

PROJECT ENERGYCONNECT – CONTINGENT PROJECT APPLICATIONS

Summary of Stakeholder Submissions

On 30 September 2020, ElectraNet and TransGrid submitted contingent project applications to the Australian Energy Regulator (AER) seeking incremental revenue in accordance with clause 6A.8.2 of the National Electricity Rules (NER) to fund the construction of the South Australia (SA) to New South Wales (NSW) interconnector (Project EnergyConnect).

The AER sought comment on these applications from stakeholders by 30 October 2020. The following provides a summary of the key issues raised in the submissions received, together with responses to those issues.

Issue	Response
Major Energy Users (MEU)	
<p>While supportive in principle, the MEU has concerns about the latest information used to justify the long-term benefits of the project given the current costs.</p> <p>It considers that the AER needs to investigate the project more fully and get formal stakeholder input into whether the project does deliver the net benefits claimed, and remains concerned over key inputs such as gas prices and discount rates.</p>	<p>ElectraNet has comprehensively assessed the options identified in the SA Energy Transformation RIT-T since 2016, and on each occasion Project EnergyConnect (the Project) has been shown to be the preferred option with a positive economic case. Extensive consultation has occurred in each step of the process. Thorough sensitivity testing was also undertaken in the RIT-T in relation to key inputs including gas prices and discount rates.</p> <p>The 2020 updated Cost Benefit Analysis continues to show a positive economic case for the Project based on inputs aligned with the 2020 ISP, as accepted by the AER.</p> <p>The updated Cost Benefit Analysis considers only one conservative scenario identified by AEMO in the ISP, and increased benefits would be expected under most alternative scenarios considered in the ISP.</p> <p>Separate independent customer price impact modelling by ACIL Allen and FTI Consulting forecasts substantial energy cost savings for customers in both SA and NSW.</p>
<p>The project is not financeable based on the current approach to setting of the WACC, therefore the MEU considers that this implies a material change to the regulatory approach for the project to be financeable and should require further review by stakeholders.</p>	<p>The financeability Rule change proposals submitted by ElectraNet and TransGrid will be subject to a full independent review and consultation process with stakeholders under the Rule making process being administered by the Australian Energy Market Commission (AEMC).</p>

Issue	Response
Public Interest Advocacy Centre (PIAC)	
<p>PIAC is deeply concerned that the project does not present a reasonable “return on investment” for consumers under the current regulatory framework. The most recent modelling paints a picture of a project with high costs and comparatively small net benefits.</p> <p>PIAC strongly recommends pausing the regulatory process for Project EnergyConnect to reconsider whether it is in the long-term interests of consumers for it to proceed under the current regulatory framework.</p>	<p>ElectraNet has comprehensively assessed the options identified in the SA Energy Transformation RIT-T since 2016, and on each occasion the Project has been shown to be the preferred option with a positive economic case. Extensive consultation has occurred in each step of the process.</p> <p>The 2020 updated Cost Benefit Analysis continues to show a positive economic case for the Project based on inputs aligned with the 2020 ISP, as accepted by the AER.</p> <p>The updated Cost Benefit Analysis considers only one conservative scenario identified by AEMO in the ISP, and increased benefits would be expected under most of the alternative scenarios considered in the ISP.</p> <p>Separate independent customer price impact modelling by ACIL Allen and FTI Consulting forecasts substantial energy cost savings for customers in both SA and NSW.</p>
<p>PIAC recommends examining alternative options for risk and cost allocation for the project in order to allocate risks to parties better able to manage them and to recover costs on a more beneficiary-pays basis.</p> <p>Consumers are not well-placed to manage the risk of cost increases or the failure to deliver the modelled benefits of Project EnergyConnect. An alternative could include PIAC’s risk and cost sharing model for Renewable Energy Zones to recover some costs from connecting generators as Project EnergyConnect is expected to enable new renewable generation connection along its path.</p>	<p>There is currently no provision for the recovery of the costs of the Project from generators or other parties under the Rules.</p> <p>In terms of benefits to customers, the price impact analysis by ACIL Allen and FTI shows price reductions are expected in both regions which outweigh the additional transmission costs by a factor of 6-7 times or more.</p>
<p>PIAC recommends revisiting the current inter-regional transmission cost allocation to more fairly share costs between NSW and SA consumers from Project EnergyConnect.</p>	<p>The current Rules allocate the costs of inter-regional transmission investments geographically.</p> <p>However, ElectraNet remains open to alternative cost allocation approaches being developed moving forward, such as improved beneficiary pays arrangements.</p>

