SUBMISSION

ESB Consultation on Draft ISP Rules | 3 February 2020

EUAA
Energy Users Association of Australia

SUPPLEMENTARY SUBMISSION

Energy Security Board
info@esb.org.au

This supplementary submission draws on the recent AER publication of its 5.16.6 RIT-T review of the EnergyConnect project and adds to our earlier submission to the ESB on the Draft ISP Rules. It should be read in conjunction with our supplementary submission to the AER on its proposed AER Guidelines to make the ISP Actionable (attached).

We agree with the intent of the ISP process to speed up consideration of the network investment required to underpin the transformation to a lower carbon NEM and efficiently manage the closure of thermal power stations. However, this should not be at the expense of appropriate safeguards and sound governance practices such as independent assessment and oversight, that ensure consumers will not end up paying for significantly underutilized or even stranded assets.

Within this context, we believe that the AER RIT-T review of EnergyConnect suggests that the ESB proposed rule changes do not adequately protect consumers from these risks, in particular the proposed deletion of Clause 5.16.6 of the National Electricity Rules, being the AER's RIT-T review.

Were the ESB's proposed new rules in place for EnergyConnect, consumers would not have had the benefit of the AER's 5.16.6 report. As we note in the attached submission to the AER, we see their RIT-T report showing:

- Flawed Electranet assumptions on SA gas plant minimum capacity factors that reduced NPV from $926m to $269m
- Mistakes in modelling – using an in-house model that is difficult to replicate for independent analysis
- The marginal benefit of ~$269m based on system security assumptions from the 2018 ISP that do not seem to be explained/justified in the 2020 ISP
- Relaxing these system security assumptions and the net benefits go negative
- All this on the basis of a capax that could be over $2b and wipe out the marginal benefit if it were substantiated

In summary, the consumer benefits of the proposed interconnector may be illusory.

Were the ESB's proposed new rules in place, all consumers would have had was a conclusion from Electranet that the project – following the ISP assumptions - was very attractive with a $926m NPV on a $1.53b capex project. These ISP assumptions, in theory, would have been consulted on in the course of preparing the ISP where there was no dispute allowed, other than by process after the publication of the final ISP.

However, in this case, it seems the AER was unable to find where in the 2020 Draft ISP there is a discussion of the Electranet assumptions being:

- AEMO requirement for having two units operating to provide FCAS in the rare case of an unplanned double circuit Heywood outage
- That it needs two gas units to provide that especially where AEMO advised AER that a pumped hydro facility could replace one gas plant.

Given the AER assessment has revealed a number of significant errors, were the ESB's proposed rules in place, Electranet and TransGrid would proceed to their contingent project application on the basis of a revised capex with no independent analysis of those benefits. We can see from the AER analysis that a potentially negative NPV project could emerge at a capex cost that could be over $2b. Under the revised rules, this would have been approved without proper scrutiny and due-diligence all in the name of speeding up transmission investment.

To help mitigate against this, the ESB proposes a feedback loop

> "…to check that TNSP preferred option is consistent with optimal development path"[1]

But it is not clear how this process would influence the analysis of the EnergyConnect's NPV under the new rules as EnergyConnect is consistent with the ISP optimal development path.

As we note in our supplementary submission to the AER (attached), the foundation of the new rules is the assumption that the consultation process on the ISP will provide sufficient opportunity for stakeholders to provide input into the debate on assumptions and modelling methodology. On this basis it is proposed that disputes can only be raised on matters of process, and only after the final ISP is published.

We think that is a flawed foundation. There is ~42MB data on the AEMO ISP website that consumers are invited to make submissions on by 21st February. The 83-page summary document does not list the estimated capex range of any of the proposed Group 1 Priority Grid Projects. While networks do undertake extensive consultation, consumers simply do not have the resources or detailed knowledge to be able to undertake the appropriate level of due diligence that it seems the proposed rules assume we will do.

For example, consumers do not have the knowledge or resources to question system security assumptions nor do not have the knowledge and resources to test minimum capacity factor assumptions for gas plants. Given this information asymmetry, we have relied on the AER to test the key assumptions in their 5.16.6 RIT-T reports. These are gone under the new rules.

Under the new rules, a $924m NPV project will go through the contingent project process whereby the AER simply opines on the prudent and efficient level of capex to go into the RAB, irrespective of what it considers are the net benefits. If Electranet and TransGrid put forward a level of capex in their contingent project application that removes the remaining $264m NPV, there seems to be no requirement for additional consumers engagement or re-modelling of the net market benefits.

In the absence of this, consumers are being asked to trust that the project proponents will engage in a meaningful way with them and be prepared to make material changes to the project if required to provide consumers with a reasonable benefit. Essentially, consumers will need to rely on the "good will" of project proponents, perhaps being driven by the voluntary Energy Charter principles, rather than rely on a process of mandatory oversight and robust, independent analysis by the regulator.

[1] Slide 14 of 5th December 2019 information session.

For these reasons, in our earlier submissions we argued for:

- A much more prescriptive CBA Guideline with a review after completion of the 2022 ISP
- Giving the AER the right, if the capex of an actionable ISP Project is (say) > $0.5b to undertake an independent assessment of such project as part of it fulfilling its contingent project role to ensure that project meets the NEO; this was based on the proposed abolition of 5.16.6 RIT-T reviews

The AER RIT-T on EnergyConnect provides substantial direct evidence supporting this latter recommendation. It is required because even prescriptive guidelines will not prevent a potentially negative NPV project being approved.

The AER RIT-T report on EnergyConnect has highlighted significant risks to consumers from the proposed rule change approach. We do not have confidence that the proposed process will meet the NEO without retention of an AER role to independently assess a project.

Andrew Richards
CEO EUAA
3 February 2020