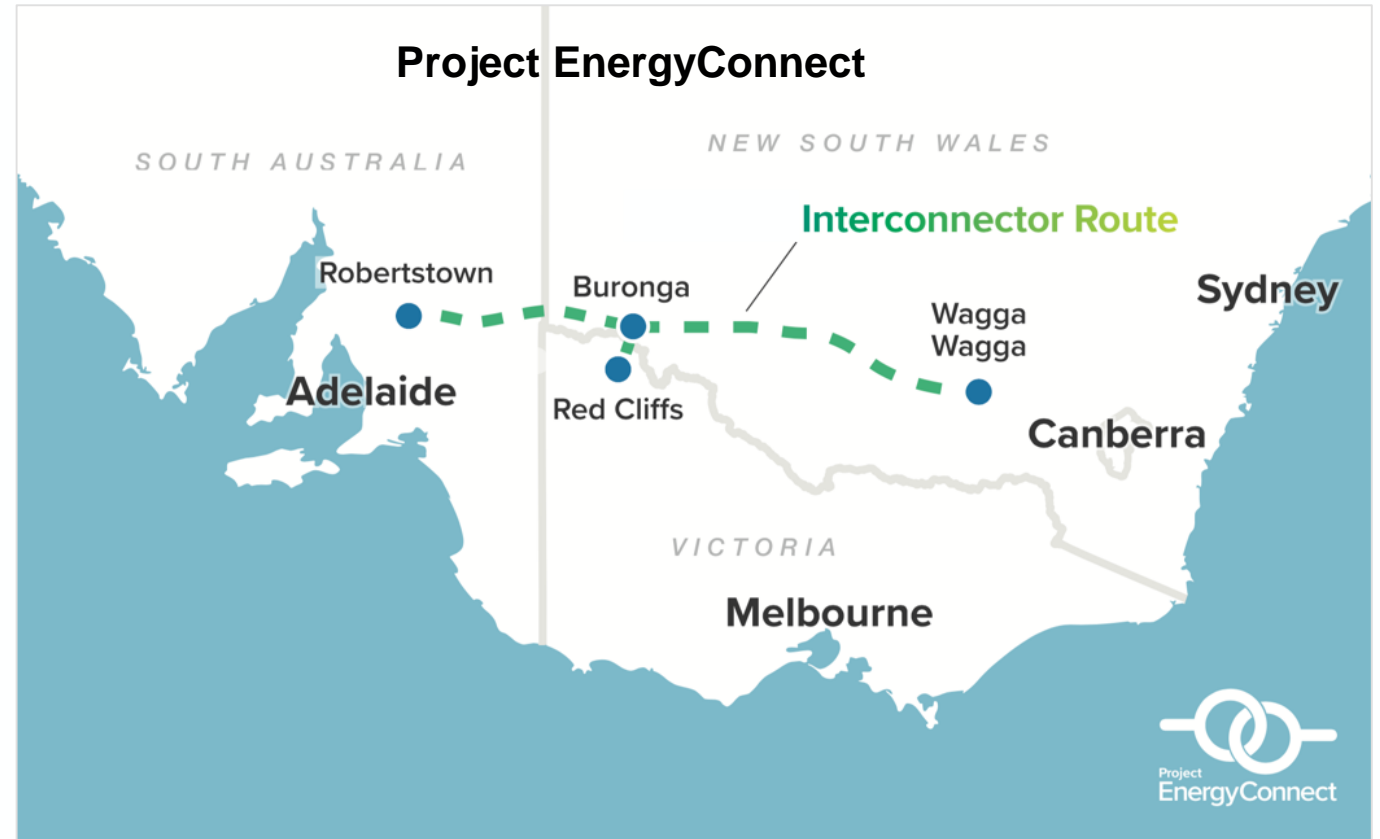
Cost Benefit Analysis outcomes

- Estimated capital cost of \$2.4bn (\$2018-19)
- Market benefits were modelled in line with AEMO Integrated System Plan with estimated net benefits of about \$150m for a conservative Central scenario – breakeven cost is \$2.7bn under this scenario
- A weighted scenario approach that takes a broader view of possible futures results in substantially higher benefits
- System resilience benefits remain largely unquantified (a more connected grid is a more reliable and stable grid)



Current status

- ElectraNet and TransGrid submitted contingent project revenue applications to the AER on 30 Sep 2020
- AER has conducted consultation on the applications with submissions closing on 30 October
- AER is aiming to make contingent project revenue decisions by end 2020
- Final investment decisions by ElectraNet and TransGrid Boards to follow in early 2021
- Subject to approvals, construction to start towards end 2021



Contingent Project Application submissions

Key Themes	ElectraNet Response
Concerns over the economic case for the project given the changes in costs and benefits	The updated Cost Benefit Analysis accepted by the AER continues to show a positive economic case for the project Separate price impact modelling shows significant energy cost savings for customers in SA and NSW
The financeability Rule is a material framework change and requires scrutiny by stakeholders	The proposal is subject to the full Rule change process by the AEMC in consultation with stakeholders
Different cost sharing arrangements should be considered, including generator funding	There is currently no provision for the recovery of the costs of the Project from generators or other parties under the Rules
Concern over the imbalance of benefits and costs between NSW and SA	The current Rules allocate transmission costs on a geographic basis. However, ElectraNet is open to alternatives moving forward
Costs on the project have increased significantly	We remain committed to delivering the project at the lowest possible cost. The AER is closely reviewing the prudent and efficient costs of project through the CPA assessment process.
The line route differs from that in the RIT-T	The route has been refined in order to secure the required easements but remains consistent with the preferred option

