

21 March 2019

John Pierce
Chair
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
SYDNEY NSW 2000

Contact: elizabeth.bowron@aemc.gov.au

Dear John,

Re: Early implementation of ISP priority projects (ERC0258)

We appreciate the opportunity to respond to the AEMC's consultation paper on the *ISP priority projects – SA Energy Transformation* rule change request which has been consolidated into the *Early implementation of ISP priority projects* rule change request.

We support the rule change proposed by Dr Kerry Schott AO on behalf of the Energy Security Board and its consideration as an expedited rule change request to allow the streamlining of regulatory processes for our SA Energy Transformation (SAET) project (also known as Project EnergyConnect).¹

We are pleased to see reforms aimed at the timely implementation of priority projects identified in the Integrated System Plan (ISP) published by the Australian Energy Market Operator (AEMO) in July 2018.²

ElectraNet is party to the separate submission from Energy Networks Australia to this rule change request, and offers the following by way of additional comment.

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- ¹ More information on this project, including status updates, is available on the Project EnergyConnect website at www.projectenergyconnect.com.au. Consultation documents and accompanying material associated with the SAET Regulatory Investment Test for Transmission (RIT-T) is available from our website at <https://www.electranet.com.au/projects/south-australian-energy-transformation/>.
 - ² The ISP identifies a SA-NSW interconnector as a 'group 2' priority project. As acknowledged within the AEMC's consultation paper (p.2), the ISP recognises that group 2 projects are of a larger scale and cost than group 1 projects, and thereby require longer lead times to design and develop, but also provide larger benefits with timely implementation.

Project EnergyConnect

ElectraNet and TransGrid launched Project EnergyConnect to deliver the proposed new South Australia to New South Wales (SA-NSW) interconnector following its identification as the preferred option in our Project Assessment Conclusions Report (PACR) for the SAET Regulatory Investment Test for Transmission (RIT-T), which concluded in February 2019.³

This result was robust across a wide range of future scenarios and sensitivity tests and is consistent with the findings of the ISP.

The PACR and supplementary reports show that a new SA-NSW interconnector will:

- deliver net market benefits of approximately \$900 million over 21 years (in present value terms) including wholesale market fuel cost savings in excess of \$100 million/ year as soon as it is energised;
- provide diverse low-cost renewable generation sources to help service New South Wales demand going forward, particularly as existing coal-fired generators retire;
- avoid substantial capital costs associated with enabling the integration of renewables;
- recover the project capital costs within nine years of completion;
- reduce annual residential bills by about \$66 in South Australia and \$30 in NSW, and annual small business customer bills \$132 in South Australia and \$71 in NSW (as estimated by ACIL Allen)⁴;
- deliver flow on economic benefits to the wider economy totalling over \$6 billion across South Australian and NSW (in present value terms);
- generate over 200 regional jobs in South Australia and over 800 regional jobs in NSW during construction, and create around 250 and 700 ongoing jobs in South Australia and NSW, respectively; and
- improve the ability of parties to obtain hedging contracts in South Australia and help relieve the tight liquidity in hedging markets currently.

The timely implementation of this project will result in these benefits being obtained as soon as possible and promote reliability and security in the National Electricity Market. To this end, we are working closely with the South Australian Government and TransGrid to undertake pre-approval works to bring forward the completion timeframe of the project as much as possible. Similarly, TransGrid is working with the New South Wales Government which has committed to supporting preliminary works to bring forward project delivery.

The South Australian and New South Wales Governments have also signed a Memorandum of Understanding, which establishes a framework for cooperation between the two governments that seeks to expedite the delivery of the interconnector project.

³ Our PACR, published on 13 February 2019, identified a new 330kV HVAC interconnector between Robertstown in SA and Wagga Wagga in NSW, via Buronga, together with a 220 kV augmentation between Buronga and Red Cliffs in Victoria as the preferred option that delivered the highest net market benefit in accordance with the National Electricity Rules. The report is available at <https://www.electranet.com.au/projects/south-australian-energy-transformation/>.

⁴ ACIL Allen, *SA-NSW Interconnector – Updated Analysis of Potential Impact on Electricity Prices and Assessment of Broader Economic Benefits*, 11 February 2019.

This support increases the likelihood that a new SA-NSW interconnector can be energised by 2022. However, this delivery date is dependent on the timely completion of post RIT-T regulatory processes that are the subject of this rule change request.

