SUBMISSION

THERMAL GENERATOR VARIABLE HEAT RATES | 7 AUGUST 2020

EUAA
Energy Users Association of Australia

INTRODUCTION

The Energy Users Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, food 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.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

CAPITAL COST AND MARKET BENEFITS

As energy users we have no material view on thermal generator heat rates, but wanted to use this process to respond to your general invitation to comment on the updated cost benefit analysis.

We recognise the difficulty faced by project proponents in such a challenging and highly volatile environment and appreciate that many assumptions and key inputs used in the original RIT-T application have and are likely to continue, to change. This clearly represents risk for project proponents but it represents even greater risks for consumers who will be faced with paying "full weight" for assets that may not deliver the stated benefits, that could experience lengthy periods of low utilisation or in the case of Renewable Energy Zones, a degree of stranded asset risk if renewable energy projects are not repowered at the end of their 20 year asset life.

In the absence of a shared cost framework or direct government support to help manage some of these costs and risks, consumers are left with no choice but to focus heavily on key financial and risk aspects of the project. In the case of EnergyConnect we are particularly concerned about the continually increasing capital cost and constantly changing net market benefits.

We have seen what appear to be four different capital cost and net benefit analyses over the last 12 months:

1. The PACR analysis that showed a capital cost of $1.53b and net benefits of $924m in the central scenario.
2. An AER 5.16.6 review expressed concern about the proposed capital costs, seeing them potentially within a range of $1.07- $2.23b. It was also critical of several assumptions underpinning net benefits, ultimately reducing them to $264m.
3. The 2020 ISP that has a capital cost of $1.99b but no estimate of net benefits; but given it is an actionable ISP project we are meant to assume there will be net benefits
4. The Transgrid Transmission Annual Planning Report published in June this year said the project has net benefits up to a capital cost of $3b on the basis of an 'independent' FTi report that is yet to be published

One of our concerns is that whenever the capital costs go up the proponents manage to find enough additional benefits to ensure the project meets the net benefits test.

We had sought clarity on these issues during a briefing from AEMO this week on the 2020 ISP where we asked AEMO about the robustness of the capital cost estimate of $1.99b they had used in the ISP given it was almost $500m higher than the EnergyConnect RIT-T application. They responded they are well aware of the uncertainty in capital costs (as are many others) and are awaiting further advice from the project proponents. It would be beneficial for Electranet and Transgrid to provide a consolidated view on this including the risk assessment of further capital cost increases.

We were also advised by AEMO that gas cost assumptions used in the 2020 ISP, assumptions that drive a majority of cost savings and therefore net benefits of projects like EnergyConnect, came from a January 2019 Core Energy report. We asked whether this needed to be updated given significant developments in gas markets since that date, to which AEMO responded that they had validated the 2019 assumptions with a more recent report by Energy Quest. When we asked AEMO for a copy of the Energy Quest report we were told that AEMO did not commission the report and hence it was confidential. If this is an Electranet report then in the interests of transparency and good stakeholder engagement we encourage you to make it available in its entirety.

We also asked AEMO about the further modelling that was supposed to occur around the system security assumptions that required two synchronous generating units to be on at all times in South Australia in the absence of the interconnector – an assumption flowing from the 2018 PSFRR.

As the AER noted in its 5.16.6 review[1]:

> "The NER also include a mechanism for AEMO to transparently assess risks to power system operation caused by events that are unlikely, but would have high impacts if they were to occur. This is the Power System Frequency Risk Review (PSFRR). If AEMO believes that there is a transparent and cost-effective way of managing any of the risks it identifies in this review, it can request that the Reliability Panel declare a risk as a protected event. In 2018, AEMO undertook its first PSFRR, and made no recommendation regarding the management of the non-credible loss of the Heywood interconnector. When we asked AEMO, it confirmed that the requirement to provide for FCAS when the Heywood interconnector fails would be progressed through the 2020 PSFRR."

