

24 November 2020

Mr Sebastian Roberts  
General Manager  
Transmission and Gas  
Australian Energy Regulator

Via email: [sebastian.roberts@aer.gov.au](mailto:sebastian.roberts@aer.gov.au)

Dear Sebastian

**Re: Contingent Project Application – Project EnergyConnect – Update**

On 30 September 2020, ElectraNet lodged a Contingent Project Application (Application) for the South Australian component of Project EnergyConnect (Project) under clause 6A.8.2(a) of the National Electricity Rules (Rules).

In that Application it was noted that ElectraNet was continuing to explore opportunities to deliver the Project earlier, if feasible, and that this could bring forward the anticipated completion date and timing of the capital expenditure and revenue required to deliver the Project. Should this occur, ElectraNet indicated it would submit updated project and expenditure timing information to the AER to enable this to be taken into consideration during its assessment of the Application.

Accordingly, ElectraNet advises that it has now reached agreement with the South Australian Government to undertake a range of early works in order to advance the delivery of the Project. These activities include:

- Commencement of environmental approvals, including preparation of an Environmental Impact Statement (EIS);
- Further procurement processes, including early contractor involvement activities;
- Stakeholder community consultation;
- Land and easement acquisition activities;
- System integration studies and planning; and
- Development and negotiation of contracts and agreements.

These activities allow the Project timeframes to be brought forward. As a result, for the purposes of ElectraNet's Application, the applicable date for completion of the Project is now as follows:

- Anticipated date for completing construction – 31 March 2023

This represents an advancement of nine months to the original completion date. This will again be followed by a period of commissioning and inter-network testing.

This advancement results in a corresponding change in the timing of the capital expenditure and revenue required to deliver the Project. As a result of these timing changes and other minor adjustments, the updated forecast capital expenditure for the purpose of the Application is slightly reduced at \$468.6 million (\$2017-18). Importantly, no acceleration costs are forecast to achieve this earlier date.

Minor consequential changes to the operating expenditure forecast also result (namely updated debt raising costs, as determined by the AER's Post Tax Revenue Model).

Attachment 1 provides the updated expenditure timing and revenue information for the purposes of the Application. The following updated application material is also enclosed:

- Post Tax Revenue Model (PTRM)

Further updated material is also provided on a confidential basis to assist the AER in assessing our Application, including an updated expenditure model and internal resource forecast based on the new delivery timeframe.

ElectraNet has separately submitted a Rule change proposal to support the financeability of actionable ISP projects such as Project EnergyConnect<sup>1</sup>. The effect of the proposal would be to advance the recovery of revenue for the Project in the early years in order to improve cash flows, while reducing the amount of revenue to be recovered in later years. The proposal is currently under consideration by the Australian Energy Market Commission (AEMC) with a final determination due by 31 March 2021.

The indicative impact of the Rule change proposal, if approved, on the incremental revenue associated with this Application is shown in Attachment 1. On the updated expenditure profile, our analysis indicates this would equate to an increase in customer prices of approximately \$5 per annum in the current regulatory period based on the average residential customer bill. This compares to the net saving of \$100 per annum the Project is estimated to deliver by ACIL Allen independent customer price impact modelling.

We look forward to continuing to work with the AER through the remaining assessment of the Application and to the timely delivery of the Project in the interests of electricity customers across the National Electricity Market.

Please direct any queries to Simon Appleby in the first instance on 08 8404 7324.

Yours sincerely



Rainer Korte  
**Group Executive Asset Management**

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<sup>1</sup> Participant Derogation - Financeability of ISP Projects (ElectraNet), 23 October 2020, available on the [AEMC website](#).

**Project EnergyConnect Contingent Project Application  
Updated capital expenditure and revenue timing information**

The following updated expenditure and revenue information reflects the delivery schedule for the Project based on construction by 31 March 2023. Each of these tables corresponds to the equivalent table presented in the Contingent Project Application of 30 September 2020<sup>2</sup>.

**Table 4-1: Breakdown of forecast capital expenditure and basis (\$m 2017-18)**

Capex Item	Cost Estimate	Basis for Forecast Expenditure
Transmission line works	258.4	Market pricing from credible competing vendors.
Substation works	108.3	Market pricing from credible competing vendors.
Land access & approvals	21.3	Independent valuations of easement costs and forecast environmental and cultural heritage requirements.
Project delivery costs	31.9	Reflects current delivered costs and benchmarks based on detailed resource assessment and accounts for 6.8% of project costs.
Special Protection Scheme	18.9	Independent estimate of expected scope and cost of the scheme.
Inter-network testing	13.4	Estimate of testing costs and requirements developed with TransGrid and AEMO.
Project risk	16.3	Detailed probabilistic risk assessment (reflecting a P50 estimate).
<b>Total</b>	<b>468.6<sup>3</sup></b>	

**Table 4-2: Capital expenditure forecast (\$m 2017-18)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Capital expenditure <sup>4</sup>	5.0	4.1	30.6	175.1	253.8	<b>468.6</b>

**Table 4-4: Forecast capex for the CESS (\$m Jun 2017-18)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Updated target capex for the CESS	119.9	214.2	208.4	422.4	352.4	<b>1,317.3</b>
<i>Existing target capex for the CESS<sup>5</sup></i>	<i>111.8</i>	<i>210.0</i>	<i>177.5</i>	<i>245.2</i>	<i>95.5</i>	<b><i>840.0</i></b>

<sup>2</sup> Note that the totals in these tables may not add due to rounding.