Dispute resolution

On 15 March 2019, a dispute notice was lodged for the purposes of clause 5.16.5 of the National Electricity Rules (Rules) by the South Australian Council of Social Service (SACOSS) in respect of the PACR for the SAET RIT-T.⁵ We understand the Australian Energy Regulator (AER) will now proceed with its dispute resolution process, including an assessment as to whether the grounds for the dispute are sufficient to require a dispute determination.⁶

The Rules provide that the AER must either reject the dispute or make and publish a determination within 40 days of receiving the dispute notice, or within a period of up to an additional 60 days where the AER notifies interested parties that additional time is required to make a determination due to the complexity or difficulty of the issues involved.⁷ The AER may also extend the time for making its determination if it requests further information regarding a dispute from the disputing party or the RIT-T proponent.⁸

Streamlining regulatory processes

The proposed rule change in respect of the SAET (Project EnergyConnect) seeks to allow the following two post RIT-T processes to be conducted concurrently, rather than sequentially:

- the AER's determination on the preferred option for the investment identified in the RIT-T under clause 5.16.6 of the Rules; and
- the application for, and assessment of, the required revenue allowance for the delivery of Project EnergyConnect as a contingent project under clause 6A.8.2 of the Rules.

While allowing these two post RIT-T processes to progress in parallel, the proposed rule would still require the AER to make its revenue decision after the preferred option determination is made. Concurrent consideration by the AER of these processes provides the potential for a significant reduction in the total regulatory approval timeframe for Project EnergyConnect.

The 30 day period for raising disputes under clause 5.16.5 of the Rules expired on 15 March 2019. Therefore, unlike the proposed rule changes in respect of the minor upgrades to the Queensland-New South Wales interconnector (QNI) and the Victoria-New South Wales interconnector (VNI), the rule changes proposed in respect of the SAET project do not allow ElectraNet to request a determination under clause 5.16.6 of the Rules during the 30 day dispute period.

⁵ The dispute notice is available from the AER's website at <https://www.aer.gov.au/communication/aer-receives-notification-of-rit-t-dispute-from-sacoss>.

⁶ The AER's dispute resolution process is set out in its [RIT-T Application Guidelines](#).

⁷ Clause 5.16.5(d)

⁸ Clauses 5.16.5 (f)(3)&(i) of the Rules allow the AER this extension of time provided the request for additional information is made at least seven business days prior to the expiry of the period for making its determination, and the RIT-T proponent or disputing party provides the additional information within 14 business days of receipt of the request.

While the Rules currently prevent a RIT-T proponent from requesting a preferred option determination during the 30 day period for lodging disputes, the Rules do not prevent a determination request being made after this period, regardless of whether or not a dispute has been raised.

In order to remove any ambiguity regarding the time at which a preferred option determination may be requested, and to avoid unnecessary delays in the implementation of Project EnergyConnect and the realisation of its immediate benefits as outlined above, we suggest that the AEMC's final rule allow for concurrent consideration of a dispute and a request for a preferred option determination and contingent project application, while maintaining the current sequence in which the AER must complete these post RIT-T regulatory processes.

This would be consistent with the rule change request in respect of the minor upgrades of QNI and VNI which allows for concurrent consideration of all post RIT-T regulatory processes, including disputes and preferred option assessments, and proposes that the "AER will not be able to make a determination on a preferred option if a dispute is raised and has not been resolved".⁹ Similarly, the rule changes proposed in respect of the SAET (Project EnergyConnect) and the QNI and VNI minor upgrades do not allow the AER to make a revenue decision regarding a contingent project application before making the preferred option determination.

Further, allowing the AER to concurrently undertake all three post RIT-T processes for the SAET (Project EnergyConnect) is consistent with the intent of the rule change proposal to allow specific ISP priority projects to be delivered as soon as practicable without removing any steps in the regulatory process.

Finally, it is noted that ElectraNet may have already lodged an application for a determination under Rule 5.16.6 before the expected rule making date of 18 April 2019, in the event the dispute is resolved prior to this date. For completeness, it is therefore suggested that a transitional provision be included in the drafting of the final rule to cater for the possibility that a determination under Rule 5.16.6 is already in progress at that time.

ElectraNet welcomes further engagement with the AEMC on considering the regulatory changes proposed, and would be happy to discuss any aspects of this submission further.

Please direct any queries in relation to this submission to Simon Appleby in the first instance on (08) 8404 7324.

Yours sincerely



Rainer Korte
Group Executive Asset Management

⁹ Dr Kerry Schott AO, [Early implementation of ISP priority projects, rule change request](#), 21 December 2018, p.2.