

14 September 2020

Clare Savage  
Chair  
Australian Energy Regulator

By email: [clare.savage@aer.gov.au](mailto:clare.savage@aer.gov.au)

Dear Ms. Savage

**Re: Project EnergyConnect Updated Cost Benefit Analysis**

Background

In November 2016, ElectraNet began the SA Energy Transformation Regulatory Investment Test for Transmission (RIT-T) exploring options to reduce the cost of providing secure and reliable electricity, enhance power system security in South Australia, and facilitate the transition of the energy sector across the National Electricity Market (NEM) to low emission energy sources.

Following extensive consultation with stakeholders, the RIT-T was concluded in February 2019, with the release of a Project Assessment Conclusions Report (PACR). The preferred option<sup>1</sup> known as Project EnergyConnect (PEC), which is a new 330 kV electricity interconnector between Robertstown, in South Australia, and Wagga Wagga, in New South Wales, that also includes a short 220 kV spur from Buronga, in New South Wales, to Red Cliffs in northwest Victoria, was estimated at that time to cost \$1.53 billion (\$2018-19) with a completion date of 2022 to 2024.

In April 2019, ElectraNet requested the AER make a determination under clause 5.16.6 of the National Electricity Rules (Rules) that the preferred option satisfies the requirements of the RIT-T. On 24 January 2020, the AER approved the RIT-T describing the business case for project as “robust” and determining that the proposed interconnector remained the most “credible option that maximises the net economic benefit” in the NEM, ultimately benefiting electricity customers.

While the AER concluded that it is “satisfied the RIT-T has been successfully completed”, it noted that “any significant changes to the costs of the preferred option could have a material impact on the outcome of the RIT-T”. In the event of material changes in costs or benefits, the AER expected ElectraNet to consider the impacts on the outcomes of the RIT-T, and to provide evidence of that consideration to the AER, including updated analysis demonstrating whether the preferred option continues to be the preferred option.

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<sup>1</sup> The preferred option is defined in clause 5.16.1(b) of the Rules as the option that maximises the present value of net economic benefit to all those who produce, consume and transport electricity in the market.

## Updated Cost Benefit Analysis

As referred to by the AER in its RIT-T determination, Clause 5.16.4(z3) of the Rules requires ElectraNet to consider whether, in its reasonable opinion, there has been a “material change in circumstances” that might lead to a change in the preferred option and thereby potentially require reapplication of the RIT-T.

ElectraNet has been investigating whether there has been a “material change of circumstances”, taking into account new information on both costs and benefits.

This has involved working closely with the Australian Energy Market Operator (AEMO) to update key variables and inputs that impact on the market benefits of the project to align with its 2020 Integrated System Plan (ISP) that was released by AEMO on 30 July 2020.

On 7 August 2020 we submitted a draft updated cost benefit analysis report and market modelling to the AER, which is consistent with the inputs and assumptions from the 2020 ISP, including requested supporting information. We have subsequently worked closely with the AER team in supporting its review of the updated cost benefit analysis.

We engaged with stakeholders on the updated cost benefit modelling, including consulting on variable heat rate assumptions. This included multiple stakeholder updates, a stakeholder webinar attended by over 100 people, individual stakeholder meetings and publication of engagement outcomes.

We have continued to develop and validate the updated cost benefit analysis with input from the AER review and stakeholder engagement.

Both ElectraNet and TransGrid have been working through competitive procurement processes with construction contractors to firm up capital cost estimates that will form the basis of applications to seek contingent project funding from the AER.

Our final draft updated cost benefit analysis report is submitted with this letter. This follows the final market benefits modelling that was submitted to the AER on 4 September 2020. This is based on a capital expenditure forecast for the works in New South Wales that we have been awaiting from TransGrid to conclude the updated cost benefit analysis. However, TransGrid advised late on Friday 11 September 2020 that its capital expenditure forecast is not yet approved by the TransGrid Board.

We are, therefore, submitting the updated cost benefit analysis report as a final draft pending final approval of the TransGrid capital expenditure forecast by the TransGrid Board, which we understand is planned for 24 September 2020. We plan to subsequently publish a final updated cost benefit analysis report.

The updated cost benefit analysis shows that PEC is expected to deliver net market benefits of \$201m based on a capital expenditure forecast of \$2.43bn (\$2018-19) and that it continues to deliver materially higher net benefits than the next highest ranked Victorian interconnector option considered in the RIT-T.

This outcome is based on modelling the ISP Central scenario optimal development path with accelerated development of VNI West. Expected net benefits would increase substantially under other future scenarios and development paths, providing added confidence in the outcomes of the updated cost benefit analysis.



We request the AER to confirm its acceptance of the PEC updated cost benefit analysis, including the conclusion that there has not been a “material change of circumstances” that would change the outcome of the RIT-T, thereby confirming the economic case for the project.

As discussed, the requested AER confirmation is a precondition for the ElectraNet Board to approve submission of a Contingent Project Application for the project.

#### Contingent Project Application

In anticipation of the above confirmation, we are today submitting to the AER a near final draft Contingent Project Application (CPA) and supporting material to support the AER commencing its review process in line with the AER regulatory approval timeline for the project.

We plan to undertake pre-lodgement engagement activities on the draft CPA with the AER and customer representatives prior to submitting a final CPA on 30 September 2020.

Submission of the final CPA is subject to ElectraNet Board approval on 29 September 2020, which will consider the requested assurance from the AER that it accepts ElectraNet's PEC updated cost benefit analysis, including the conclusion that there has not been a “material change of circumstances” that would change the outcome of the RIT-T, thereby confirming the economic case for the project.

Please contact me should you wish to discuss.

Yours sincerely



Steve Masters  
Chief Executive