

1 March 2017

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



Business SA
Chamber of Commerce
and Industry South Australia

ABN 000 14 725 309 328
Level 1, 136 Greenhill Road
Unley South Australia 5061
T: +61 8 8300 0000

Working for your business.
Working for South Australia

Dear Mr Korte

I write in response to your request for submissions on ElectraNet's 'Market Modelling and Assumptions Report' and supplementary information paper, an adjunct to the formal RIT-T process for potential new high-voltage electricity interconnectors between South Australia and the eastern states, including consideration of non-network alternatives.

Executive Summary

- Business SA welcomes ElectraNet's transparent approach to date in the RIT-T process and the constructive engagement it has made with consumers, particularly through its Consumer Advisory Panel
- Business SA acknowledges that businesses have had to absorb significant increases in electricity prices over the past decade which until relatively recently have been primarily driven by rising network costs
- It is important that all potential outcomes of a new interconnector, or indeed non-network solutions, consider benefits to multiple consumer classes, including large market customer Small to Medium Sized Enterprises (SMEs) who are predominantly price takers in the contract market and have faced significant increases since wholesale generation costs began their rapid ascent in June 2015
- ElectraNet should bear in mind that the economic life of a future interconnector proposal may be compromised by new and developing technologies and ensure that any risks associated with redundant assets are not passed onto South Australian electricity consumers who have already had to absorb substantial network price rises over the past decade.

Should you require any further information or have questions, please contact me on (08) 8300 0009 or andrewm@business-sa.com.

Yours sincerely,

Andrew McKenna
Senior Policy Adviser





Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- After labour, electricity costs are the most significant concern for small business with the average small business electricity bill having doubled over the last decade from approximately \$2,100 per annum to in excess of \$4,250 per annum.¹
- South Australia has the highest proportion of non-firm renewable generation in the National Electricity Market (NEM) and the withdrawal of Alinta's Northern Power Station in May 2016 has put significant pressure on South Australia's wholesale electricity market, effectively leaving two key gas fired generators to hedge the base-load electricity needs of industry and more than doubling the 'energy component cost' for large market customers.
- Up until mid-2015 when South Australia's wholesale electricity prices began to rise dramatically, network costs had been the primary driver of the increases in electricity costs over the past decade and businesses cannot afford to return to the spending patterns associated with that period which have been compounded through rising regulated asset bases, noting ElectraNet's has more than tripled since 2003.
- South Australia's blackout on 28th September 2016 crystallised the importance of reliability to business and once the exact causes and their relative contributions to the system failure are determined by relevant inquiries, it will be important for ElectraNet to take reasonable steps at appropriate costs to mitigate future impacts of similar events.

Key Policy Points

1. In assessing new measures to improve South Australia's electricity network reliability and affordability, Business SA welcomes ElectraNet's consideration of the cost of previously implemented market measures, not only for the purposes of comparison, but also to demonstrate the potential cost savings which could eventuate from ElectraNet's current interconnector proposal or some other non-network solution. In summary,
 - a) The State Government mandated rate of change of frequency (ROCOF) constraint of three hertz per second introduced after the state-wide blackout;
 - b) The Australian Energy Market Operators (AEMO)'s December 2016 ruling that at all times, two synchronous generators must remain online within South Australia; and
 - c) AEMO's 2015 ruling to require 35 MW of locally available Frequency Control Ancillary Services (FCAS) in South Australia.

This is particularly relevant given ElectraNet states it will work to quantify the magnitude of the remaining risk of major system disruption. We agree that if the interconnector, or some other non-network solution is introduced to offset some level of risk, then it may also be able to more efficiently offset further risk that is currently being combated by what may turn out not to be optimal sustainable least cost solutions.

¹ SA Power Networks TSS presentation – August 2016



2. Under sub-point 4.2.3, *Estimates of the amount of unserved energy during a period of islanding of South Australia*, ElectraNet does not articulate the extent to which Port Lincoln and neighbouring areas on the Eyre Peninsula were without power. While Business SA appreciates that some causes related to Port Lincoln's back-up generator failure are still under investigation, and that this may not strictly be a network issue related to the State's islanding, the fact remains that the state-wide blackout had a significant impact on the residents and businesses of Port Lincoln and that from their perspective, they were not served energy for more than two days.

From Business SA's state-wide blackout survey conducted in October 2016, we understand that Eyre Peninsula businesses (predominantly in Port Lincoln) suffered losses estimated at \$8.33 million which combined with losses endured in other regions, should factor into any ElectraNet analysis of unserved energy as a result of the State being islanded.

Furthermore, when ElectraNet is assessing costs related to potential future outages, it should also consider that the range of costs will depend on the time of day, which is particularly relevant for South Australia given the state-wide blackout occurred towards the end of the working day.

3. Under sub-point 4.3, *Competition benefits estimation*, ElectraNet argues that "*competition benefits arise where the impact of an option on the wholesale market is to reduce the extent to which generators adopt non-Short Run Marginal Cost (SRMC) bidding approaches, leading to changes in both the investment and dispatch outcomes in the market, as well as increased welfare for consumers due to the change in the prices they pay for electricity (i.e. demand-response component).*"

While that may be so, ElectraNet should also consider modelling the market outcomes for large market customers (which are not necessarily large businesses considering the 160 MWh per annum threshold) which would come from having access to more retailers offering firm hedges (to contract) by virtue of having access to an additional interconnector which increases their ability to do so. Should this additional capability require interconnectors or fundamental changes to the National Electricity Market (NEM) structure, ElectraNet should state so in the next reporting stage of their interconnector proposal.

4. Under sub-point 5, *Wholesale market modelling approach*, to what extent is ElectraNet going to consider the possibility that the current regional boundaries of the NEM may not be suitable to accommodate higher levels of non-synchronous generation across the NEM?
5. Can ElectraNet please explain its methodology for adopting a carbon emissions penalty factor of \$100/tCO₂?
6. Is ElectraNet considering modelling assumptions that future interconnectors may have shorter economic lives than those constructed in the past on the basis of higher asset redundancy risk?