ElectraNet Financeability Rule Change

Simon Appleby, Manager Regulation & Investment Planning

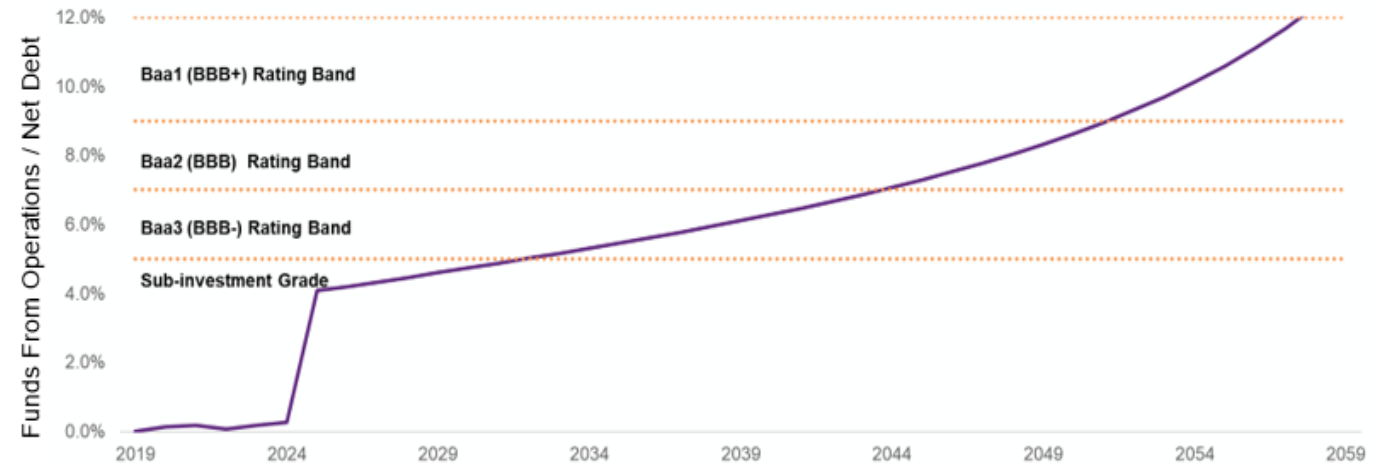
ElectraNet Financeability Rule Change

- The current revenue setting arrangements, together with the unprecedented level of transmission investment projected in AEMO's ISP, create unintended consequences in relation to the financeability of this increased level of investment
- These projects are typically large and have longer asset lives, which means the timing of revenue recovery is delayed, producing weak cashflows for these assets
- Our analysis reveals an inconsistency in the current revenue setting process which adopts a BBB+/Baa1 benchmark credit rating, but provides a revenue stream that is insufficient to sustain it
- ElectraNet and TransGrid submitted a rule change with the AEMC in September/October 2020, in relation to the revenue setting arrangements for actionable ISP projects, including PEC
- The proposal rebalances the profile of revenue, increasing it in the early years of an actionable ISP project and reducing it in later years (and the total is the same in present value terms)
- We look forward to constructive discussions with the AEMC, AER and other stakeholders to quickly resolve what appears to be an unintended consequence of the existing Rules

Issue: The current arrangements provide inadequate cash flows for ISP projects, undermining the financeability of these projects

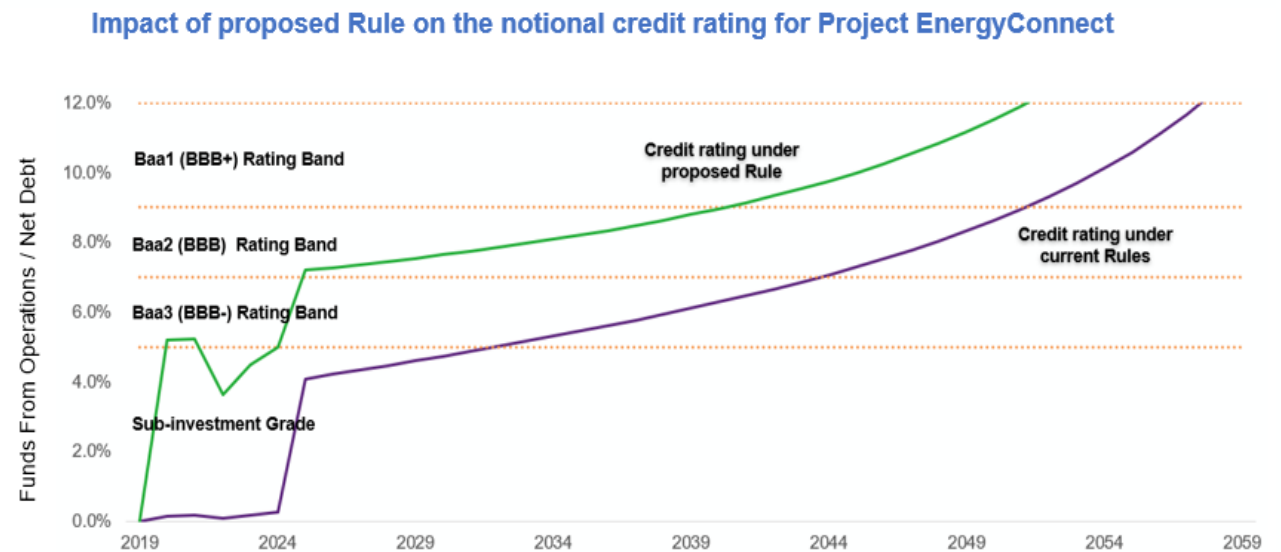
- Cashflows from PEC would be insufficient to support the assumed benchmark credit rating for over 30 years (or even a baseline investment grade rating initially)
- This highlights the inconsistency in the current revenue setting process which adopts a BBB+ benchmark credit rating, but provides a revenue stream that is unable to sustain it

