

15 November 2019



Gerard Reiter
Executive Manager Network Planning and Operations
TransGrid

Submitted to: regulatory.consultation@transgrid.com.au

Dear Mr Reiter,

Submission to QNI upgrade 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 the PADR for the Queensland to NSW Interconnector (QNI) upgrade RIT-T.

The preferred option

PIAC agrees that the proposed preferred option (Option 1a – upgrading the Liddell to Tamworth transmission lines, installing new dynamic reactive support at Tamworth and Dumaresq, and shunt capacitor banks at Tamworth, Dumaresq and Armidale) is the most desirable option considered in the RIT-T process.

PIAC also strongly supports this RIT-T focussing only on the short-term need flagged in the 2018 ISP, rather than the medium-term need. As noted in the AER's guidance note, TransGrid and Powerlink should undertake a separate RIT-T process for the more substantive, medium-term upgrade.¹

Cost and risk allocation principles in general

Investment in new generation and networks is required to enable the transition to an affordable, low-emissions energy future. It is essential to determine the proper risk and cost allocation between industry and consumers of this investment.

PIAC considers that risk should be borne by those best placed to manage it. For example, it is not appropriate for consumers to entirely bear the risk of investment to cover the financial impacts of generator curtailment either through funding additional transmission investment to alleviate physical constraints or underwriting financial instruments.

Distinct from the allocation of risks, is the recovery of costs – noting that while the costs and risks are generally related, they are not necessarily the same.

PIAC's key principles for cost recovery are that:

¹ AER, *Guidance Note: QNI Regulatory Investment Test*, July 2019.

- Costs are recovered according to a beneficiary-pays framework, such that those who benefit from a given investment should also pay for that investment. Where there are multiple beneficiaries, costs should be recovered proportionally to their share of the benefits.
- Where it is not practical and transparent to identify or measure the beneficiaries, a causer-pays principle should be used.
- Cost recovery should also include the risk, to the extent it exists, of the underutilisation of assets and hence asset stranding.
- Cross-subsidies should only be permitted where they are accepted by informed consumer feedback (such as retaining postage stamp pricing for distribution network tariffs) or immaterially small.

These principles highlight two issues regarding major investments in interconnectors or national transmission flow paths such as the proposed QNI upgrade:

- the recovery of costs and accrual of benefits between consumers and other parties such as generators; and
- the recovery of costs and accrual of benefits between consumers of different NEM regions.

Addressing both is essential to ensuring any major investment to the transmission network is in the long-term interests of consumers. For the QNI upgrade, PIAC considers that the recovery of costs and accrual of benefits between consumers of different NEM regions is the more relevant of the two.

Cost and risk sharing for the QNI upgrade between consumers in different regions

In PIAC's view, even if the QNI upgrade provides a net benefit overall, it would only be in the interests of all consumers if the expected benefits that accrue to NSW consumers outweigh the costs imposed on them and the benefits that accrue to Queensland consumers also outweigh the costs imposed on them. Otherwise, the QNI upgrade should not be built without cost recovery arrangements that correct for this misalignment.

The current investment efficiency tests, such as the RIT-T, are designed as a NEM-wide cost-benefit analysis. As a result, the modelling is insensitive to where in the NEM these costs or benefits occur – it only considers the total costs and total expected benefits across all consumers throughout the NEM. This is in contrast to the way these costs are actually recovered through network prices which are primarily based on where the expenditure occurred.²

This misalignment means that, for a project like the QNI upgrade which affects power flows between NEM regions, one set of consumers may pay for the benefits received by a different set of consumers. This runs counter to one of the fundamental principles of the NEM of cost-

² There are mechanisms in place to apply network costs across network jurisdictions. However, PIAC considers the effectiveness of these in certain cases to be very limited. For instance, the inter-regional TUOS is only applied to the locational component of transmission costs (currently 50%) and does not address the risk of asset underutilisation. Further, it assumes that asset utilisation in terms of power flows is an appropriate proxy for the value delivered to consumers. This is discussed further in PIAC, [Submission to Coordination of Generation and Transmission Investment options paper](#), October 2018, 6-8.

reflectivity. If costs materially exceed benefits in any jurisdiction, a particular project may have a negative net economic benefit (i.e. an overall detriment) for consumers in one network's jurisdiction despite being positive NEM-wide.

Recommendation 1

PIAC recommends that TransGrid and Powerlink examine the relative accrual of expected benefits to consumers in different NEM regions and compare this to how the consumers' portion of costs will be recovered through TUOS.

If there is a material imbalance, PIAC recommends that TransGrid and Powerlink highlight this fact and examine options to address this as part of the QNI upgrade RIT-T, including reallocating capex and/or regulated revenue recovery between NEM regions in proportion with their share expected benefits.

Continued engagement

PIAC would welcome the opportunity to meet with TransGrid, Powerlink and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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