Our understanding is that this was supposed by be part of the recently published Part 1 of the 2020 PSFRR, but that appears not to be the case and we did not get a clear answer from AEMO and about why not and whether it will be covered in Part 2.

If it is going to be part of Part 2 then we think that to ensure a proper transparent process, the contingent project application to the AER should not proceed until Part 2 is published and stakeholders have the opportunity to engage with Electranet and AEMO on the implications of the results for Energy Connect.

In our AEMO briefing we were also told that for VNI West, if the capex was greater than $2.6b then progress on the project would be 'paused' because there were no net benefits. We asked AEMO what the corresponding capex number was for Energy Connect and the response was that it was confidential. Transgrid's advice in the TAPR is that it is $3b. This is adding to the concerns (and confusion) we and other consumer advocates have so we look forward to hearing what Electranet thinks that number is during the proposed 20th August webinar.

[1] See AER Decision South Australian Energy Transformation p.34 fn 41 https://www.aer.gov.au/system/files/AER%20-%20Determination%20-%20SAET%20RIT-T%20-%2024%20January%202020.pdf

One of the problems consumers are now encountering is that the public RiT-T consultation process and further independent assessment from the AER, now seems to be irrelevant despite the material changes in both costs and benefits that have occurred since that process was completed and the AER finalised its review.

If the webinar on 20th August is is the only consultation that is going to occur prior to submission of the Contingent Project application, then we suggest it will be inadequate to sufficiently address consumer concerns. It may be that this is all that is required under your interpretation the rules, but we would urge Electranet and Transgrid to go well beyond that which may be required given what is at stake.

We note that the AER had this to say in its 5.16.6 review[2]:

> "In the event that any updated assessment of the costs of the project (and/or any other updated assessment of the key variables that may affect market benefits) differs materially from those presented in ElectraNet's RIT-T assessment, we would expect ElectraNet to consider whether there is a change in circumstances such that the RIT-T should be reapplied, and to provide evidence of that consideration to the AER. This should include providing updated analysis demonstrating whether the preferred option identified in the PACR, in light of the issues considered in this 5.16.6 assessment and any updated cost information, continues to be the preferred option."

We would be interested to hear Electranet's view on whether the changes since the PADR mean that there has been a material change under Clause 5.16.4(z3) which potentially requires a new RIT-T. Given what appears to be significant increases in capex, we believe the threshold for a "material change in circumstances" has been met, although recognising this appears to be a rather "grey area" and open to interpretation. We do not consider that a 90 minute webinar is sufficient to give confidence that the process is transparent and consumers should accept the outcome and urge the project proponents to go well beyond this to demonstrate their commitment to an open, transparent engagement process.

Unfortunately, consumers are at a significant information asymmetry with Electranet and can never hope to be able to address all matters that are relevant to the increase in costs and benefits. That is why we look to the AER to provide in its 5.16.6 review. However, the project they reviewed in the RIT-T application seems to be substantially different to the project that is about to be unveiled to consumers on 20th August and that has been included in the 2020 ISP. We are concerned that it appears the AER is unable to repeat its 5.16.6 review. We would be interested in understanding what measures Electranet is taking to ensure the AER is fully informed on all the changes when they consider the contingent project application.

We understand there is growing momentum for Energy Connect but there is also substantial uncertainty so it would be highly beneficial for all parties to have a single set of assumptions and clear path on how net market benefits are derived. Above all these there needs to be complete transparency on all aspects of the project.

Based on what we have observed to date there is significant risk that the claimed benefits will not materialise. As it stands, the entire cost and volume risk burden falls on the shoulders of consumers which we do not think is appropriate. We would encourage both Electranet, Transgrid and governments to consider ways in which consumers can be relieved of at least part of these costs and risks.

[2] Ibid p.5

This is particularly important for our NSW based members because as far as we can tell from both the 2020 ISP and Electranet that a majority of net market benefits accrue to SA customers while NSW customers pay for up to 75% of the cost.

We look forward to the discussion on 20th August.

Sincerely,

Andrew Richards
Chief Executive Officer