Notional credit rating for Project EnergyConnect as a \$500m standalone project



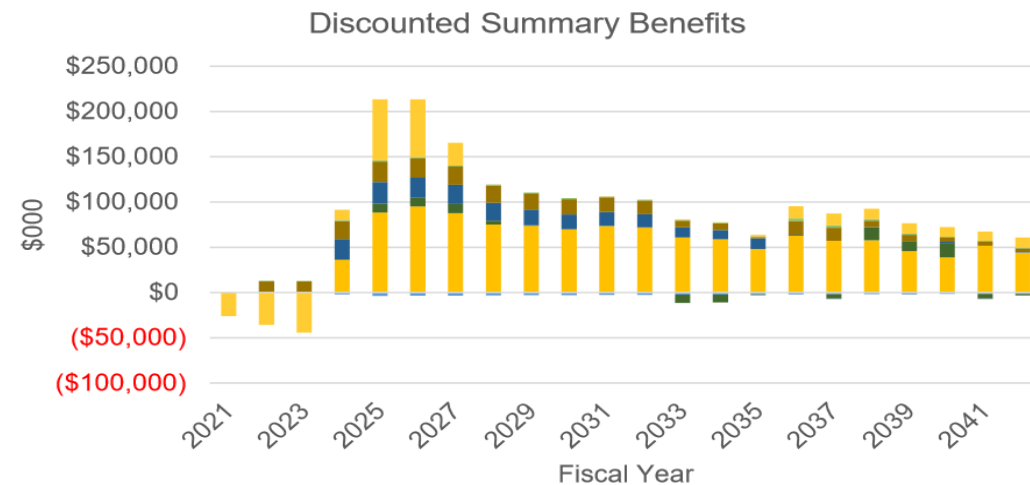
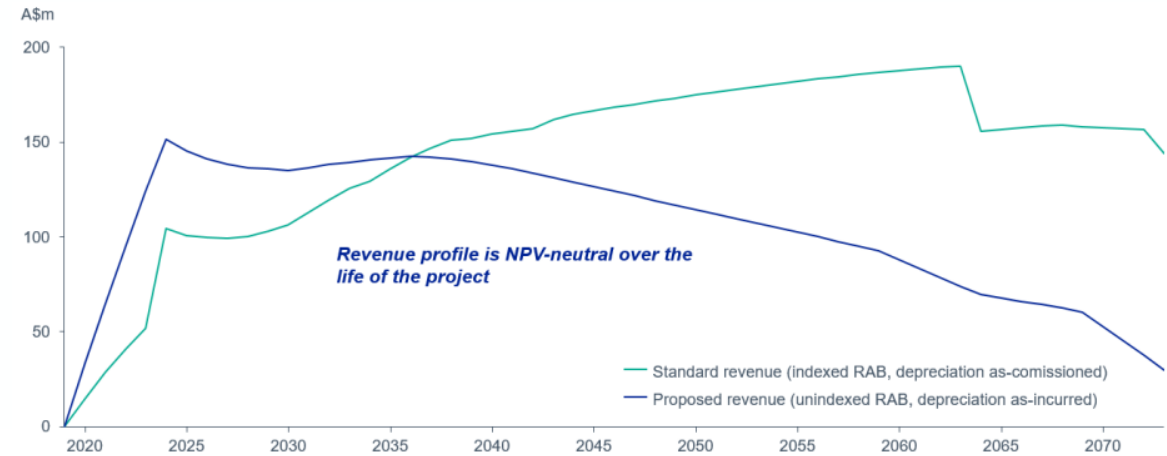
Solution: Our rule change rebalances cash flow timing to support the financeability of ISP projects, without increasing total revenue

- The rule adopts a targeted approach to rebalance the timing of revenue recovery by:
 - Removing the indexation of the RAB for actionable ISP projects
 - Recovering depreciation on capital investment as it is incurred
- Total revenue remains unchanged in present value terms
- The rule would increase average customer charges in SA by \$4 per year in the current regulatory period
- This would be more than offset by the estimated annual price reduction benefits of PEC of \$100 per customer as estimated by ACIL Allen



The rule presents a targeted solution to address the identified shortcomings of the current framework

- The rule supports a timely investment decision on Project EnergyConnect, which is required for the security and reliability of the electricity supply system, as identified by AEMO
- The revenue recovery profile under the rule would align closely with the profile of expected benefits



