

3 April 2020

Ms S Proudfoot
General Manager Consumers and Markets
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

By email: ringfencing@aer.gov.au

Dear Ms Proudfoot

Addendum to SA Power Networks 18 March ring-fencing waiver application: temporary generation services

This letter is further to my previous correspondence which sought a variation and extension of the existing 21 June 2017 ring-fencing waiver issued to SA Power Networks, enabling it to provide temporary generation services on behalf of the South Australian Government. That application seeks to enable SA Power Networks to continue to provide temporary generation services at Edinburgh/Elizabeth – referred to as temporary generation north (TGN) – until 30 June 2021.

The South Australian Government has since advised us that travel restrictions associated with the current Covid-19 pandemic are adversely impacting the 1 May 2020 scheduled transfer to Infigen of operations at the other temporary generation south (TGS) site at Lonsdale. The South Australian Government has therefore requested SA Power Networks to also secure regulatory approvals to continue to provide temporary generation services from TGS, pending transfer of the TGS operations to Infigen. The current ring-fencing waiver expires 1 June 2020.

Please now find attached to this letter an addendum to our 18 March ring-fencing waiver application, seeking an extension to provide generation services from the TGS site for a further six months, to 1 December 2020. We will also apply to the Essential Services Commission of South Australia to extend the current jurisdictional electricity generation licence for TGS until 1 December 2020.

Should you require any further information regarding this addendum please contact Grant Cox by email: grant.cox@sapowernetworks.com.au or phone (08) 8404 5012.

Yours sincerely



Patrick Makinson
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Addendum to 18 March 2020 ring-fencing waiver application: temporary generation services

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

This waiver application is in relation to the operation of generation assets in the National Electricity Market (NEM) which would be interpreted under the 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

SA Power Networks was granted a ring-fencing waiver by the AER on 21 June 2017 for the SA Power Networks Temporary Generation project which was to expire on 1 June 2020.

As part of the Temporary Generation Project, gas turbines (running on diesel fuel) were installed at two sites, Temporary Generation North (TGN) at Edinburgh/Elizabeth and Temporary Generation South (TGS) at Lonsdale. The gas turbines are now owned by the South Australian Government. The South Australian Government has signed an intention to lease the gas turbines to two separate parties (Infigen and Nexif). As part of the lease agreements, the gas turbines at Lonsdale will remain on site and the gas turbines at Elizabeth will be relocated. The dates advised for the operational transfer of TGS is 1 May 2020 and for TGN is 1 May 2021.

In a letter dated 25 February 2020, the South Australian Government requested that SA Power Networks commence work to extend relevant approvals to continue to operate the Temporary Generation North (TGN) site. Consequently, on 18 March 2020, SA Power Networks applied to extend and vary the 21 June 2017 waiver, in respect of the TGN site only.

Subsequently, the South Australian Government notified SA Power Networks that the current Covid-19 pandemic is now impacting the planned transfer of the TGS operations to Infigen and requested we extend regulatory approvals for the TGS site also. Refer 2 April 2020 letter from the South Australian Government, attached. This addendum is seeking an extension of the 21 June 2017 waiver in respect of the TGS site.

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

The proposed commencement date is 1 June 2020 as this is when the existing waiver expires. The proposed expiry date is 1 December 2020.

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 be unable to continue to provide the required generation services post 1 June 2020 to the South Australian Government and meet the compliance obligations under the Guideline.

In this event, SA Power Networks would inform the South Australian Government that we are unable to continue to provide the generation services and they would have to make alternative arrangements.

The most likely outcome would be that TGS would be unavailable to operate beyond 1 June 2020 which may increase the risk of load shedding in South Australia during this period.

The regulatory control period to which the waiver would apply

The waiver would apply to the remainder of current regulatory control period (RCP) and for the first five months of the new 2020-25 RCP.

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

SA Power Networks will continue with the provision and operation of the temporary generation which is structured as a specific project within our financial system to ensure separation of accounts and cost allocation and attribution. This provides transparency that the South Australian Government funds all the costs associated with the provision, operation and decommissioning of the temporary generation.

Consistent with the AER's conditions of the existing waiver granted 21 June 2017, SA Power Networks affirms it will not engage in any marketing, cross-promoting and co-branding of generation services provided under the waiver.

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 South Australia due to a short fall in generation. The operation of the temporary generation will not affect the operation of the NEM. The generation will only be operated:

- at the request of the AEMO;
- at the request of the South Australian Government; or
- to prevent load shedding.



As highlighted previously the generation is a temporary measure to prevent load shedding until the South Australian owned generators are transferred to third parties.

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 South Australian Government.

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;

SA Power Networks sees no benefit to electricity customers if we comply with the full extent of the ring-fencing obligations in respect of these temporary generation services. The South Australian Government has requested that SA Power Networks continue to manage and operate the temporary generation at TGS until the generators commence operation under a third party.

