

Heywood Interconnector RIT-T – Submissions  
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To whom it may concern,

**Re: South Australia – Victoria (Heywood) Interconnector Upgrade – Regulatory Investment Test for Transmission (RIT-T): Project Assessment Draft Report**

As the peak non-government representative body for the health and community services sector in South Australia, the South Australian Council of Social Service welcomes the opportunity to provide a submission on the Project Assessment Draft Report.

SACOSS believes in justice, opportunity and shared wealth for all South Australians. With a strong membership base representing a broad range of interests in the social services arena, our core activities include: analysing social policy and advocating on behalf of vulnerable and disadvantaged South Australians; providing independent information and commentary; and assisting the ongoing development of the health and community services sector.

SACOSS is specifically interested in this process as the interconnection to the rest of the NEM has a role to play in a number of facets of the market that bear on the cost of electricity to South Australian consumers.

In general terms, as advocates for the interests of consumers, SACOSS supports the consideration of options to expand the capacity of interconnection. The questions for us are in relation to ensuring the most cost-effective options are pursued.

SACOSS is acutely aware of the need to contain electricity prices and the pivotal role of the Network Regulatory Asset Bases (RABs) in this regard. Through the regulated return on and of this capital base (through the Weighted Average Cost of Capital, WACC and the agreed depreciation schedules), the Transmission and Distribution RABs drive the revenue needs of the state's Network Service Providers. In ElectraNet's current regulatory period (2008-13)<sup>1</sup>, the return on and of the RAB capital represents \$950m out of \$1,340m in total revenue or just over 70%. The 2013-18 ElectraNet Proposal<sup>2</sup> proposes returns on and of capital that make up 68% of \$1,700m in revenue. For ETSA Utilities it represents 60% of \$3,400m in revenue from 2010-15.

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<sup>1</sup> AER Statement of updates for ElectraNet Transmission Determination following orders from the Australian Competition Tribunal Sept 2008 available at:

<http://www.aer.gov.au/sites/default/files/AER%20statement%20on%20updates%20for%20ElectraNet%20transmission%20determination%202008-09%20to%202012-13%20%28February%202009%29.pdf>

Table 3.

<sup>2</sup> <http://www.aer.gov.au/sites/default/files/ElectraNet%20Revenue%20Proposal%20.pdf>

SACOSS is also aware of the recent downward revision of demand forecasts by AEMO in the 2012 National Electricity Forecasting Report.

Further, the NEM regulatory environment is currently in a particularly pronounced state of flux with a number of reviews and proposals that have a relationship to the matters being considered in this RIT-T. These include the AEMC's Transmission Frameworks Review, Power of Choice Review, Economic Regulation of Network Service Providers Rule Change and Inter-regional Transmission Charging Rule Change, the Productivity Commission Inquiry into Electricity Network Regulatory Frameworks and the broader recommendations of the Review of the Limited Merits Review Regime for the SCER.

On this basis, SACOSS believes it is very important that the Heywood RIT-T proceeds with a high degree of conservatism - to the point where investment should be delayed or staged in order to ensure that the identified need (and the attendant costs and benefits) hold true over the coming years. We note that the preferred option has a projected commissioning date of 2016. We acknowledge that such projects are technically complex and have substantial procurement lead times but believe that the moderating of demand does allow for some additional time to ensure a solution that is compatible with not just the regulatory frameworks and market conditions of today but those of several years hence.

Based on the summarised costs and projected benefits (outlined in Table 6-1, pg. 41), SACOSS is drawn more to Option 4 than the PADR's preferred Option 1b. We note that Option 4 is largely a subset of the works of 1b but comes at a cost of \$40.6m (NPV of \$30.6m in Table 6-3) compared to the \$107m (NPV of \$79.8m in Table 6-3) of Option 1b. In this respect Option 4 could be seen as an early stage of the proposed preferred option.

Option 4 is modelled to yield benefits with a Net Present Value (NPV) of \$155m compared to the \$270m of 1b (Table 6-3, page 59). Option 4b therefore has a much greater ratio of benefits to costs (5:1 compared to 3.4:1) even though we must acknowledge that this is not the criteria outlined in the RIT-T process.

One of the main differences between Option 4 and 1b is the inclusion of a 3<sup>rd</sup> Transformer at Heywood (circa \$37m). We note that page 15 acknowledges previous submissions from generators that question the need for the transformer augmentation given that addressing network congestion issues in SA would firm-up the Interconnector's existing capacity. And, further, that at page 60, ElectraNet notes a 3<sup>rd</sup> transformer is likely to be needed at some future point to address reliability issues (possibly around 2020-25) anyway.

SACOSS also notes the sensitivity testing reported in Table 6-4. One concern we have is that many of the projected benefits of options occur some distance into the future. Given the uncertain nature of the current regulatory environment it would be normal investment evaluation practice to apply a relatively high discount rate to reflect the risks associated with this uncertainty. We note that Table 6-4 shows the relative results of applying a discount rate of 13% (compared to the central estimate of 10% used for the recommendations). Under this we note that Option 4 fares relatively well with its net market benefits falling to \$82 m compared to \$123m for

Option 1b. If we consider the estimated costs of Table 6-3, we can see that Option 1b has costs of \$79.8m and potential benefits of \$123m, while Option 4 has costs of \$30.6m and benefits that are over 2.5:1 (\$82m) even when heavily *discounted for risk*.

Further, SACOSS were somewhat surprised by the results of the consideration of a 200MW Demand Response capacity being offered by EnerNOC (part of option 5 where it is combined with 1b). It was disappointing to see a non-network option so readily dismissed.

In terms of the potential benefits of greater interconnector capacity, SACOSS is particularly interested in the role of interconnection in lowering the costs of peak demand and limiting the potential for generator market power. The benefits of increasing the export potential of the state's Wind Energy resource is also supported but it is possible that the Optional Firm Access (OFA) proposal of the AEMCs Transmission Frameworks Review might provide a more market-based and efficient driver of network investment in this regard. EnerNOC's proposal to potentially increase demand in high wind scenarios is also of interest. SACOSS is of the view that a staged approach to network investment (ie Option 4 rather than 1b) may be a more prudent approach in the meantime.

In summary, SACOSS acknowledges the complexity of the RIT-T process and appreciates the transparency of what has been published but given the moderating of demand and the regulatory uncertainty around network investments, believes the appropriate course of action is for lower capital expenditure with a higher ratio of likely benefits to costs.

Please contact SACOSS Senior Policy Officer, Jo De Silva if you wish to discuss any aspects of this submission on 08 8305 4211 or via [jo@sacoss.org.au](mailto:jo@sacoss.org.au)

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ross Womersley', with a large, sweeping flourish at the end.

Ross Womersley  
Executive Director