Revenue Reset and Customer Engagement

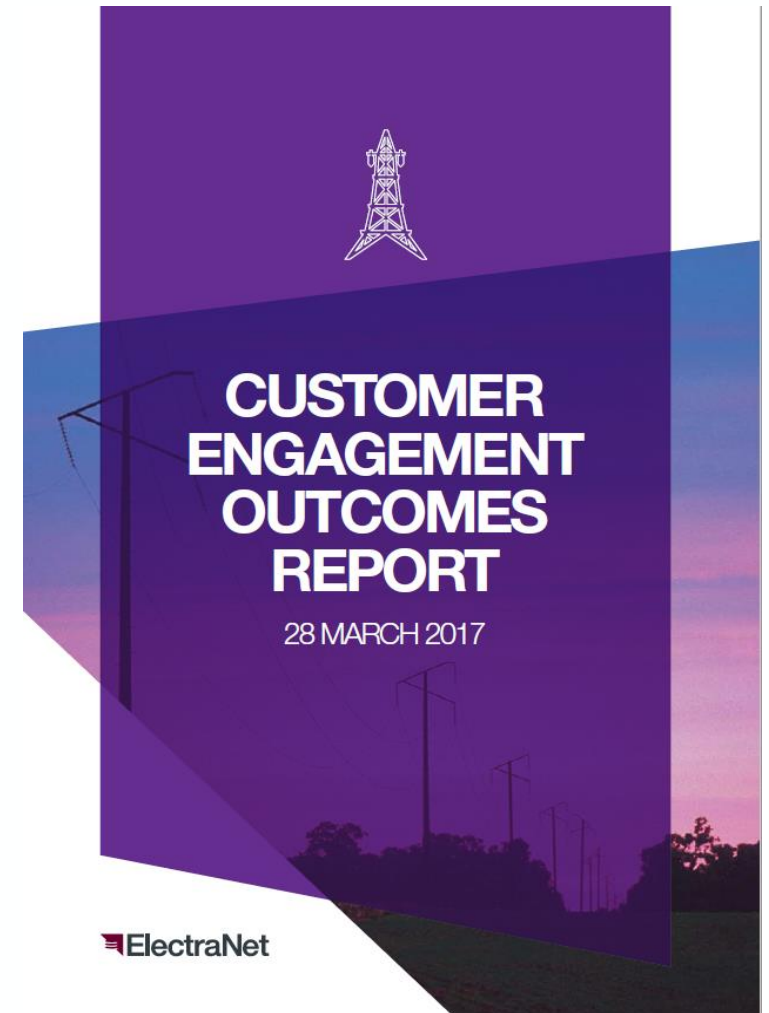
Simon Appleby, Manager Regulation & Investment Planning



Background

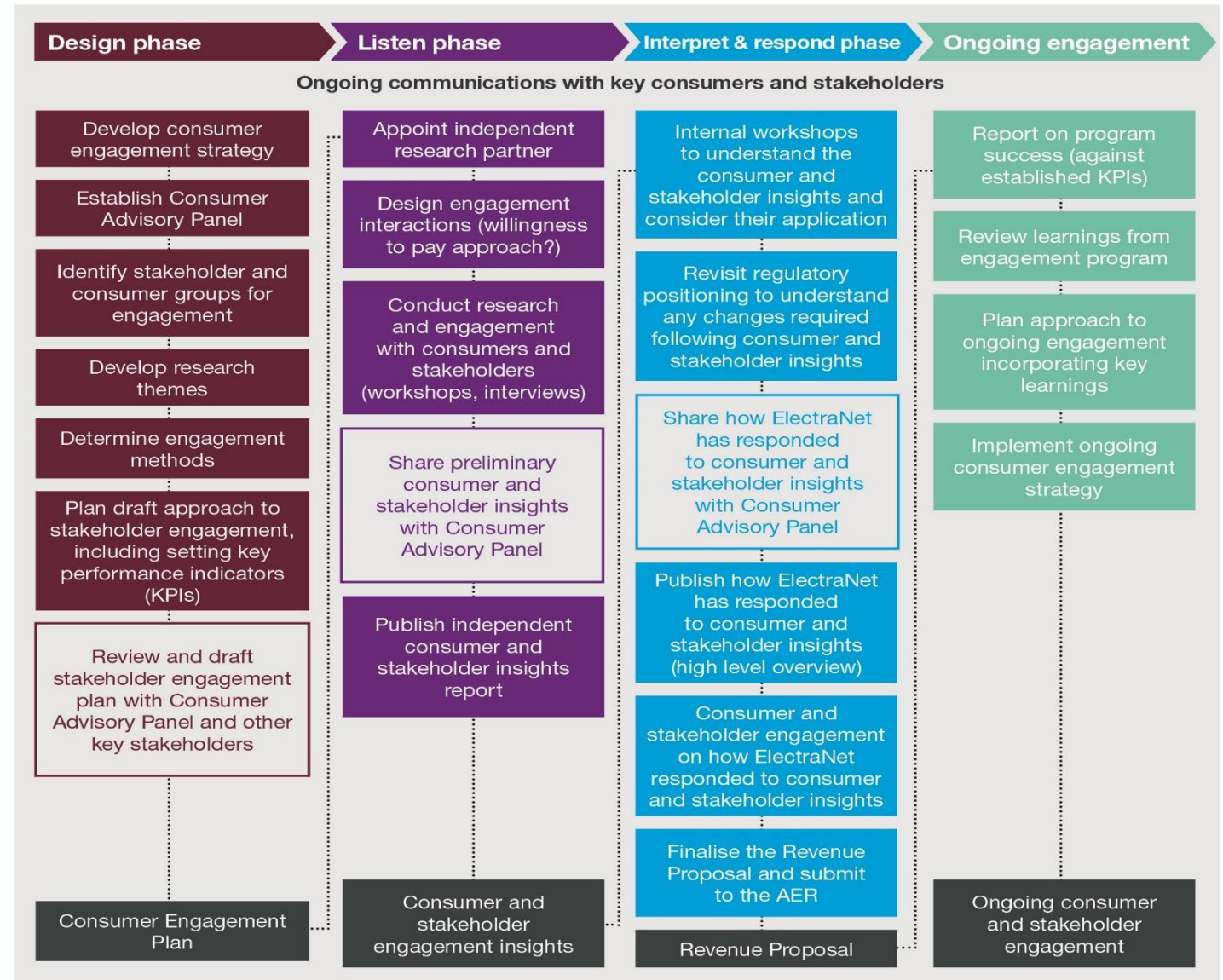
In May 2016 with the strong support of the Consumer Advisory Panel and the AER, ElectraNet embarked on an early engagement approach designed to deliver:

