

2 February 2019

Mr Mark Feather
General Manager, Policy & Performance
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Sent by: email to ISPguidelines@aer.gov.au

**Guidelines to make the Integrated
System Plan actionable
Issues Paper
Supplementary submission**

Since the MEU forwarded its response to the AER regarding the issues paper relating to the guidelines for making the ISP actionable, we have reviewed the AER report on the EnergyConnect project submitted to the AER under the RIT-T process by ElectraNet and TransGrid for an interconnector between Robertstown SA and Wagga Wagga in NSW.

The AER report, while accepting the proposal provided a net benefit, highlighted a number of concerns, particularly with regard to the identified benefits and to a lesser extent the capital costs. The MEU considers that the AER review was an essential step in ensuring the proposed investment met the requirements of the NEO. However, under the draft decision proposed by the ESB for actioning the ISP, it would appear that the AER would have a lesser role in assessing the net benefits of future ISP projects. The submission the MEU made to the AER issues paper regarding its guidelines highlighted many concerns the MEU has with the proposed approach.

The MEU has written a supplementary submission to the ESB outlining its concerns about its draft proposal, highlighting the AER experience with the EnergyConnect project and the significant reduction in net benefit the AER considered was likely from the EnergyConnect project. Despite these reservations the AER had with the project it still concluded there was a net benefit of the project.

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What is clear to the MEU, is that the ESB, in its determination to ensure ISP projects are built as soon as possible, has allowed urgency to be the primary concern, overcome the need for a ensuring there is confidence there will be a net benefit of the ISP projects

The MEU attaches a copy of its supplementary submission to the ESB and asks that the AER consider the commentary provided to the ESB as it develops its guidelines for actioning the ISP. In particular, the MEU draws your attention to the need for a detailed AER review of ISP projects, complete with independent modelling to provide greater certainty to consumers that ISP projects still deliver a net benefit.

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 davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully

A handwritten signature in black ink, appearing to read 'D.H. Headberry', with a small checkmark at the end.

David Headberry
Public Officer



2 February 2019

The Chairman
Energy Security Board
C/- CoAG Energy Council

Sent by: email to info@esb.org.au

**Converting the Integrated System Plan into Action
Response to Draft Decision
Supplementary submission**

Since it provided a submission on 17 January to the ESB on its draft decision relating to actioning the ISP, the Major Energy Users Inc (MEU) has reviewed the AER decision (released on 24 January 2020) relating to the EnergyConnect proposal for an interconnector between Robertstown in SA and Wagga Wagga in NSW. This project was listed in the 2018 ISP as a group 2 project and in the 2020 ISP as a group 1 project. With these rankings, EnergyConnect would be classified as an urgent project under the ISP and so be included under the ESB draft decision as enjoying the expedited process envisaged by the ESB for actioning the ISP.

The AER decision approving the project makes fascinating reading on a number of counts in that while ultimately approving the project, the AER has concluded that the Project Assessment Completion Report (PACR) provides a highly overstated view of the net benefits of the project. The AER report also raises a concern about the accuracy of the capital costing and the risk that when the proponents raise a contingent project application, the capital costs might increase further eroding the net benefits the project delivers.

This detailed assessment by the AER raises significant concerns about ensuring that the capital costing and the benefits of a proposed augmentation are reasonably reflective of actual costs and anticipated benefits. Inherent in the ESB draft decision is an assumption that AEMO will identify the costs and benefits of a proposed augmentation at a reasonably accurate level and therefore there will be a high level of confidence that what is costed in the ISP proposal is a fair assessment of net benefits. The AER decision implies that this might well be considered a “courageous”

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assumption and identifies a real concern that not allowing an independent assessment could result in excessive but unnecessary costs for consumers now and into the future.

The MEU is aware that the EnergyConnect proponents attempted to deliver a PACR that was reflective of their best efforts in identifying and calculating actual costs and benefits and so there was an assumption that the PACR delivered the best outcome for consumers and was “nearly right”.

However, the detailed AER review of the project, backed up by independent modelling that it commissioned, indicates that that the assumption of “nearly right” was far from correct. What is concerning that if the EnergyConnect project had been carried out under the draft ISP rules, there would not have been the opportunity for the AER to carry out a detailed assessment of the proposal which it would normally do under 5.16.6 of the rules and the RIT-T guidelines.

In its initial response to the ESB draft decision, the MEU raised the concern that the draft decision would limit the ability of the AER to carry out an assessment of an ISP project and as part of its recommendations, provided a view that there be a requirement that the AER must carry out its own independent assessment of the model(s) used to justify the ISP outcomes, assumptions made and inputs used to ensure that the proposed projects do meet the requirements of the National Electricity Objective.

Further, the MEU raised concerns about the proposed consultation processes and any review of an ISP project. Again, the outcome of the AER review of the EnergyConnect proposal highlights that in the absence of a detailed review by the AER of an ISP project, it is highly unlikely that stakeholders (and particularly consumers) would have either the resources to review a project to the extent that the AER has for EnergyConnect, and/or for stakeholders to be able to substantiate a claim that due process has not been followed and what the outcome of not following due process might cause.

The fact that the AER has incurred considerable cost to carry out its analysis of just one project coupled to a timeline of over 10 months to complete its review reinforces a concern that MEU has that there is insufficient funding or time for consumers and other stakeholders to be able to provide the necessary detailed input into the ISP consultation process to match what the AER saw necessary to review the project and demonstrate the cost benefit analysis carried out by the proponents of EnergyConnect provided a significant overstatement of the net benefit of the project.

What is also important to note the ranking afforded the EnergyConnect project in the 2018 ISP and 2020 ISP. While the MEU does not disagree that these ISP assessments are appropriate, it highlights that greater care is essential to ensure that the ISP projects are properly assessed and independently reviewed. The MEU points out that under the 2020 ISP AEMO has included some \$6 Bn + of projects in the ISP. For this amount of money that consumers will ultimately pay for, the MEU considers that there must be some independent assessment for projects of this magnitude of investment

The MEU points out that it has already commenced a review of the 2020 ISP with a view to providing its views to AEMO about the ISP report and the proposed project developments. What is very clear from the AER experience is that for stakeholders (especially consumers) to provide analysis to the ISP and provide informed input to AEMO is a major undertaking and well beyond the resources of stakeholders and especially consumers.

This first-hand experience of the value the AER review process cannot be overstated as an ISP tool as it would provide to consumers, confidence that the outcomes of the ISP process for proposed large augmentations were legitimated. The AER experience highlights the MEU concern that inherent in the draft decision is that the expedited process envisaged makes urgency for new augmentations the prime consideration regardless of cost. This is an unacceptable trade off to all consumers who will have the long-term liability for inefficient investment.

The MEU considers that the ESB must review its draft decision reflecting the experience garnered through the AER review of EnergyConnect and that the AER must be required to review the ISP projects, including independent modelling.

The MEU is happy to discuss this issue further with you if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully



David Headberry
Public Officer