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Introduction

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and expect to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

This submission draws on the recent EUAA submission on the Draft 2020 ISP¹ and supports the submissions made to the VNI West PSCR by ERM Power Limited and the Major Energy Users.

We do not doubt the need for increased interconnection capacity between NSW and Victoria. Our concerns primarily is around whether:

- the planning is appropriately co-ordinated – we would like to see more co-ordinated evaluation of the various projects to increase NSW-Victorian interconnection to ensure benefit streams are not being double counted in each separate RIT-T process and the impact of recent NSW Government announcements on REZs will be taken into account
- the assumptions are robust – this is particularly around the demand and capex forecasts and we focus in this submission on the latter
- the level of transparency is high – we would like to see a much higher level of transparency than is contained in the PSCR e.g. why were options 1-4 (we assume they exist given there are options 5-8) excluded?

All this is required to give comfort to consumers that any potential stranded asset risk, that consumers will bear, is minimised. As we noted in our ISP submission:

“However, the ISP has moved beyond being a plan to guide investment decisions to a plan that directs investment decisions, largely driven by the desire of COAG Energy Ministers to make the ISP actionable. While on the surface this seems a worthwhile objective, it is not without its risks. In particular we should not be sacrificing sound governance practices, such as diminishing the role of the AER or removing important checks and balances in the independent economic assessment process in order to achieve an expedited result.

With the ISP, AEMO are engaged in a high stakes process that seeks to balance the risks of not acting quickly enough to enable a smooth transition of the energy market and acting too quickly or taking actions that may prove unnecessary where consumers may be forced to pay for underutilised or stranded assets.”
(p.1)

¹ See https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2020/draft-2020-isp/submissions/energy-users-association-of-australia-submission-to-draft-2020-isp.pdf?la=en

Importantly for the EUAA, we could find no mention of the NEO in the PSCR analysis. The presumption seems to be that just because there is an ‘identified need’ that it naturally follows that it the most efficient approach to developing a new network asset and therefore all of the cost should be borne by consumers.

It also implies that consumers should be grateful for generators wanting to invest in “...attractive locations for new generation projects due to the quality and availability of renewable energy resources”² despite the fact there are existing network constraints, and be happy to pay the full cost of connecting those generators. We comment on the need to have an appropriate sharing of the costs of connection and access which should be the focus of any proposed CoGaTI reforms.

Specific Comments

We agree that there is an identified need to increase transfer capacity, but we are unclear about why the particular options to be examined in detail in the PADR, were chosen

There are high quality renewable resources available both sides of the border that should be developed and shared between both States and to the wider NEM as coal fired stations close. However, it is not clear what that need actually is in terms of increased interconnection capacity.

The PSCR says (p.5) that:

“AEMO’s Draft 2020 ISP also proposes a range of augmentation options to increase the transfer capacity between Victoria to New South Wales. Options VNI 5A to VNI 8 as set out in the Draft 2020 ISP are longer-term investments intended to deliver larger-scale increases in bi-directional interconnection between Victoria and New South Wales. This RIT-T will assess options VNI 5A to VNI 8, along with some additional variations as described in Section 6.”

But we are not told what Options 1-4 were and why they were eliminated from consideration. This should be done to given stakeholders confidence that the options chosen for assessment under the PADR are the correct ones.

We believe the PADR will need to closely examine how the recent announcement by the NSW Government supporting the development of renewable energy zones in NSW will impact on this RiT-T analysis

We recognise that the range of announcements from the NSW Government, particularly that relating to the development of the REZ in central-west NSW centred on Dubbo³ were after the completion of the PSCR. It seems that with all mainland States in the NEM having some form of renewables or zero net emissions target think that they will require transmission capacity to export surplus generation to another State.

While there are definite diversity benefits in renewables development both sides of the border, we look forward to the PADR taking a co-ordinated approach to the closely examine the benefits of the various upgrade projects to ensure there is no double counting across different RiT-T reviews.

² p. 20

³ See <https://energy.nsw.gov.au/renewables/renewable-energy-zones>

There needs to be much greater focus on developing detailed robust capital cost estimates that are then tested in stakeholder engagement

In our Draft IAP submission we highlighted the lack of supporting evidence behind the capex numbers used in the modelling and the lack of engagement on those estimates. This was in contrast to the significant (and welcome) information and engagement process AEMO undertook on many other aspects of input assumptions and methodology⁴.

The ISP provided a wide range of estimates for each proposed project without indicating which number within that range was actually used in the modelling. AEMO has subsequently informed the EUAA that the mid-point of this range was used in the modelling. Attachment 1 provides some breakdown of the components in the Options and variations being considered. However, these estimates are indicated as +/- 50% with regards to accuracy. While this is understandable at a PSCR stage, we look forward to AEMO providing a much more robust estimate of the capex in the PADR and PACR.