- improved shared understanding of network challenges and customer concerns
- more targeted expenditure plans that better reflect customer preferences
- greater trust and confidence in regulatory outcomes
- increased certainty in regulatory outcomes with 'no surprises'
- reduced resources engaged in the current regulatory process



Engagement Plan

The Consumer Advisory Panel helped us co-design the early engagement approach



Effective Engagement

The Panel guided us to focus on engagement with direct stakeholders and customer representative organisations as a targeted and effective approach on transmission issues, rather than direct engagement with individual small customers

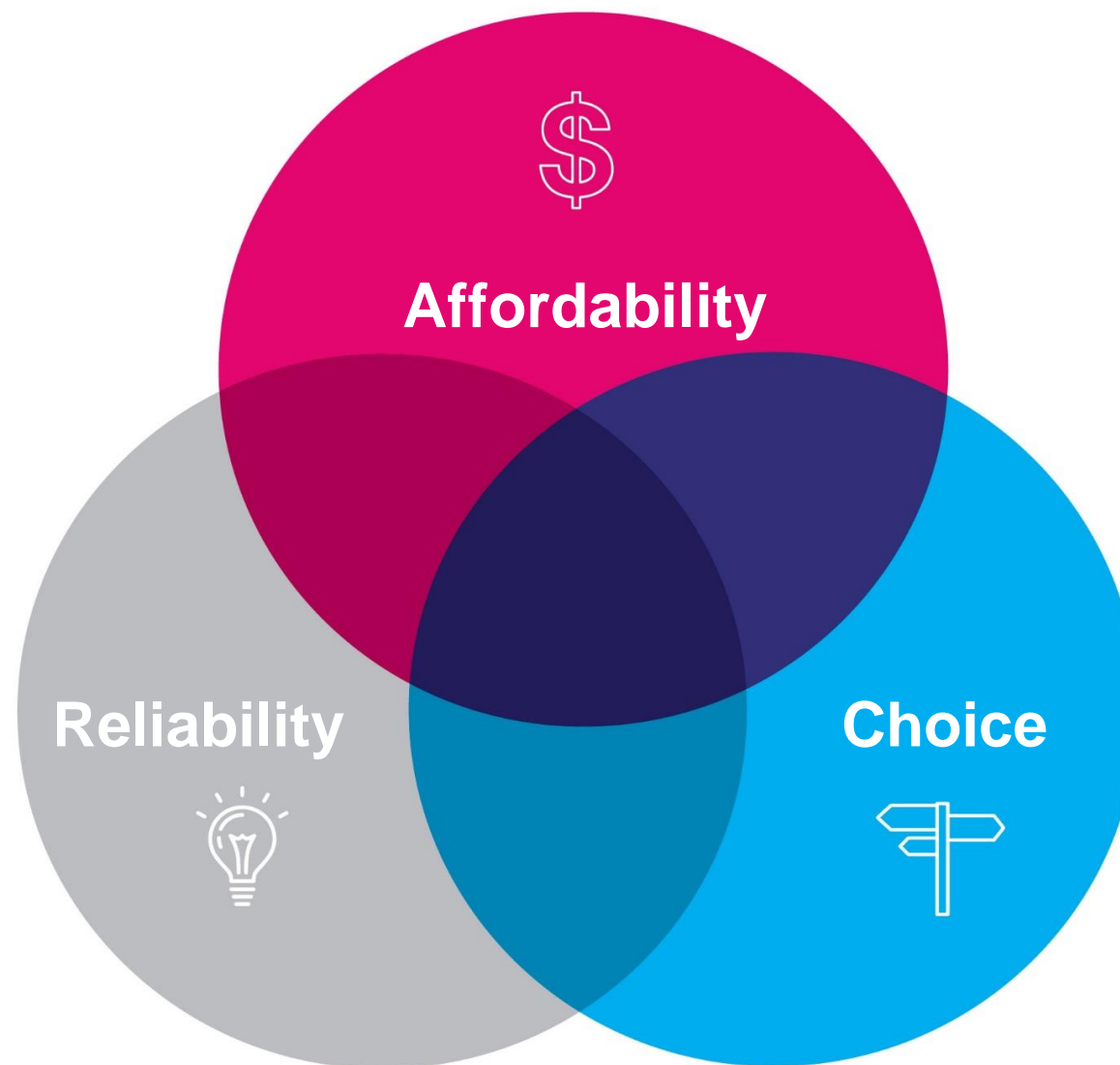


Customer Insights 2016

Feedback from customers shaped our directions, priorities and plans

Key themes spanned:

- Electricity costs
- Customer experience
- Role of the grid
- New technology
- Keeping the lights on
- Transmission pricing
- Revenue recovery

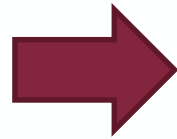


Overall Approach



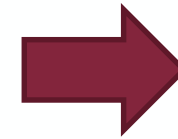
Customer Insights Report

- Provided key input and feedback to help shape our directions and priorities



Network Vision

- Sets directions and priorities for managing and operating the transmission network



Preliminary Revenue Proposal

- Key vehicle to test our understanding of customer needs through indicative expenditure plans

