Mr Steve Masters,
ElectraNet Pty Ltd
PO Box 7096, Hutt St Post Office
ADELAIDE
SA 5000

SACOSS
South Australian Council of Social Service

Marjorie Black House
47 King William Road
Unley SA 5061

P. 08 8305 4222
F. 08 8272 9500
E. sacoss@sacoss.org.au
www.sacoss.org.au

ABN 93 197 662 296

By email to consultation@electranet.com.au

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RE: Network Capability Proposal

Dear Mr Masters,

Thank you for the opportunity to make a brief submission to this consultation[1]. As the peak body for the community services sector in South Australia, SACOSS has a long–standing interest in the delivery of essential services. Our research shows that the cost of basic necessities like energy and water impacts greatly and disproportionately on vulnerable and disadvantaged people. Our advocacy is informed by our members; organisations and individuals who witness these impacts in our community.

It is our understanding that ElectraNet is proposing around $3m pa in capital expenditure for the next three years on a number of small projects under the Network Capability Incentive. These will be the final 3 years of ElectraNet's current regulatory period (2013-18). We also understand that this consultation is seeking feedback from stakeholders prior to ElectraNet's submission of the proposed action plan to the AER.

SACOSS also understands that the AEMC's draft decision on a Rule Change proposal by ElectraNet to be able to access the scheme prior to its next revenue reset in 2018, was to approve the request[2]. The Draft Rule Determination states:

> *"ElectraNet contended that, in the absence of an early application of the network capability component, it does not have an incentive to undertake the low cost optimisation projects that it has identified for its network. This was because ElectraNet considered such projects to be essentially "unfunded" projects during the current regulatory control period.*
>
> [p. 7] *If implemented, the draft rule has the potential to bring forward benefits to consumers that otherwise would not be realised until the transmission businesses' next regulatory control period".*

SACOSS has reviewed the Draft Network Capability Incentive Parameter Action Plan (December 2014) and is of the view that the benefits to consumers have not been robustly demonstrated. In our view, given the process undertaken to ensure early access to the

[1] ElectraNet 2014, Network Capability Proposal Consultation, http://www.electranet.com.au/media-centre/media-archive/latest-releases/show/network-capability-proposals-consultation/
[2] AEMC Draft Rule Determination ERC0173, http://www.aemc.gov.au/Rule-Changes/Early-application-of-STPIS-components-to-transmiss, pp. 1, 2 & 7.

scheme[3], the action plan needs to demonstrate why the projects need to be implemented *prior* to the next regulatory reset (when a more complete assessment of expenditure can be undertaken). In our previous comments on the Heywood Interconnector upgrade, we noted that many of the benefits did not appear until well into the future and that this reduced confidence that the benefits would actually accrue to consumers.

We note that since the last revenue reset, ElectraNet has added the Heywood Interconnector Upgrade (approx. $45m in capex and $2m pa in opex)[4] as a contingent project and is now pursuing another $10m in capex.

Summary

Overall, SACOSS does not accept that any of the projects have been demonstrated as needing to be addressed prior to the next revenue reset. At this time, all projects can be assessed in totality for prudency and efficiency. SACOSS believes that if these projects are so clearly in the consumer interest then they should be prioritised to be performed from within the existing expenditure allowances as with any other ElectraNet core business prioritisation process.

Brief comments on each of the five projects are attached.

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

Ross Womersley
Executive Director

[3] SACOSS notes the AEMC paid particular attention to altering revenue determinations within regulatory control periods (AEMC Draft Rule Determination ERC0173, http://www.aemc.gov.au/Rule-Changes/Early-application-of-STPIS-components-to-transmiss, p. 11) but has decided that this specific application by ElectraNet is allowable.
[4] AER final decision ElectraNet – Heywood Interconnector Upgrade Contingent Project http://www.aer.gov.au/node/23187

Comments on specific projects:

Priority Project 1 – Riverland uprating

This project plans to increase conductor clearances to allow 100^{o}C rating of 132kV lines through the Riverland. The reasons cited are to increase the capability of Murraylink to export power under certain load conditions by approximately 24MW and increase the capability of SA wind farms to export power under high wind conditions.

SACOSS notes that a large part of the circuit to be upgraded only serves SA Water pumping stations and questions whether the projected benefits are likely to accrue to those funding the investment (i.e. consumers at large) or whether these benefits accrue mainly to SA Water and to operators of windfarms in SA.

Further, it is not clear that the Heywood Interconnector upgrade, when completed, will not erode some of the projected benefits.

Priority Project 2 – Upper SE uprating

This project plans to increase conductor clearances to allow 100^{o}C rating of 275kV and 132kV lines from Tailem Bend. ElectraNet claim that this is the next limit on SA's interconnector capability with Victoria following the Heywood Interconnector upgrade.

SACOSS has previously expressed its concern over the scale of the Heywood Interconnector upgrade (a lower cost option existed) and is not convinced that this project is needed prior to the next revenue reset. In our view, since the benefits of the Heywood upgrade are likely to accrue well into the future additional expenditure now seems imprudent.

The Draft Action Plan refers to the benefits of increasing the capability of the interconnector but does not distinguish between what this current proposal offers in that regard and what will be realised through the completion of the already approved Heywood Upgrade Contingent Project:

> **Benefit/s:**
>
> The majority of the benefits in the short term will be realised through increasing the capability of the Heywood interconnector to import power from Victoria. AEMO is forecasting an increase in the price of gas in South Australia before the end of ElectraNet's current regulatory period. A subsequent reduction in the generation from gas fired power in South Australia is also forecast. This will lead to an increase in flows across the Heywood interconnector.

Source: ElectraNet Draft Network Capability Incentive Parameter Action Plan (Dec 2014) p.15

Priority Project 3 – Lower SE uprating

ElectraNet claim that this is the next limit on SA's interconnector capability with Victoria following the Heywood Interconnector upgrade and after the Upper SE uprating (Priority Project 2). This project is contingent on a compatible upgrade with the Victorian Transmission Network and may be withdrawn. In our view, the case to bring this forward for completion prior to the next revenue reset is not made. As above, the benefits do not seem to distinguish between what this current proposal offers in that regard and what will be realised through the completion of the already approved Heywood Upgrade Contingent Project.

Priority Project 4 – Robertstown – Waterloo East uprating

The reason stated for this project is the limitation on exports across the Murraylink Interconnector under high wind conditions. The benefits cited are greater exports of wind generation from SA. Given the modest project cost ($1.55m) SACOSS would encourage ElectraNet to seek the cost from the primary beneficiaries – the wind generators. In our view this would be a much more efficient solution that appropriately allocates costs, benefits and risks.

Priority Project 5 – Removal of plant limits Davenport – Robertstown 275kV

Again, the benefits cited for the upgrade relate to expanding opportunities for the export of wind generation. The reason being the forecast increase of 700-800MW of wind farms in northern SA expected before the end of the current ElectraNet Regulatory period. SACOSS does not accept that the project cost of $1.42m should not be collected as part of negotiating connection agreements with these proposed wind farms. If the market benefits are what ElectraNet have modelled then these quick paybacks will accrue to the generators in a more efficient transaction than being funded out of regulated revenue.