AUSTRALIAN ENERGY COUNCIL

Australian Energy Market Operator
GPO Box 2008
MELBOURNE VIC 3001

28th February 2019

Submitted via e-mail to WestVicRITT@aemo.com.au

Dear Sir/Madam,

Western Victoria Renewable Integration Project Assessment Draft Report

The Australian Energy Council (the "**Energy Council**") welcomes the opportunity to make a submission in response to the Australian Energy Market Operator's ("**AEMO**'s") *Western Victoria Renewable Integration Project Assessment Draft Report* ("**PADR**").

The Energy Council is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Discussion

The Energy Council appreciates the efforts AEMO has undertaken in planning the Western Victorian upgrades. In particular it has used methodical and transparent approaches to the planning at a difficult period due to the changing nature of generator connections and the uncertainty of industry development. AEMO is to be encouraged to publish more data on its modelling inputs, assumptions & outputs to ensure that stakeholders can be made comfortable that the modelling is robust and the outcomes justifiable. As a guide, it is suggested that AEMO match the breadth of modelling information which ElectraNet published to justify its SA Energy Transformation "RiverLink" Project.[1]

The Energy Council notes that AEMO has taken considerably longer than the regulated minimum periods prescribed in the Regulatory Investment Test for Transmission ("**RIT-T**") Procedures.[2] This is entirely appropriate given the difficult issues involved and magnitude of costs that will be committed for customers to repay. It also perhaps demonstrates that these minimum periods are not necessarily unreasonable given the complexity of real transmission planning.

Adjustment of scenarios

The Energy Council notes that one of the 2018 state election platforms of the Victorian Labor Party was to increase the Victorian Renewable Energy Target to 50% by 2030.[3] While this is unlikely to alter the results materially, the Energy Council suggests this revised figure of 50% be incorporated in future modelling.

Changes in Circumstance

The Energy Council harbours concerns that AEMO will experience delays in implementing the preferred solution, Option C2 "Construction of new double circuit 500kV line from Sydenham to Ballarat, and a new 220kV double circuit line from Ballarat to Bulgana". While AEMO has received a range of different cost estimates, there is the possibility that firm prices may differ from the indicative ranges previously received, thereby changing the preferred option. In addition, there is a chance that developments will be contested by environmental advocates and local landholders, as occurred with the construction of the Basslink pylons, and so the planned timeframe may alter.

[1] Available at https://www.electranet.com.au/projects/south-australian-energy-transformation/
[2] National Electricity Rule 5.16.4
[3] Media release available at https://www.danandrews.com.au/policies/increasing-victorias-renewable-energy-target-and-boosting-jobs

Level 14, 50 Market Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 92 608 495 307

The inclusion of the Buronga-Red Cliffs 220kV spur line in the preferred option from the SA Energy Connect "RiverLink" Project Assessment Conclusions Report may also change the outcomes from AEMO's analysis.[4]

On the basis of the possible changes, the Energy Council recommends that AEMO consider re-opening the RIT-T process in the future due to the changed circumstances. It may be appropriate for AEMO to consider in the Project Assessment Conclusions Report the triggers for this occurring.

Discount Rate

The analysis has used a base discount rate of 6% (real, pre-tax) for all credible options. As stated in the PADR, "[t]his discount rate represents the typical regulated weighted average cost of capital (WACC) for TNSPs in the NEM".[5]

The Energy Council contends that the discount rate used is too low, since it represents an expected regulated rate of return.

While the two preceding RIT-T Application Guidelines are silent as to discount rate,[6] the current version sets out in detail how discount rates are to be chosen.[7] It refers to the RIT-T which specifies:

> "The present value calculations must use a commercial discount rate appropriate for the analysis of a private enterprise investment in the electricity sector. The discount rate used must be consistent with the cash flows being discounted."[8]

The Guidelines repeat, "[a]s required in paragraph 14 of the RIT-T, the regulated cost of capital should be the lower bound".[9]

The Energy Council therefore believes that AEMO has erred in using a discount rate based on regulated returns. Instead the discount rate should be significantly higher to reflect the RIT-T is assessing market benefits, hence a market discount rate should be used. It is noted that the effect of changing to a more appropriate discount rate will be that the preferred option changes from Option C2 to Option B3 "Construction of a new double circuit 220kV line from Moorabool to Elaine to Ballarat to Bulgana",[10] and the capital cost reduces from $499m to $340m.[11] While not analysed by the PADR, the Energy Council expects that this will result in reduced costs to consumers.

The Energy Council therefore suggests that the appropriate, market-based discount rate be used in the Project Assessment Conclusions Report.

Capital Efficiency

Under the RIT-T, the preferred option is the one which "maximises the net economic benefit".[12] Comparing the two options with the greatest nett benefit, Options C2 and B3, the difference in NPVs is $12m, however the difference in capital costs is $159m. Looking at the results of the sensitivity studies carried out in the PADR,[13] it is apparent that the difference in NPVs falls within the modelling uncertainties, which means that depending on how the power system and the market develop, the ranking of the two preferred options may reverse, with Option B3 becoming the better choice.

---

[4] ElectraNet, *SA Energy Transformation RIT-T Project Assessment Conclusions Report*, 13th February 2019
[5] p.36
[6] Australian Energy Regulator, *Regulatory Investment Test for Transmission Application Guidelines*, June 2010 and Australian Energy Regulator, *Regulatory Investment Test for Transmission Application Guidelines*, 18th September 2017
[7] Australian Energy Regulator, *Regulatory Investment Test for Transmission Application Guidelines*, December 2018, Section 3.4.2, p.27
[8] Australian Energy Regulator, *Regulatory Investment Test for Transmission*, June 2010, p.6
[9] 2018 Guidelines, p.28
[10] PADR, p.50
[11] pp.21-22
[12] Australian Energy Regulator, *Regulatory Investment Test for Transmission*, June 2010, paragraph (1), p.3
[13] pp.50-52

Level 14, 50 Market Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

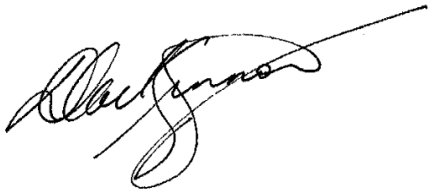
Phone +61 3 9205 3100
Email info@energycouncil.com.au
Website www.energycouncil.com.au

ABN 92 608 495 307

Therefore to guide the assessment of the preferred option, the Energy Council recommends that capital efficiency is considered in AEMO's assessment. With Option B3 being $159m cheaper than Option C2, it makes sense to favour the transmission solution which places less capital at risk, in case the future does not match modelling expectations.

Any questions about this submission should be addressed by e-mail to Ben.Skinner@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours faithfully,



Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council

Level 14, 50 Market Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

Phone +61 3 9205 3100
Email info@energycouncil.com.au
Website www.energycouncil.com.au

ABN 92 608 495 307