Proposed Consumer Engagement Approach 2020

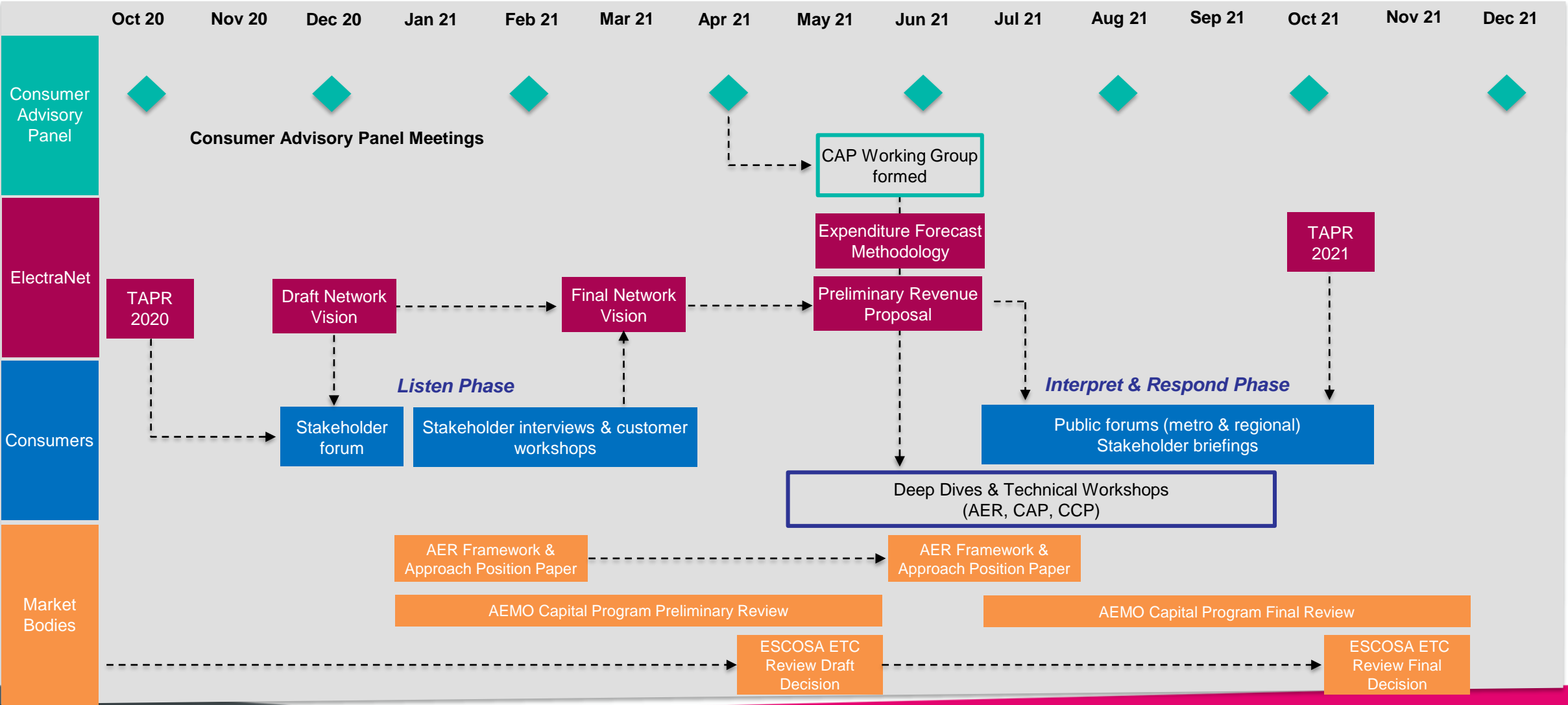
- Continue to work with customer representatives to provide meaningful opportunities for input to improve the value of electricity transmission services in South Australia
- Strive to learn from the views and priorities of electricity customers and other stakeholders, and build this feedback into our plans, projects and proposals to deliver on the long-term needs of customers
- Commence engagement program in November 2020 and co-design with Consumer Advisory Panel
- Seek input at each stage of the process:
 - Seek input to the updated directions and priorities that will guide the way we maintain and operate the network, as set out in our Network Vision
 - Publish a Preliminary Revenue Proposal to test our indicative expenditure plans
 - Collect input and feedback on our plans and proposals and finalising a formal Revenue Proposal that best meets the needs of customers
- Continual improvement to previous approach through targeted fit-for-purpose engagement that is effective, not expensive

Ongoing refinements to our approach

Recommendation*	Proposed approach
1. Commence engagement by November 2020	Commence program in Nov 2020 after co-design with CAP
2. Directly involve Board, CE and Executives	Executive led program, endorsed by Board
3. Deliver improvements to previous approach	Improvements to include earlier publication of a PRP and Network Vision, less involvement from consultants
4. Collaborate and empower where possible	Identify any suitable topics through initial engagement
5. Include direct and unfiltered engagement	Opportunities to be built into program (e.g. regional forums)
6. Consider success of New Reg trial	Not considered warranted at this point
7. Consider dedicated Customer Forum if needed	Not considered warranted at this point
8. Include a Preliminary Revenue Proposal	Publish a Preliminary Revenue Proposal (as done previously)
9. Establish clear expectations and demonstrate where feedback has been taken on board	Set clear expectations at each stage and continue to publish a response document
10. Commit appropriate resources	Management commitment to program to continue supported by dedicated resourcing

*Review of Consumer Engagement Practices by electricity networks, Harding Katz, 15 May 2020

Indicative Engagement Program: 2023-2028 Revenue Proposal



Proposed engagement approach - for discussion

- Does ElectraNet's engagement approach remain fit for purpose for a transmission business?
- Should ElectraNet continue to focus on engagement with representative customer organisations rather than individual small customers?
- Should the Consumer Advisory Panel continue its role as both a sounding board and in co-design of the engagement approach?
- Is the Network Vision an appropriate vehicle for giving customers and stakeholders the opportunity to provide input on emerging trends and needs and to influence our priorities in managing and operating the network?
- Does a Preliminary Revenue Proposal continue to provide a useful vehicle for stakeholders to engage on our indicative plans and expenditure forecasts?
- Should ElectraNet be considering other changes or improvements in its approach?