<sup>3</sup> Excluding prior period expenditure of approximately \$3.3 million (\$2017-18) already included in the RAB.

<sup>4</sup> Excluding prior period expenditure as above.

<sup>5</sup> As adjusted by the AER's recent decision for the Eyre Peninsula Reinforcement Contingent Project Application.

**Table 5-1: Incremental operating expenditure (\$m Jun 2017-18)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Controllable operating expenditure	0.0	0.0	0.0	0.1	0.2	<b>0.3</b>
Debt raising costs	0.0	0.0	0.0	0.0	0.1	<b>0.1</b>
<b>Incremental operating expenditure</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.5</b>

**Table 5-2: Forecast operating expenditure for the EBSS (\$m Jun 2017-18)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Updated opex allowance	90.4	90.9	92.5	93.7	93.0	<b>460.5</b>
Less debt raising costs	(1.3)	(1.3)	(1.3)	(1.4)	(1.5)	<b>(6.8)</b>
Less network support costs	(8.4)	(8.4)	(8.4)	(8.4)	(7.0)	<b>(40.5)</b>
<b>Updated target opex for the EBSS</b>	<b>80.7</b>	<b>81.2</b>	<b>82.8</b>	<b>84.0</b>	<b>84.5</b>	<b>413.3</b>
<i>Existing target opex for the EBSS<sup>6</sup></i>	<i>80.7</i>	<i>81.2</i>	<i>82.8</i>	<i>83.8</i>	<i>84.3</i>	<i>412.9</i>

**Table 6-2: Incremental Regulatory Depreciation (\$m nominal)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Approved regulatory depreciation	44.2	63.5	65.1	73.8	65.7	<b>312.4</b>
Project EnergyConnect incremental regulatory depreciation	0.0	3.0	(0.2)	(1.1)	(6.0)	<b>(4.3)</b>
Revised regulatory Depreciation	<b>44.2</b>	<b>66.5</b>	<b>64.9</b>	<b>72.7</b>	<b>59.8</b>	<b>308.1</b>

**Table 6-3: Incremental Tax Allowance (\$m nominal)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Approved tax allowance	4.9	7.5	8.4	9.9	10.1	<b>40.7</b>
Project EnergyConnect incremental tax allowance	0.0	0.0	0.0	0.0	0.3	<b>0.4</b>
Revised Tax Allowance	<b>4.9</b>	<b>7.5</b>	<b>8.4</b>	<b>9.9</b>	<b>10.3</b>	<b>41.1</b>

<sup>6</sup> As adjusted by the AER's recent decision for the Eyre Peninsula Reinforcement Contingent Project Application.

**Table 6-4: Incremental Revenue Requirement (\$m nominal)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Return on capital	0.0	0.5	0.5	2.4	13.5	17.0
Regulatory depreciation	0.0	3.0	(0.2)	(1.1)	(6.0)	(4.3)
Operating expenditure	0.0	0.0	0.0	0.2	0.4	0.5
Revenue Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Net tax allowance	0.0	0.0	0.0	0.0	0.3	0.4
<b>Unsmoothed revenue requirement</b>	<b>0.0</b>	<b>3.5</b>	<b>0.3</b>	<b>1.6</b>	<b>8.2</b>	<b>13.6</b>

**Table 6-5: Amended annual building block revenue requirement (\$m nominal)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
AER annual building block revenue requirement	286.1	314.5	327.0	349.5	354.6	1,631.7
Project EnergyConnect revenue requirement	0.0	3.5	0.3	1.6	8.2	13.6
<b>Amended annual revenue requirement (unsmoothed)</b>	<b>286.1</b>	<b>318.1</b>	<b>327.3</b>	<b>351.0</b>	<b>362.9</b>	<b>1,645.3</b>

**Table 6-6: Amended maximum allowed revenue (\$m nominal)**

Component	2018-19	2019-20	2020-21	2021-22	2022-23	Total
MAR (smoothed)	305.3	312.5	322.3	341.3	361.3	1,642.8
X Factor	14.85%	0.08%	-0.67%	-3.34%	-3.34%	

**Indicative Revenue Impact of the Financeability Rule Change Proposal (\$nominal)**

Incremental Revenue Requirement (Smoothed)	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Current Rules	0.0	0.0	0.0	4.5	9.6	14.1
Proposed Rule	0.0	0.0	0.0	10.8	22.9	33.8