Issue	Response
Sam Trinca	
<p>TransGrid's contingent project application submitted by TransGrid is not consistent with the preferred Option C3, as identified in the RIT -T as it involves a new substation at Dinawan and does not connect to Darlington Point.</p> <p>The benefit of the original route included providing grid access to solar farms and avoiding the implementation of TransGrid's western grid stability project.</p>	<p>The route refinement through Dinawan has been necessary to secure the necessary transmission line corridor, but the overall route option remains consistent with that assessed in the RIT-T.</p> <p>The Dinawan alignment is marginally cheaper. Bypassing Darlington Point involves a shorter line route and is less complex. While this also requires a new greenfield switching station at Dinawan, the additional cost of this switching station is more than offset by the complex brownfield expansion of Darlington Point substation that is avoided given this is a constrained site.</p> <p>The line route realignment through Dinawan does not materially affect the level of benefits of the Project assessed in the RIT-T. The scope and cost of the proposed solution remains consistent with that required to deliver on the requirements of the Project.</p> <p>Addressing network constraints in South Western NSW was not one of these requirements, and TransGrid has initiated a separate RIT-T process to address these constraints, which involves potential augmentation options from Darlington Point.</p>
<p>A majority of the benefits of Project EnergyConnect accrue to South Australia. However, given that the majority of the length of the proposed line lies in NSW, a disproportionate share of the costs will ultimately be borne by the NSW consumer.</p>	<p>The RIT T modelling shows a broad range of benefits to customers in both regions:</p> <ul style="list-style-type: none"> • 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. • For SA customers, benefits include access to additional capacity when needed to replace expensive gas generation and improves the resilience and security of the power system. <p>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.</p> <p>The current Rules allocate the costs of inter-regional transmission investments geographically.</p> <p>However, ElectraNet remains open to alternative cost allocation approaches being developed moving forward, such as improved beneficiary pays arrangements.</p>

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ENGIE	
<p>ENGIE is concerned over the sharp rise in costs on the project and urges the AER to do whatever it can within its powers to impose appropriate cost discipline on the proponents and ensure only efficient costs are allowed.</p>	<p>The AER is closely reviewing the prudent and efficient costs of delivering the Project in accordance with the contingent project assessment process under the Rules, in order to determine the efficient costs reasonably required to deliver the Project.</p>
<p>ENGIE is interested to understand the appropriateness of TransGrid's claim for "biodiversity risk costs" and ElectraNet's for "project risk". TransGrid's claim for "real input escalators" also requires closer scrutiny, especially when ElectraNet does not appear to have sought similar.</p>	<p>TransGrid's allowance for biodiversity risk is derived from external specialist advice and has been independently verified (the analysis undertaken to determine the biodiversity risk cost was found to be '...a sound methodology and approach, especially at this stage of the project).</p> <p>TransGrid's external specialist advisor noted that the final biodiversity offset liability will be influenced by the following factors which are not able to be confirmed at this stage:</p> <ul style="list-style-type: none"> • Final construction footprint and clearing requirements for the exact final project alignment. • Field validated data set which will confirm the on-ground conditions, particularly for the east. • Adjustments to the credit prices which occur quarterly and will be subject to fluctuation until the project is approved. <p>ElectraNet's allowance for project risk captures costs for which a degree of uncertainty exists at this stage. These factors are assessed on a probabilistic basis rather than the full value of each item being included in the base cost estimate, consistent with the standard approach to quantifying risk accepted by the AER.</p> <p>Both businesses have applied real cost escalation to their expenditure forecasts to capture costs expected to rise faster than inflation.</p> <p>TransGrid's claim for real input escalators includes:</p> <ul style="list-style-type: none"> • Zero real input cost escalation to materials. • Application of the AER's approved real labour input cost escalators to labour. • Total forecast capex for real input cost escalation of \$3.2 million (\$2017-18). <p>ElectraNet has also applied the AER's approved real labour input cost escalators to the labour component of its forecast only, accounting for total forecast capex of \$0.7 million (\$2017-18).</p>

