

27 April 2017

Ms Paula Conboy
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001


Dear Ms Conboy

**Application for interim waiver from AER Ring-fencing Guideline – Electricity
Distribution: Installation and Operation of 200MW temporary generation**

As you will be aware the South Australian (SA) Government has requested that SA Power Networks design, construct, commission, connect, and operate 200MW of temporary generation from 1 December 2017. The temporary generation is part of the SA Government's Energy Plan for South Australia¹.

The SA Government has determined that SA Power Networks is best placed to undertake this activity so that the generation can be connected to the national electricity grid within the required timeframe and at the least cost.

Key aspects of the temporary generation project are:

- The temporary generation will be used solely for the purpose of avoiding load shedding for National Electricity Market (NEM) operational management purposes, in the circumstances that there is no other generation available to be dispatched;
- The temporary generation will only be operated at the direction of AEMO and/or the South Australian Energy Minister;
- The temporary generation will be in place for a maximum period of two years, initially for 12 months with an option to extend for a further year and can be terminated early once the SA Government's new 250MW permanent gas fired generation plant is operational;
- All costs incurred by SA Power Networks will be reimbursed by the SA Government, which will also be entitled to any market revenues accruing as a consequence of the generators being called upon to operate to avoid load shedding;
- We are concurrently seeking the Australian Energy Market Operator's (AEMO's) approval that the temporary generators be treated as market, non-scheduled generators or such other alternatives that allow the plant to operate to avoid load shedding and that the generator will not be used to set the NEM pool price in SA; and

¹ <http://ourenergyplan.sa.gov.au/assets/our-energy-plan-sa-web.pdf>

- The temporary generation will be installed at multiple sites and will be subject to AEMO's technical approvals, as well as any necessary local jurisdictional development and environmental approvals.

Please find attached an interim waiver application.

You will appreciate that achieving the SA Government's timeframe of 1 December will be challenging and many actions are currently in train to procure suitable generation solutions, obtain Essential Services Commission of South Australia (ESCOSA) approval to vary SA Power Networks' existing generation licence (currently held in relation to generation assets that provide network support services), obtain the necessary AEMO registrations, and secure planning and environmental approvals. These activities are being undertaken by SA Power Networks. Whilst we are progressing the establishment of our new ring-fenced entities to legally separate our existing unregulated business activities, the compressed SA Government timeframes mean that using these entities as the vehicle for the temporary generation project is not feasible.

In view of the circumstances of the temporary generation project, whereby no project costs will be borne by regulated customers, the generators will not impact the competitive aspects of the wholesale energy market (and for the avoidance of doubt, will have no impact on conduct of our regulated distribution services), and the generation solution is being sourced through a competitive process, SA Power Networks is of the firm view that the AER should approve the waiver application on an expedited basis. The waiver application is supported by the SA Government.

I ask that the AER undertake an urgent consideration and approval of the waiver application. Our contact for this waiver application is our Sean Kelly, 08 8404 5649.

Yours sincerely



Robert Stobbe
Chief Executive Officer

Application for interim waiver from AER Ring-fencing Guideline – Electricity Distribution: Installation and Operation of 200MW temporary generation

Details of the services in relation to which the DNSP is applying for the waiver

This waiver application is in relation to the installation and operation of temporary generation assets in the National Electricity Market (NEM) which would be interpreted under the Ring-fencing Guideline (Guideline) as 'other electricity services'.

The obligation in respect of which the DNSP is applying for a waiver

SA Power Networks is applying for a waiver in respect of all the:

- Legal separation obligations listed in Section 3.1 of the Guideline; and
- Functional separation obligations listed in Section 4 of the Guideline.

All costs incurred by SA Power Networks will be reimbursed by the SA Government. SA Power Networks' accounting systems will be used to collect and allocate all internal and third party costs to this project in support of that reimbursement.

The reasons why the DNSP is applying for the waiver

The SA Government has specifically requested that SA Power Networks design, construct, commission, connect to the distribution system, and operate the temporary generation. The SA Government supports the waiver application.

SA Power Networks is working towards compliance with the Guideline. However, the establishment of new ring-fenced legal entities for our existing unregulated activities is not sufficiently advanced for them to be used as the vehicle for the temporary generation project, under the constraints of the SA Government's compressed timeframes.