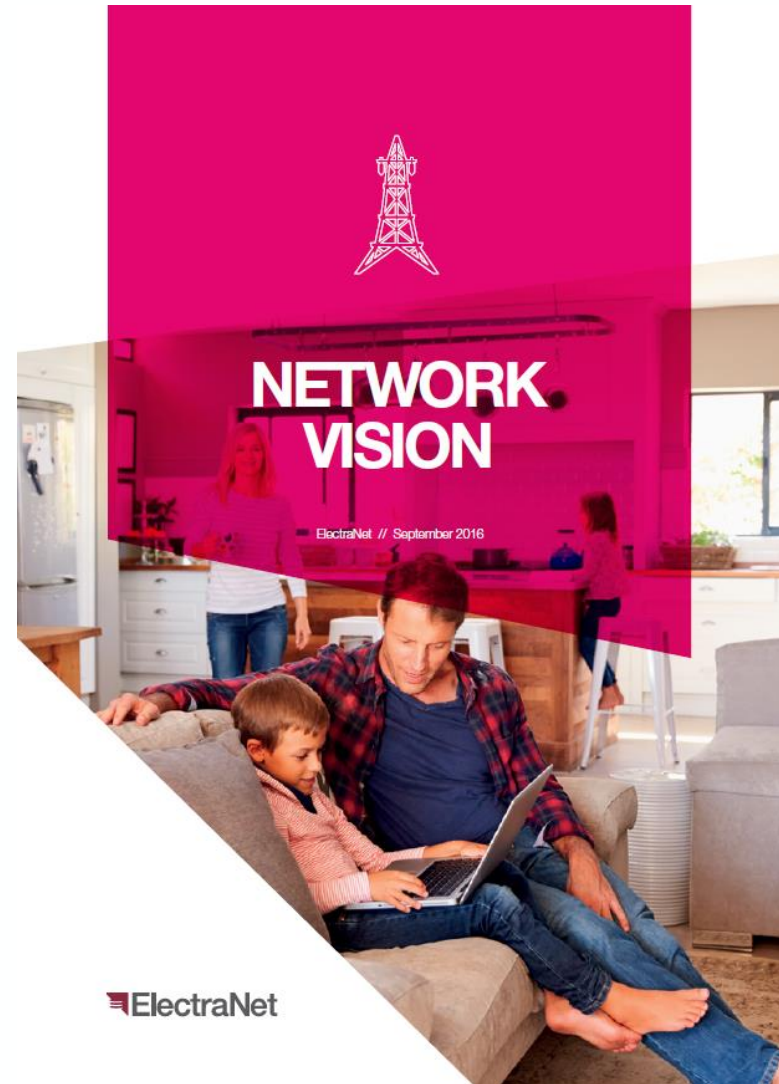
Network Vision: Directions and Priorities

Hugo Klingenberg, Manager Network Development

Network Vision

ElectraNet's vision for South Australia's transmission network is that it will deliver affordable and reliable power supplies that support customer choices for a sustainable future

- ElectraNet's Network Vision sets out the future directions and priorities for South Australia's electricity transmission network in a changing environment
- By developing the Network Vision we are giving our customers and stakeholders the opportunity to provide input on emerging trends and needs and to influence our priorities in managing and operating the network to deliver the services they require

