

9 April 2021

Clare Savage  
Chair  
Australian Energy Regulator

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

Dear Ms Savage *Clare*

**Re: Contingent Project Application - Project EnergyConnect – Commitment to Proceed**

On 18 December 2020, the AER released its Preliminary Position on ElectraNet's contingent project application for Project EnergyConnect (the Project), setting out its views on the forecast capital expenditure and incremental revenues required to undertake the Project.

We have responded to the AER's assessment of the capital expenditure allowance for the Project in separate letters dated 17 March 2021 and 9 April 2021.

In its Preliminary Position the AER:

- Concluded that it is unable to make a formal determination on the contingent project application in the absence of a firmer commitment from the Board of ElectraNet to proceed with the Project, given concerns that had been raised over its financeability; and
- Highlighted ElectraNet's ongoing obligation to consider whether there has been a material change in circumstances which results in the Project no longer being the preferred option under the RIT-T, noting that a range of recent developments have occurred in the NEM that could impact on the net benefits of the Project.

I address these matters in turn.

**Board commitment to proceed with the Project**

On 30 March 2021, the ElectraNet Board resolved to commit to proceed with the South Australian section of the Project, subject to the AER awarding incremental regulated revenue commensurate with the capital and operating costs for ElectraNet's section of the Project. This commitment is no longer conditional on ElectraNet obtaining funding for the Project nor on the commitment of the Board of TransGrid to proceed with the NSW component of the Project.

The revised Board resolution fully satisfies the final contingent project trigger event as requested by the AER to enable it to make a formal determination under the Rules.

A copy of this resolution is provided in Attachment 1.

### **Material change in circumstances**

ElectraNet is mindful of the rapid pace of change across the National Electricity Market and the importance of ensuring the Project continues to deliver expected net benefits for customers.

Therefore, we have considered the potential impact on the benefits of the Project of announced policy and market developments highlighted by the AER in its Preliminary Position and other more recent developments, which were not included in AEMO's 2020 Integrated System Plan (ISP).

The outcome of this assessment is that the recent policy and other changes announced are likely to be positive to the modelled benefits of the Project, and that it is not reasonably likely that there has been a material change of circumstances that would lead to the Project no longer being the preferred option and thereby require a reapplication of the RIT-T.

This assessment also finds that the breakeven cost of the Project increases from the \$2.7bn we assessed in September 2020 to up to \$2.9bn compared to the AER Preliminary Position project cost of about \$2.2bn (\$2018-19).

A copy of the assessment report is provided in Attachment 2.

Project EnergyConnect remains an important project for the national electricity grid and a priority project for ElectraNet, the Australian Energy Market Operator and federal and state governments.

We understand the information provided with this letter completes the information required of ElectraNet for the AER to proceed with a formal determination on the contingent project application.

We look forward to concluding this process to support the timely delivery of the Project in the interests of electricity customers across the NEM.

Should you have any queries or require any further information, please contact Rainer Korte in the first instance on 08 8404 7983.

Yours sincerely



Steve Masters  
**Chief Executive**

Att.

**Board Commitment to Proceed with Project EnergyConnect**



I certify that the following is an extract from the minutes of a duly authorised resolution of the Board of Directors of ElectraNet Pty Ltd ABN 41 094 482 416 dated 30 March 2021.

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**Subject: Regulated Contingent Project - Project Energy Connect**

The Board RESOLVED to commit to proceed with the South Australian section of Project EnergyConnect, subject to the AER awarding incremental regulated revenue commensurate with the capital and operating costs for ElectraNet's section of the Project.

  
Sam Dighton  
**COMPANY SECRETARY**

DATE: 30 March 2021

**Project EnergyConnect - Review of Economic Assessment**