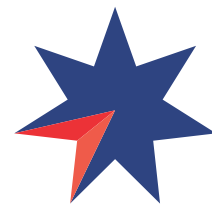


31 August 2018

Mr Rainer Korte
Executive Manager, Asset Management
ElectraNet
PO Box 7096
ADELAIDE SA 5000



Business SA
Chamber of Commerce
and Industry South Australia

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Working for your business.
Working for South Australia

Dear Mr Korte

I write in response to ElectraNet's request for submissions to its Project Assessment Draft Report for the proposed interconnector to New South Wales, subsequent to our March 2017 submission to your Market Modelling and Assumptions Report.

In principle, Business SA supports South Australia having increased electricity interconnection to New South Wales to provide a further avenue to export excess renewable power and to open up more access to less expensive baseload power sources. We are also quite concerned about the costs of current output restrictions on South Australian wind farms, including what that means for spot prices when higher priced gas generators are being constrained on, and particularly when those wind farms have relied upon subsidies from the Renewable Energy Target (RET) scheme, ultimately paid for by electricity consumers. While we accept the reality of having to keep the lights on in South Australia, it is a situation that needs to be brought under control in a cost-effective manner as soon as is practicable, and we recognise ElectraNet's work on synchronous condensers to help achieve this.

We are also encouraging of further market development to enable local businesses to access firm hedges with interstate generators, made possible through multiple AC interconnectors. On this point, we would like further explanation in your final report of how the 100 MW uplift in the Heywood interconnector's capacity as a result of a new interconnector could likely be relied upon by generators looking at options to hedge firm between states. This consideration is important when considering the \$500 million capital cost difference between your 600 MW interconnector option and preferred 800 MW interconnector option.

From our analysis of your net present value model, we recognise there is a high degree of sensitivity around the time period chosen, including how the terminal value of the interconnector assets influences the final net present value outcome under the central scenario. While we support the concept of a new interconnector, we are also mindful of the considerable uncertainty in relation to future electricity market requirements, and how that relates to the willingness of consumers to support investments where payoff periods extend too far into the future.

In your final report, we would like to see analysis of how the costs and benefits of a new interconnector stack up over periods of 10, 15 and 20 years post electrification, including a range of options for the treatment of terminal value.





Business SA would also like to see a more specific breakdown of aggregate benefits to South Australian consumers versus New South Wales consumers, beyond just a simple residential or small business bill example.

Considering the potential for the interconnector to defer investment otherwise required to enable renewable energy zones (REZ), we would appreciate ElectraNet's acknowledgment of the lack of a market mechanism to ensure future wind or solar developers/investors proportionately repay consumers who fund the interconnector and bear the asset redundancy risk. While we recognise development and implementation of such a mechanism is beyond ElectraNet's remit, as a proponent of a significant investment project which you are asking electricity consumers to fund, we need to understand how the future commercial beneficiaries of the interconnector will or will not be required to pay for the investments South Australian businesses and residential consumers are enabling.

Should you require any further information or have questions, please contact Andrew McKenna on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney

Executive Director, Industry and Government Engagement