SUBMISSION

PROJECT ENERGY CONNECT REVISED APPLICATION | 17 MAY 2021

EUAA
Energy Users Association of Australia

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, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial 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.

Project Energy Connect (PEC) is a 60-70 year asset that consumers will be paying for over its entire life. We have real concerns that a combination of technological change and policy initiatives at a State level could result in it becoming a stranded asset prior to the end of its technical life.

Given this, the EUAA would like to thank the AER for the comprehensive and robust approach it has taken to evaluating (PEC) at its various stages to ensure that it is in the long-term interests of consumers. We look forward to this continuing in this contingent project application process.

Our comments are in two areas.

Completion of all three elements of the project trigger

In its Preliminary Position the AER listed the three elements including (p.2):

> "…successful completion of the South Australian Energy Transformation RIT-T with the identification of a preferred option or options: (i) demonstrating positive net economic benefits; and/or (ii) addressing a reliability corrective action."

The Paper (p.7) identified a number of developments that had occurred since the Electranet submission of its contingent project application that may impact on the cost benefit analysis and constitute a 'material change' under the rules. On 9th April 2021 Electranet provided an updated cost benefit analysis to the AER that concluded there were increased net benefits and:

> "…that the breakeven cost of the Project increases from the $2.7bn we assessed in September 2020 to up to $2.9bn compared with the AER Preliminary Position project cost of about $2.2bn ($2018-19)."

Our earlier submissions on this project have highlighted the crucial importance of the system security assumption 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. This assumption underpinned a major proportion of the PEC benefits. In our submission to Electranet in August 2020 we commented about the need to complete Part 2 of the Power System Frequency Risk Review (PSFRR) that was central to that assumption – and the need for the Reliability Panel to declare a protected event as part of the PSFFR. AEMO had proposed to do the work in 2020, then delayed it to 2021. We argued that a decision on PEC should be delayed until that report was completed and subject to public consultation.

It seems this Part 2 analysis has not been completed and AEMO has provided its justification for it in their letter to the AER on 23rd February 2021. This letter which seems to narrow the relevance of their studies and refers to a study due to be published in April 2021. We are not aware if this has been published.

In summary we would encourage the AER to closely examine:

- the justification that has been provided for the two unit assumption in the absence of the Part 2 PSFRR analysis, and
- whether all elements of the project trigger have been satisfied.

The risks to consumers with actual project costs being greater than the CPA level

We understand that the recently completed Guideline for the Regulation of Large Transmission Projects will not apply to PEC given its RIT-T process started some time ago. This is unfortunate as we consider the guideline to provide a robust framework for considering capital costs and the level of risk that is to be borne by the project proponents rather than consumers. We also strongly support its guidelines on how risk is treated and accounted for in the capital cost estimate.

Nevertheless, we look forward to the AER applying its rigorous analysis to ensure that the proponents bear their appropriate share of the project's risk. Consumers have no ability to mitigate those risks and are left with the paying the increased costs from poor project management.

This raises a particular concern for the EUAA around the application of the CESS scheme. We are strong supporters of the CESS scheme to provide an incentive for networks to spend capital efficiently. However so far it has applied in a world of projects that have, compared to PEC, much lower costs that are much more predictable given networks have completed these projects in the recent past. ISP projects are the opposite – huge costs and have not been done for 20 years.

Consider the case where for Electranet the approved capex in a five year period is $1b including $500m for PEC. If PEC costs $600m and total capex in the period is $1b (due to reduction in other capex categories) then consumers pay all of the PEC cost overrun. In the case where the costs if $600m and total capex spend is $1.1b, then consumers pay 70% of the cost overrun. We don't think that consumers should bear that cost. We understand a review of the CESS scheme may occur in 2021 and we look forward to this further analysing how it might better apply to ISP projects.

Given this risk we would appreciate the AER's final CPA decision outlining the process that the AER will use to ex post assess the efficient and prudent actual expenditure for a pass-through event. As the recent Guideline on ISP Projects does not apply to PEC, we are unclear how much of the safeguards and review process outlined in Section 4 of that Guideline are simply an application of the 2013 Capital Expenditure Incentive Guideline and how much is additional requirements.

Do not hesitate to be in contact should you have any questions.

Kind regards,

[redacted]

Andrew Richards
Chief Executive Officer