Issue	Response
<p>The latest costs appear to exceed the value of the net benefits determined by the AER in the RIT-T. The proponents have also claimed additional benefits, with TransGrid submitting a report from FTI Consulting that assessed so-called “wider benefits”.</p>	<p>The 2020 updated Cost Benefit Analysis continues to show a positive economic case for the Project based on the latest project costs and inputs aligned with the 2020 ISP, as accepted by the AER.</p> <p>Broader potential benefits identified in the FTI report that are beyond those captured in a RIT-T assessment have not been included in the updated Cost Benefit Analysis.</p> <p>Further unquantified benefits are also expected through improved system resilience.</p>
<p>The fundamental driver of the market benefits that the project is purported to deliver is fuel cost savings, primarily from NSW coal displacing SA gas generation. There will be a lack of dispatchable capacity in SA which may impede hedging and push up consumer costs. These risks have not been fully assessed.</p>	<p>Previous analysis by CQ Partners suggests that while market liquidity continues to decline in South Australia, additional interconnection can help to improve market liquidity in SA, including through inter-regional hedging and the development of further storage capacity.¹</p>
Origin Energy	
<p>Capital costs have risen and the net benefits of the project are now marginal at \$148 million in the central scenario, with the breakeven cost of the project being \$2.7 billion. This implies that an 11% increase in costs would make the interconnector uneconomic.</p> <p>It is important that the AER is confident that the latest cost estimates are robust and reasonable given the updated analysis was not carried out under the full robustness of the RIT-T process. For example, there was no formal consultation or consideration of non-network and a range of other credible options. Given the updated analysis finds net benefits by a slim margin, these alternatives may have offered better value for consumers.</p>	<p>ElectraNet has comprehensively assessed the options identified in the SA Energy Transformation RIT-T since 2016, including a range of alternative credible options. On each occasion the Project has been shown to be the preferred option with a positive economic case. Extensive consultation has occurred in each step of the process.</p> <p>The 2020 updated Cost Benefit Analysis continues to show a positive economic case for the Project based on inputs aligned with the 2020 ISP, as accepted by the AER.</p> <p>The updated Cost Benefit Analysis considers only one conservative scenario identified by AEMO in the ISP, and increased benefits would be expected under most alternative scenarios considered in the ISP.</p> <p>Separate independent customer price impact modelling from ACIL Allen and FTI Consulting forecasts substantial energy cost savings for customers in both SA and NSW.</p> <p>The AER is closely reviewing the prudent and efficient costs of delivering the Project in accordance with the contingent project assessment process under the Rules.</p>

¹ CQ Partners, [SA-NSW Interconnection – Analysis of Impacts on Liquidity in SA](#), February 2019.

Issue	Response
Reach Solar	
<p>Reach supports the project as an important part of the ISP as an 'actionable' project.</p> <p>Reach supports the stated net market benefit to the NEM, considers the project is strategic infrastructure and provides a 'transmission spine' connecting new renewable generation sources. Without the project, the full benefit from Snowy 2.0 will not be realised because electricity will be constrained from flowing West.</p>	Noted.
<p>The project will assist in maintaining a stable grid with reducing minimum demand and provide alternative generation sources as coal-fired plant retires. An additional benefit is the sharing of excess solar PV generation output in SA with NSW.</p>	Noted
<p>Reach supports an upgrade of key sections to 500kV to future proof the project, which would complement HumeLink, which is planned at 500kV.</p>	<p>ElectraNet and TransGrid do not propose to build the Project EnergyConnect line at 500kV. The scope and cost of the proposed solution remains consistent with that required to deliver on the requirements of the Project identified in the RIT-T.</p>