You will appreciate that achieving the SA Government's timeframe of 1 December (being the date from which operational readiness of the temporary generation is required) will be challenging and many actions are currently in train to procure suitable generation solutions, obtain ESCOSA approval to vary SA Power Networks' existing generation licence (currently held in relation to generation assets that provide network support services), obtain the necessary AEMO registrations, and secure planning and environmental approvals. These activities are being undertaken by SA Power Networks.

The proposed commencement date and expiry date (if any) of the waiver and the reasons for those dates

The proposed commencement date is from the date of the SA Government's announcement of its Energy Plan (14 March 2017).

The expiry date corresponds to the time of completion of decommissioning of the temporary generation facilities.

Decommissioning is expected to occur no more than six months after the end of the operational phase of the temporary generation project. The operational phase will be no more than a maximum period of two years from 1 December 2017. Initially for 12 months but with an option to extend for either a further year or earlier if the the SA Government's new 250MW permanent gas fired generation plant is operational.

Therefore, we request an the expiry date of 1 June 2020. As noted above the SA Government can request that the temporary generation cease to be available during the period 1 December 2018 to 1 December 2019 in the circumstance that the new 250 MW permanent gas fired generator has become operational at that time.

Details of the costs associated with the DNSP complying with the obligation if the waiver of the obligation were refused

If the waiver is refused, SA Power Networks would not be able to deliver the project to the SA Governments' timeframes and meet the the compliance obligations under the Guideline.

In this event, SA Power Networks would inform the SA Government that we are unable to undertake the project and that we would be immediately moving to wind-down our current development phase activities and would subsequently exit the project. Subject to settlement of accounts and invoices, we would expect SA Power Networks' substantial development phase costs incurred up to that date to be reimbursed by the SA Government.

Costs incurred would be sunk costs from a SA Government perspective and it would be highly likely that the Government's requested start date would be substantially exceeded with the unwanted prospect that load shedding of SA customers could eventuate.

The regulatory control period to which the waiver would apply

The waiver would apply to the current regulatory control period (ending 30 June 2020).

Any additional measures the DNSP proposes to undertake if the waiver were granted

The provision and operation of the temporary generation will be structured as a specific project within our financial system to ensure separation of accounts and cost allocation and attribution. This provides transparency that the SA Government funds all the costs associated with the design, construction, commissioning, connection to the distribution system, operation, and decommissioning of the temporary generation.

The reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2(a), including the benefits, or likely benefits, of the grant of the waiver to electricity consumers

Regarding the three matters in 5.3.2(a) of the Guideline:

i. the National Electricity Objective;

The provision and operation of the temporary generation should avoid the load shedding of customers in SA due to a shortfall in available generation. The operation of the temporary generation will not affect the operation of the NEM. The generation will only be operated at the direction of AEMO or the SA Energy Minister.

As highlighted previously the generation is a temporary measure to prevent load shedding until the SA Government's permanent generation plant is operational.

ii. the potential for cross-subsidisation and discrimination if the waiver is granted or refused;

There are no incentives for SA Power Networks to cross-subsidise the temporary generation as all costs associated with the provision, operation and decommissioning will be borne by the SA Government. Sourcing of the temporary generation solution by SA Power Networks is being undertaken through a competitive process.

iii. whether the benefit, or likely benefit, to electricity consumers of the DNSP complying with the obligation (including any benefit, or likely benefit, from increased competition) would be outweighed by the cost to the DNSP of complying with that obligation.

The temporary generation project has a tight time constraint. Indeed, as highlighted the SA Government has requested that SA Power Networks undertake the provision and installation of the temporary generation as it considers that we can meet the required timeframe at the least cost.

In turn, successful operation of the temporary generation will provide SA customers with continuity of supply in the event of potential load shedding.

Unfortunately, SA Power Networks is not able to both deliver the project to the SA Governments' timeframes, with the associated potential benefits to SA customers, whilst also satisfying our compliance obligations under the Guideline. If our compliance obligations cannot be waived, SA Power Networks would need to inform the SA Government that we are unable to undertake the project.

Under these circumstances, it is our view that there is no benefit to electricity customers of SA Power Networks complying with the full extent of the ring-fencing obligations.