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TransGrid and ElectraNet
Project EnergyConnect
Contingent Project Application decisions

Major Energy Users Inc (MEU) is pleased for the opportunity to provide its views on the AER review of the contingent project applications made by TransGrid and ElectraNet in relation to Project EnergyConnect (PEC) – a new interconnector between SA and NSW – where the AER is to make a final decision for inclusion of this project into the regulatory asset bases. This response by the MEU follows on from its earlier submissions to the AER and the project proponents, ElectraNet and TransGrid.

The AER has sought feedback on the recently revised contingent project applications from ElectraNet and TransGrid for PEC, following the draft decision of the AER of the conditions the proponents had to accept to achieve AER approval of this contingent project.

The MEU has consistently been concerned that the project benefits have been overstated and that the benefits have continuously increased in order to match the ever-increasing costs of the project. What is of concern, is that the revised benefits calculated to match the 60% increase in costs have never been subject to detailed stakeholder review, as the last time stakeholders were able to comment in detail on the valuation of the benefits was at the PADR stage when the project costs were considerably lower. The MEU also notes that the benefits included an outcome where the current security requirement for two synchronous generators to be continuously on-line was to be re-assessed as part of the AEMO Power System Frequency Risk Review. This AEMO review was to prove that this requirement for South Australia region would be alleviated when PEC was operational, yet this review is yet to be completed so a major element of the benefits of PEC still has not been demonstrated. As the cost to benefits for PEC are so closely balanced, the absence of this review puts into doubt whether there is a net benefit of the project.

This concern is amplified by the decision of ElectraNet and TransGrid to not accept the AER draft decision on the allowable costs for the project, with both proponents opting to

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justify an increase from the AER cost assessments. Again, the process of project review has really not allowed stakeholders to have the ability to provide detailed input into the cost assessments from either the proponents or the AER of this very large project as it grew in cost because the project proponents decided that a 60% increase in costs was not significant. Indeed, other major decisions that have recently been made (eg, the NSW roadmap, progress on the Orana Central West REZ, the investment decision by the Federal government, Squadron Energy and EnergyAustralia to implement new generation in NSW, etc) will all have a considerable impact on the benefits of PEC, but the effects of these changes have not been able to be reviewed by stakeholders. Overall, the MEU is very concerned that since the PADR, the PEC review process has been very much carried out “behind closed doors”. A $2.4 billion project such as PEC will impose considerable cost on consumers for the next 50-60 years yet this commitment being made supposedly on behalf of consumers has been significantly lacking in stakeholder input.

With all of the above in mind, the MEU also sees that the inclusion of PEC into ElectraNet and TransGrid regulatory asset bases (RABs) has the potential for further costs to be added which will not be captured through the incentive program devised by the AER for network capital works. An obvious approach for both ElectraNet and TransGrid if the costs of PEC exceed allowances would be for both networks to reduce their “regular” capex programs and “cover” the PEC over-runs with under-runs in other areas. This would prevent the AER from carrying out an ex-post capex review of PEC and while allowing the proponents to include the PEC over-runs into their RABs without any risk. The deferred projects could be added into capex for the subsequent regulatory period resets. Overall, the proponents would be able to increase the costs of PEC and pass these costs to consumers without oversight. At the same time, the deferral of these “normal” projects could negatively impact consumers and increase consumer costs in other areas as a result.

With the above concerns in mind, the MEU considers that because PEC is such a large project in comparison to the “normal” capex needed by the proponents, the PEC costs should be assessed independently of “normal” capex, yet with both being subject to the capex incentive program. Effectively, the AER would assess the “normal” capex as usual and apply the CESS just to the “normal” capex. Separately, the PEC costs would be assessed individually with its own unique CESS process. This modification should “ringfence” such a large project from the normal operations of the network so that consumers can see both the benefits from the “normal” projects as they are implemented and to be able to separately monitor the very large costs of PEC.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at [redacted]

Yours faithfully

[redacted]

David Headberry
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