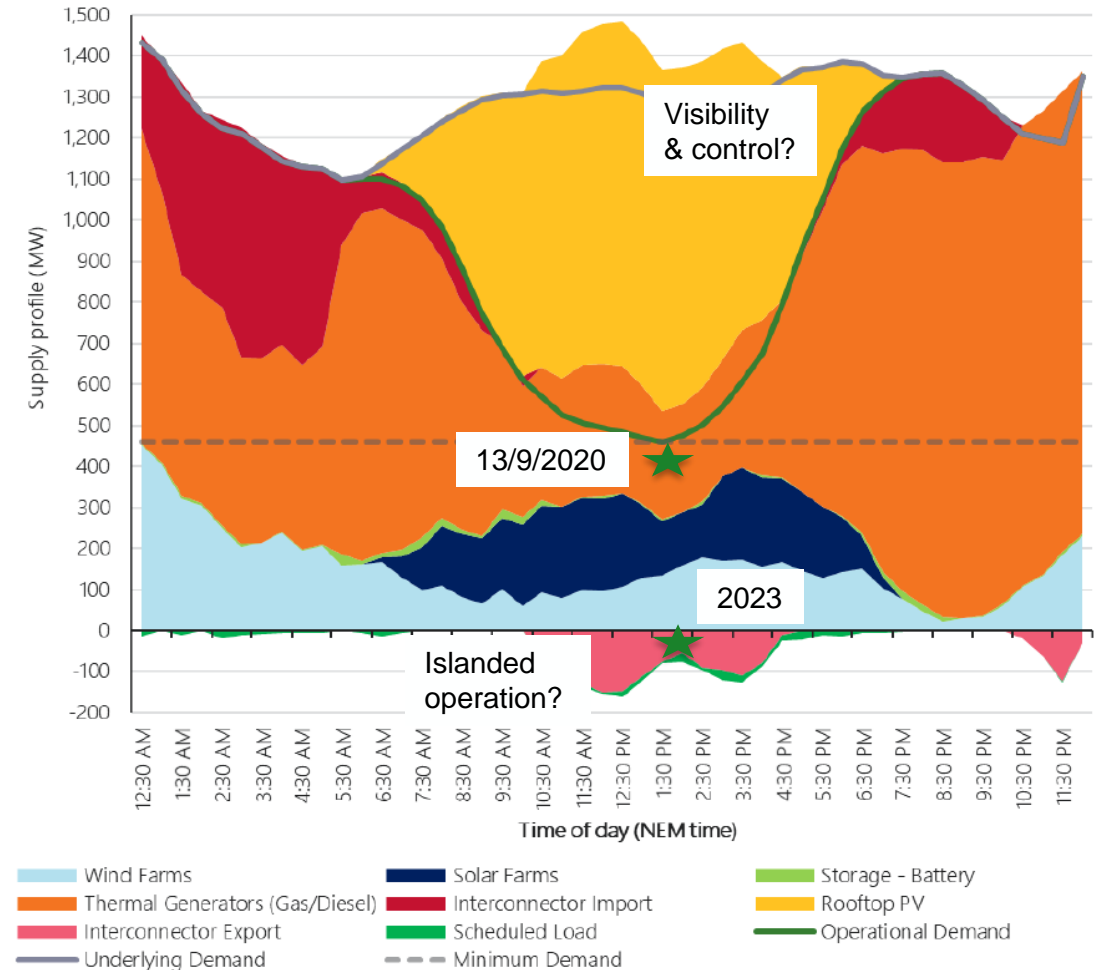


Context: Minimum demand, variability & complexity

- Minimum demand is declining, and the incidence of minimum demand conditions are increasing
- Changing minimum demand conditions in South Australia are creating transmission operational challenges
- Emergency control schemes need to be amended and new ones added
- Operating South Australia as an electrical island is getting harder
- Significant amount of rooftop PV disconnects for a transmission fault within the Adelaide Metro area
- This reduces Heywood interconnector transfers and increases local inertia requirements

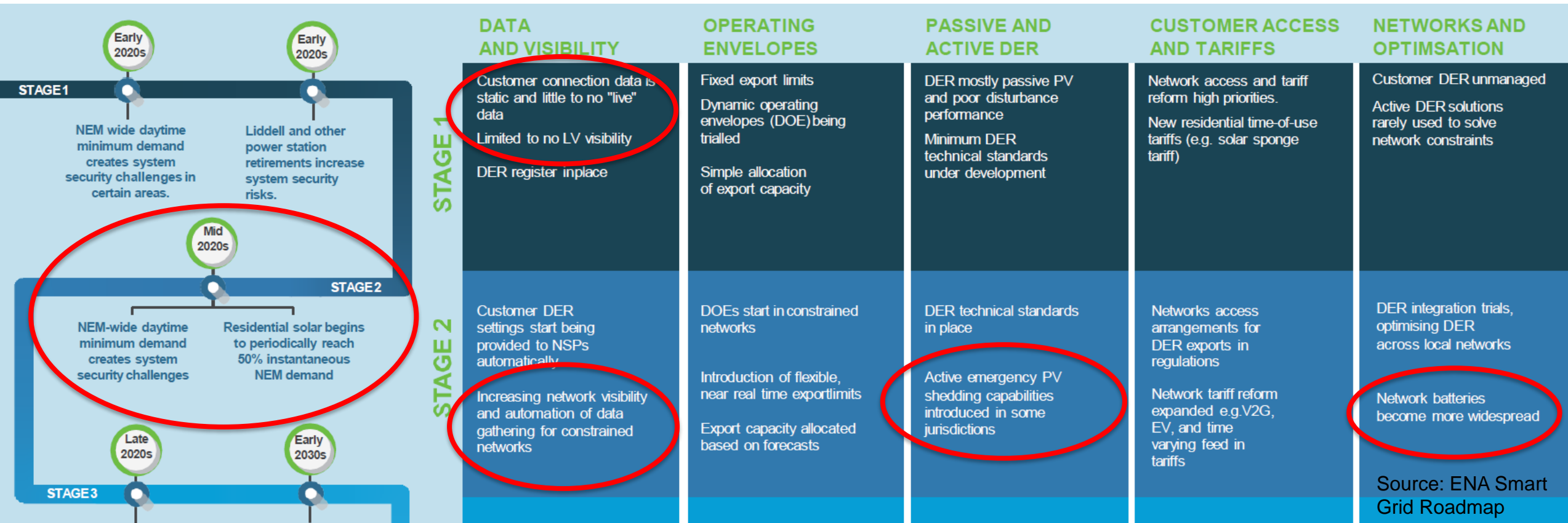
Source: AEMO, SA
Electricity Report, 2019

Figure 9 Profile of record minimum operational (as-generated) demand day (10 November 2019)



Context: Impact of Distributed Energy Resources (DER)

DER is already having a significant impact on transmission operations in South Australia



Network Vision themes

Propose to maintain the four themes of the 2016 Network Vision (with minimal changes)

1. The transmission network will continue to play an important role into the future to support safe, reliable and affordable electricity supply
2. The ongoing uptake of distributed energy resources by customers is changing the role of the grid
3. The generation mix is changing thereby creating new challenges for the resilient, secure and reliable operation of the grid
4. New technologies are creating opportunities to change the way some network services can be delivered

Network Vision: How can you help?

- Do you agree with the proposed Directions and Priorities (refer to draft Information sheet provided)?
- Which specific ones are most important to you?
- Which emerging trends need further consideration?
- Is there anything missing? Are there other items that should be on the list?
- Do you have specific concerns about transmission services in South Australia?
- Do you have any other input or suggestions?

Wrap up and Next Steps

Rainer Korte, Group Executive Asset Management



If you have any questions, please contact:

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