

12 September 2018

Mr Steve Masters
Chief Executive Officer
ElectraNet
52-55 East Terrace
Adelaide SA 5000

masters.steve@electranet.com.au

SA ENERGY TRANSFORMATION REGULATORY INVESTMENT TEST FOR TRANSMISSION (RIT-T): PROJECT ASSESSMENT DRAFT REPORT FEEDBACK

Dear Steve,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council (Energy Council) in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the Project Assessment Draft Report (PADR) for the South Australian Electricity Transformation Regulatory Investment Test (SAET RIT-T), referred to in the Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP) as the '*Riverlink*' project.¹

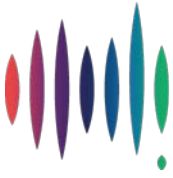
In this letter we provide a perspective on the state of the market and more specific comments on the *Riverlink* project. Electricity transmission and interconnection infrastructure play a critical role as the backbone of the National Electricity Market (NEM) and will continue to do so as the system becomes more distributed and the generation mix changes. We are not yet assured however that *Riverlink* as currently proposed is in the long-term interests of consumers.

We come to this with a particular frame of reference – Energy Consumers Australia's mandate to *promote the long-term interests of consumers with respect to price, quality, safety, reliability and security of supply.*² The case for investing in infrastructure at this scale is often supported by broader economic and environmental objectives and we are grappling with how to reconcile these different views through the RIT-T and ISP processes. How costs and risks should be allocated in a transforming energy system, where big choices are being made that will shape consumer outcomes for many years, is something we are particularly minded about.

Formalised regulatory processes like the RIT-T can tend to narrow the engagement between the project proponent and stakeholders on complex matters like this that require dialogue and iteration to move forward – a mode of engagement we found to be very effective with

¹ AEMO, Integrated System Plan, page 87, https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2018/Integrated-System-Plan-2018_final.pdf

² <http://energyconsumersaustralia.com.au/wp-content/uploads/Constitution-Energy-Consumers-Australia-Limited.pdf>



Transgrid for *Powering Sydney's Future*. We would therefore appreciate the opportunity to discuss the best way to work with you and other stakeholders on the *Riverlink* proposal.

Overview

Consumers expect that decisions about the framework for governing future investment in transmission assets, as well as consideration of specific proposals such as the *Riverlink* project, prioritise affordability. After a decade in which energy prices have risen – by 60% in real terms in the case of electricity – investment in the power system, including transmission, must be optimised. This means meeting consumers' expectations that not one more dollar is spent than required, and new investments are not made one day earlier than is necessary.

Riverlink is also an early test-case for the new, more holistic planning framework recommended by Finkel and implemented through the first ISP published in July 2018.³ Ensuring future investment in the NEM is agile and responsive to change in policy, market structure and how consumers use and produce energy, is a challenging task the ISP seeks to guide. Other key elements of the framework are also up for review, including the RIT-T framework itself,⁴ as well as the coordination of generation and transmission investment.⁵

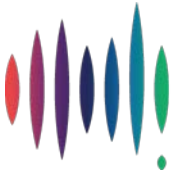
The Riverlink project is categorised as a 'Group 2' 'new' project under the ISP – '*Developments in the medium term to enhance trade between regions, provide access to storage, and support extensive development of REZs*'. *SnowyLink* and *MarinusLink* are also in this category. The nature of transmission infrastructure, being large, capital intensive and requiring many years to pay off, means there needs to be a strong business and consumer case before a decision can be taken to proceed with these new projects. They are necessarily more uncertain and riskier than Group 1 *augmentation* projects that aim to upgrade the existing network at a lower cost than the projects in Group 2. Under the current regulatory framework, it is the role of the RIT-T to assess the merits of these projects in detail and give consumers assurance that they are in their long-term interests.

In an environment where consumer preferences and technology are rapidly evolving, the role of the RIT-T in providing this strong check on new investment becomes even more important. What makes sense to invest in and build today, may not make sense tomorrow. The costs and benefits of the "preferred" and (new and emerging) alternative options need to be weighed, as well as the optimal allocation of the burden of those costs between consumers in different regions and the potential timing of benefits and risks to those benefits being realised. Importantly, where the timing and scale of benefits are inherently uncertain – where the business and consumer case for projects is not clear – but the project is nevertheless considered by government to be critical, that there should be an appropriate sharing of the risks between electricity consumers and taxpayers.

³ https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2018/Integrated-System-Plan-2018_final.pdf

⁴ <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-the-application-guidelines-for-the-regulatory-investment-tests-for-transmission-and-distribution>

⁵ <https://www.aemc.gov.au/markets-reviews-advice/reporting-on-drivers-of-change-that-impact-transmi>



Assurance about the costs and benefits of Riverlink

Energy Consumers Australia's consideration of the \$1.5 billion *Riverlink* project from has benefitted from the independent analysis of the costs and benefits undertaken by *The Energy Project*. The PADR states that the identified need for the interconnector is to deliver market benefits and support energy market transition through:

- lowering dispatch costs, initially in South Australia, through increasing access to supply options across regions;
- facilitating the transition to a lower carbon emissions future and the adoption of new technologies, through improving access to high quality renewable resources across regions; and
- enhancing security of electricity supply, including management of inertia, frequency response and system strength in South Australia.

The Energy Project analysis identifies three main concerns with the business and consumer case for *Riverlink*:

- **Timing risk** – the timing of benefits means that ElectraNet's "preferred option" is highly sensitive to the time period over which the net present value is calculated. Alternative modelling by the Energy Project results in the non-interconnector (Option A) being the preferred option, when the period of benefit realisation is brought forward to 2033 rather than 2040.
- **Risk of over-estimation of the costs of the non-interconnector (Option A)** – costs appear on the evidence of comparable projects to be over-estimated.
- **Allocation of risk** – the sharing of the costs and benefits (via wholesale price reductions) between consumers in the two regions appears uneven.

We believe there is a strong case for ElectraNet together with Transgrid, in consultation with consumers and other stakeholders, to further explore the non-interconnector option (Option A), and the potential for staged investment of the elements of *Riverlink*, in particular the New South Wales component. In our view, continued dialogue is required throughout this process to provide assurance about the timing and costs, as well as the benefits for consumers of what would be a major new investment in the NEM.

If you would like to discuss this matter further, please contact Chris Alexander, Director Advocacy and Communications on 02 9220 5500 or by email at chris.alexander@energyconsumersaustralia.com.au.

Yours sincerely,

Rosemary Sinclair AM
Chief Executive Officer