

31 August 2018

Rainer Korte
Executive Manager, Asset Management
ElectraNet



Lodged via email: consultation@electranet.com.au

Dear Mr Korte,

Submission to the SA Energy Transformation RIT-T PADR

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to ElectraNet's Project Assessment Draft Report and commends ElectraNet for the engagement it has conducted around the report. PIAC's submission supports and is informed by the analysis done by The Energy Project which was funded by Energy Consumers Australia.

PIAC questions the conclusion of a 'no-regrets' option

ElectraNet has described the preferred option of an interconnector between South Australia and New South Wales as a 'no-regrets solution.' We question whether this is truly the case due to:

- the long-term stability required to receive the modelled net market benefits; and
- the substantial misalignment between the allocation of costs and the accrual of expected benefits to consumers that would occur under the current regulatory framework.

Requirement for long-term stability

ElectraNet's modelling relies on the stability of the energy market and policy environment to deliver the expected net market benefits. PIAC questions this assumption given the variety of disruptive and foundational transformations occurring in the National Electricity Market. This makes it more difficult to determine whether an investment is indeed in the long-term interests of consumers – especially for investments such as an interconnector with high upfront costs and long time-horizons required to receive the expected benefits.

To account for this instability, the Energy Project has re-calculated ElectraNet's cost-benefit analysis on a 15-year rather than 22-year basis to reduce the exposure of the modelling to increasing uncertainty over the longer term. As a result of this, ElectraNet's preferred option (Option C3i) no longer ranks as highly. Instead, using the same weightings of the three scenarios, would see the non-interconnector option (Option A) rank highest.

The uncertainty in demand growth, the cost trajectories of new technologies and the potential for new 'game-changing' technologies will place a greater importance on the robustness of modelled outcomes and the optionality offered

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by certain solutions. In general, this situation highlights the importance of optionality in investments to ensure that consumers are not bearing the risk of overinvestment or expected benefits not eventuating as modelled.

Misalignment of costs and expected benefits between jurisdictions

The costs and expected benefits are disproportionately split between SA and NSW. For instance, as noted in analysis done by The Energy Project, the expected benefits from the preferred option is split approximately 60% to SA consumers and 40% to NSW consumers. This is in contrast to the costs which are borne 27% by SA and 73% by NSW consumers. Further, PIAC contends that while the costs are relatively fixed and predictable, the expected benefits, particularly those calculated for NSW consumers, are relatively variable given they are contingent on a number of different factors.

PIAC appreciates that the current RIT-T process requires cost-benefit analyses to be conducted at a NEM-wide level. Because of this, the division of costs and benefits between different NEM regions is not necessarily considered. This is despite the fact that costs for projects are recovered on a regional rather than NEM-wide basis.

PIAC considers this misalignment of the cost-benefit analysis and the cost recovery to be a limitation of the current RIT-T design and is especially detrimental to the long-term interests of consumers with the upcoming focus on interconnector expenditure, such as in AEMO's Integrated System Plan (ISP).

Recommendation 1

The preferred option be the non-interconnector option (Option A).

Recommendation 2

Examine opportunities for a deferred, staged implementation of the SA-NSW interconnector options.

Recommendation 3

Along with other stakeholders including the AER, examine alternatives to the current model of funding any SA-NSW interconnector including:

- *models which may include government and/or generator co-contribution to reduce the risk of asset underutilisation borne by consumers; and*
- *models which better balance the recovery of costs with the accrual of expected benefits between jurisdictions.*

A different framework is required for the ISP projects

PIAC notes that many of the major projects identified in the ISP are recognised as being of national significance because they may unlock benefits across the supply chain and across the NEM. However, as noted earlier, the cost recovery under the current framework remains with consumers and is jurisdiction-based. Continuing this current framework risks exacerbating the affordability crisis currently facing many consumers. This is a point of particular concern for consumers in NSW, who are likely to be directly impacted by a large proportion of the costs related to several projects outlined in the ISP.

Therefore, we highlight the need to reconsider the appropriateness of the current planning, investment oversight and cost-recovery frameworks for implementing the ISP – in particular speculative network investments such as for Renewable Energy Zones. We would expect network businesses, generators and governments to wear a portion of the risk of these investments rather than it being borne solely by energy consumers.

Continued engagement

PIAC would welcome the opportunity to meet with ElectraNet and other stakeholders, in particular the AER, to discuss these issues in more depth.

Yours sincerely,

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