

3 March 2020

Andrew Kingsmill
Manager, Network Planning
TransGrid

via email: regulatory.consultation@transgrid.com.au



Dear Mr Kingsmill,

Submission to HumeLink 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 TransGrid's draft report to Reinforce the NSW Southern Shared Network or 'HumeLink'.

Cost and risk allocation principles in general

Given the need to invest in both new generation and networks to enable the energy transition to an affordable, low-emissions future, it is essential to determine the proper risk allocation between industry and consumers.

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

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 principle for cost recovery is that costs are recovered according to a beneficiary-pays framework, such that those who benefit from a given investment should also pay for that investment, and where there are multiple beneficiaries, the 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.

Currently, new generators connecting to the transmission network are only explicitly exposed to some of the costs they impose on the system as a whole, namely: their shallow connection costs and the costs associated with providing any required system strength

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services as a result of the connection.¹ Connecting parties are not exposed to other impacts such as any deeper network costs they impose which are instead recovered from consumers.

This leads to a less efficient system overall as the interests and drivers for generation and transmission investment diverge from the interests of consumers – i.e. maximising the benefits for the individual investment decisions does not necessarily correspond to maximising the benefits for the system as a whole. If this continues, the cumulative impact of individual generation and transmission investments will diverge from the optimal system-wide outcome, with the cost of these inefficiencies borne by consumers.

Cost and risk sharing for HumeLink between consumers and benefitting generators

In PIAC's view, HumeLink would be in the interest of consumers only if the benefits to NSW consumers of HumeLink are greater than the costs to NSW consumers. The material costs imposed on HumeLink to enable Snowy 2.0's access to the energy market should be recovered directly from Snowy Hydro. HumeLink should not be built at the sole expense of consumers.

As noted in the report on Snowy 2.0 by the National Parks Association of NSW:

... whilst HumeLink and other ISP extensions will strengthen the grid and provide other wider benefits, Snowy 2.0 is a prime reason for their construction, timing and routing. Without Snowy 2.0, the ISP proposals would be less extensive and not as urgent.²

As noted above, connecting generators, such as Snowy 2.0, will be the material direct beneficiaries of increased transmission capacity provided by HumeLink. However, under current arrangements they are not exposed to the cost of providing this additional capacity. This is in conflict with the beneficiary-pays principle described above, and with efficient outcomes for NSW energy users.

PIAC considers that a portion of the costs of the proposed HumeLink project should be borne by Snowy 2.0. This portion should be the lesser of a) Snowy 2.0's share of the direct benefit and b) the incremental increase in cost between the optimal transmission option for HumeLink required for Snowy 2.0 compared to the optimal transmission option in the absence of Snowy 2.0.

We agree with National Parks Association of NSW that:

In accordance with established electricity industry capital contributions policies, Snowy 2.0 should pay an equitable proportion of these extensions, especially as it will ... benefit from being both a generator and a load. Snowy Hydro has made no allowance for the cost of electricity transmission in its Business Case, other than the 10 km of lines through Kosciuszko National Park, which constitute just 1.5% of the 630 km of new lines to the north alone.

Irrespective of whether Snowy 2.0 is required to contribute to the remaining 98.5% of transmission, that cost is ultimately borne by electricity consumers and hence an appropriate portion should be regarded as attributable to the Snowy 2.0 project when assessing its merits.³

¹ Exposing the connecting to their impact on local system strength is a new addition to the regulatory framework following the Managing Power System Fault Levels rule change concluded in 2017.

² National Parks Association of NSW, *Snowy 2.0 claims don't stack up*, February 2020, 44.

³ *Ibid*, 44.

Were Snowy 2.0 to cover its costs in this manner, their costs would still be passed on to consumers through the generation revenue to the extent that these transmission and generation investments prove prudent. This would be recovered through the competitive wholesale market (and hence only recovered from consumers) if it were a competitive and economical investment in the first place. This is in contrast to cost recovery through regulated network costs that are recovered from consumers irrespective of actual utilisation or benefit delivery once it is in use.

Recommendation 1

PIAC recommends that TransGrid determine the share of benefits from the investment that accrue to Snowy 2.0 and those that accrue to consumers. PIAC recommends that TransGrid identifies any imbalance of costs and benefits for NSW consumers and examine options to address this, including Snowy 2.0 being required to directly fund a commensurate portion of the investment, as part of the HumeLink RIT-T.

Continued engagement

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

Yours sincerely,

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