

21/03/2019

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Lodged online via: www.aemc.gov.au

Dear John,

AEMC consultation paper on ISP priority projects – SA Energy Transformation

TransGrid welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) consultation paper on a rule change request from Dr Kerry Schott AO, Chair of the Energy Security Board relating to regulatory processes that are required to be undertaken after the completion of the South Australia Energy Transformation regulatory investment test for transmission (RIT-T). This project was identified in the 2018 Integrated System Plan (ISP) as a transmission development required in the medium term.

TransGrid understands that the AEMC has consolidated this rule change request with a rule change request from Dr Kerry Schott AO to streamline regulatory processes that occur after a RIT-T is undertaken for minor upgrades to QNI and VNI. TransGrid also made a submission to this rule change request.

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

Australia is in the midst of an energy transformation. This is primarily driven by changing community expectations and choices, advances in renewable energy technologies, retirement of existing generation, and the adjustments required in Australia's economy to meet our international climate change commitments. These changes raise complex issues in relation to the design of the National Electricity Market, which must adapt to these changes and provide the basis for low emissions, reliable supply at the lowest cost to consumers over the long run.

TransGrid understands that the rule change request seeks to streamline two regulatory processes that are required to be undertaken after the completion of the South Australia Energy Transformation regulatory investment test for transmission (RIT-T).

The processes are:

- The AER's analysis of the preferred option for the investment identified in the RIT-T under clause 5.16.6 of the National Electricity Rules (NER)
- The application for, and assessment of, the revenue allowance for the investment identified in the RIT-T as a contingent project under rule 6A.8 of the NER.

Unlike the similar rule change request that the AEMC is considering relating to regulatory processes that occur after a RIT-T is undertaken for minor upgrades to QNI and VNI, TransGrid understands this rule change request relating to the SA Energy Transformation RIT-T, does not propose to allow the transmission network service provider (TNSP) to submit a request to the AER for a preferred option assessment under clause 5.16.6 of the NER during the 30 day period in which a person can dispute the conclusions reached in the RIT-T under clause 5.16.5.

The RIT-T for the SA Energy Transformation was completed on 13 February 2019 with the publication of a Project Assessment Conclusions Report. The outcome was that a high capacity interconnector between SA and NSW is the preferred option to generate a range of benefits for South Australia, NSW and Victoria. The project has since become known as Project EnergyConnect.

We note that the Energy Security Board was asked to consider how ISP priority projects such as Project EnergyConnect could be fast tracked. The Energy Security Board states that if the rule is made, Project Energy Connect will be able to be implemented more quickly, promoting reliability and security in the National Electricity Market at a time when there are generator retirements and an increasing proportion of intermittent generation in South Australia.

TransGrid supports the proposed rule change

TransGrid supports the rule change request as we consider it would:

- provide the potential for a reduction in the overall timeframe for regulatory approval processes that occur after RIT-Ts for Project EnergyConnect, and
- provide certainty to the market about the status of Project EnergyConnect sooner.

However, there may be benefit in making it clear that the AER can commence consideration of an application under NER clause 5.16.6 at the same time as it considers a dispute for Project EnergyConnect.¹

Similar clarification may also assist in relation to the rule change request for the minor QNI and VNI upgrade projects. We understand that, under the proposed rule for these projects, the AER must not make a determination under NER clause 5.16.6 until a dispute has been resolved. However, it would be helpful if the AEMC makes it clear in the NER that a TNSP can lodge an application under clause 5.16.6 of the NER for these projects while a dispute is being considered. This would be consistent with the intent of the proposed rule to permit the post RIT-T regulatory processes to be run concurrently rather than sequentially.

We also note that policy and regulatory certainty is an important factor in the consideration of investment by shareholders. Therefore, TransGrid urges policymakers and regulators to consider the broader context of their decisions, including the cumulative effect of policy and regulatory interventions (such as the removal of merits review, lowering the rate of return and potential for stranded asset risk) on transmission investment. Such interventions have the potential to undermine efficient transmission investment and the benefits it brings to consumers.

The following sections set out some more specific issues.

The AEMC should amend NER clause 6A.8.2(b)(1) for contingent projects

We understand that the AEMC has recently commenced consideration of another rule change request from Dr Kerry Schott AO relating to the application period for contingent project revenue. This rule change request seeks to amend NER clause 6A.8.2(b)(1), the requirement that a TNSP cannot submit a contingent project application during 90 business days ahead of the end of the regulatory year, as well as the equivalent clause in distribution.

In particular, the rule change proposes to amend NER clause 6A 8.2(b)(1) and the equivalent clause for distribution businesses such that the NER would no longer prevent a contingent project application from being submitted in the 90 business days before the end of a regulatory year. We are supportive of this proposed rule change as it would help reduce the potential for any unnecessary delay to the commencement of a revenue determination process for contingent projects, including for Project EnergyConnect.

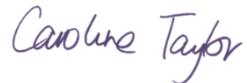
¹ The AER received notification of a dispute from the South Australian Council of Social Service relating to ElectraNet's Project Assessment Conclusions Report for this project on 15 March 2019.

TransGrid will work with the AER to clarify how any incentive schemes that apply to it may need to be adjusted in an amendment to a revenue determination for a contingent project

In making an amendment to a revenue determination for a contingent project, consideration may need to be given to how incentive schemes that apply to TransGrid may need to be adjusted. We understand that the AER is aware of this issue and TransGrid will endeavour to work with the AER to resolve this issue should it arise.

We appreciate the opportunity to comment on the early implementation of ISP priority projects rule change request. If you would like to discuss our submission, please contact Neil Howes on 02 9284 3748.

Yours faithfully



Caroline Taylor
Head of Public Policy