AEMO acknowledges this in Appendix A1⁵:

“As such, the Estimated Costs specified are indicative only and will be further refined during the PADR and PACR stages of this project.”

We would propose that this refining process be:

- The PADR capex estimate be a +/- 20% estimate,
- The PACR estimate be +/- 5% and that:
 - it is the cap of any subsequent contingent project application to the AER, and
 - the PACR contain letters from AEMO and Transgrid undertaking that they are prepared to build their portion of the preferred option at no higher cost than the respective agreed caps
- AEMO undertake detailed stakeholder consultation on the methodology to be used to develop these estimates as part of the PADR – similar in style and content to that which AEMO has undertaken for other major ISP assumptions and methodology.

Our approach has been informed by the recent AER RiT-T review of Energy Connect. Given this project was at the PACR stage, AEMO must have felt confident to use the \$1.53b as the capex in the ISP modelling – the only example where the mid-point of a range was not used in the Draft ISP. Yet the AER review concluded that⁶:

“ElectraNet's SAET RIT-T indicates that the estimated costs of the preferred option are subject to a high degree of uncertainty. We also understand that there is the potential for updated proposed costs in a contingent project application to diverge from the estimated costs in the SAET RIT-T.

...

⁴ See pp 7-9 of the EUAA submission

⁵ p. 42

⁶ AER “Decision South Australian Energy Transformation Determination that the preferred option satisfies the regulatory investment test for transmission pp10-11 <https://www.aer.gov.au/system/files/AER%20-%20Determination%20-%20SAET%20RIT-T%20-%202024%20January%202020.pdf>

“While our decision on this 5.16.6 application is that the preferred option satisfies the RIT-T, our assessment is that the costs and benefits of the preferred option may be more finely balanced than [Electranet] suggests. On this basis, any significant changes to the costs of the preferred option could have a material impact on the outcome of the RIT-T.”

And then later⁷:

“Given the preliminary nature of the estimated costs, ElectraNet has identified the investment as being in line with a Class 4 estimate under the AACE International Recommended Practice and Estimate Classification. This implies that only 1 to 15 per cent of the scope of the project has been defined. ElectraNet stated that the accuracy range for this estimate is -15 to -30 per cent on the low side and +20 to +50 per cent on the high side. This would mean that the investment cost could reasonably be in the range of \$1.07 billion and \$2.23 billion.”

The +/-20% PADR estimate should involve the application of a degree of AACE methodology to provide stakeholders confidence around that the PADR conclusions support proceeding to the PACR.

This PADR/PACR approach serves a dual purpose:

- To ensure that the PADR consultation is on the basis of robust transparent information
- To provide discipline on the supporting networks that they do not see the PADR capex level as simply a step towards what they will ask for in their contingent project application.

There is the important question of who pays and the NEO

While this is outside the PSCR scope, it is a matter of significant importance to our members and crucial in getting consumer support for the large investments proposed in the ISP.

Yes, there is a high level of interest in developing the renewable energy resources in western NSW and northern Victoria and this development is limited by available network constraints. Yet this should not lead to the automatic assumption that charging consumers the full cost of transmission through network RABs⁸ is the “most efficient” or fair approach.

At a time of significant technological change that is highlighted in the Draft 2020 ISP⁹, consumers are being asked to take the stranded asset risk for a 50-60 year asset that is going to support ~20-25 year solar and wind generation assets. Technological change over the next 20 years has a high chance of rendering a significant part of the proposed transmission capacity, redundant after the initial generation assets reach the end of their useful life, which, like coal generation today, may be less than their useful technical life given future technological innovation.

⁷ Ibid pp 79-80

⁸ See for example the slide pack used by AEMO at the Industry Forum on 24th February – esp slide 6 https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/victorian_transmission/vni-west-rit-t/vni-west-pscr-industry-forum-slides---24-february-2020.pdf?la=en

⁹ Also, this PSCR comments (p. 3) “The National Electricity Market (NEM) is changing rapidly. The integration of renewable generation continues to shift the geography and technical characteristics of supply...”

Based on the following, investor risk is a concern for AEMO along with the desire to ensure a return on investment to networks is¹⁰:

“AEMO and TransGrid note that rate design and cost recovery mechanism for projects like this need to be designed such that investors have a fair and predictable recovery mechanism to minimise the cost of capital for this project (and other major regulated investments in energy infrastructure).”

We are surprised that this needs to be said by an independent central planner given that, from the network’s perspective, the current system whereby consumers bear stranded asset/demand risk ensures there is a very predictable recovery mechanism.

While ensuring investor risk is managed it needs to be balanced against the risks and costs consumers are being asked to take. Therefore, we support the direction the AEMC is heading in with the CoGaTI reforms to ensure a sharing of the risk of new network connection. While this is by no means a perfect solution it is an important step towards developing a more equitable cost and risk sharing regime.



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18 March 2020

¹⁰ PSCR p. 30