

Mr Peter Adams  
General Manager, Wholesale Markets  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001

[By email RIT@aer.gov.au](mailto:RIT@aer.gov.au)

5 April 2018

Dear Mr Adams,

**RE: Review of the application guidelines for the regulatory investment tests – Issues Paper**

As the peak body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) has an established history of interest, engagement and provision of proposed advice on the supply of essential services including electricity. We thank the AER for the opportunity to make a submission on the *Review of the application guidelines for the regulatory investment tests – Issues Paper*.

SACOSS research shows that the cost and supply of basic necessities like electricity have significant and disproportionately greater impacts on vulnerable people. SACOSS advocacy is informed by our members and direct consultations with consumers and other consumer organisations: organisations and individuals who witness and experience these impacts in our community.

SACOSS has previously been involved in RIT-T consultation processes, specifically the consultation to upgrade the Heywood Interconnector. We provided input to both the ElectraNet/AEMO and the AER consultations (see attached). We raised concerns at that point about the way costs and benefits were considered and insufficiently weighed against regulatory uncertainty surrounding network investments, projected benefits only occurring some distance in the future, ready dismissal of a non-network option and timing of investment. Unfortunately, our concerns were not heeded at the time and the outcome has been unnecessary network investment, the costs of which have been borne by consumers.

We address a selection of the consultation questions below.

**Question 1: Do you agree that the RITs promote the long-term interests of consumers by promoting competitive neutrality and investment efficiency? Are there any other factors we should consider?**

SACOSS believes the inherent incentive for network options investment counters the RIT promotion of competitive neutrality and investment efficiency.



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**Question 3: How do you think we should amend the RIT application guidelines to better facilitate consumer engagement throughout the RIT application process?**

SACOSS supports the AER view that “there is value in enhancing the RIT application guidelines to promote a consistent, best-practice approach to consumer engagement throughout the RIT application process”.<sup>1</sup>

**Question 5: Do you agree that the RIT–T process accommodates the consultation required for proponents to effectively test the market, but would benefit from guidance to better align information provided in the project specification consultation report with that provided in the non-network options report under the RIT–D? Alternatively, would it be preferable to request a rule change for non-network consultation under the RIT–T to more closely mirror what the NER require for the RIT–D?**

Given our experience, SACOSS strongly considers that it is preferable to request a rule change for non-network consultation under the RIT-T to more closely mirror what the NER require for the RIT-D. SACOSS believes the proposal for more guidance is insufficiently prescriptive and does not address the issue of the inherent incentive for transmission businesses to invest in network options.

**Question 7: Do you agree with our proposed approach of providing further guidance on how RIT proponents should describe an identified need?**

SACOSS supports the proposed approach.

**Question 8: Is there any specific guidance you would like us to provide in clarifying how RIT proponents should calculate option value, make forecasts and test different states of the world? Are there particular**

**scenarios where a worked example would be helpful in providing this guidance?**

SACOSS supports further guidance on conducting a more robust scenario analysis, calculating option value and developing and assessing reasonable scenarios of future supply and demand as outlined in the Issues Paper.

<sup>1</sup> AER (2018) RIT Issues Paper at [https://www.aer.gov.au/system/files/AER%20-%20Issues%20Paper%20-%20Review%20of%20the%20RIT%20application%20guidelines%20-%202020%20February%202018\\_0.pdf](https://www.aer.gov.au/system/files/AER%20-%20Issues%20Paper%20-%20Review%20of%20the%20RIT%20application%20guidelines%20-%202020%20February%202018_0.pdf) p.25

**Question 10: Do you agree that the RIT is a market-wide cost–benefit analysis? Do you agree that, as a consequence of this, funds that move**

**between parties within the market should not affect the final net-benefit, but funds that comes from outside the market to a party within the market should increase the final net benefit?**

SACOSS strongly opposes the proposal the funds that come from outside the market should reduce the costs of the option and increase the final benefit. SACOSS considers that this distorts the consumer risk equation as funds from outside the market from a government or government body are also consumer funds.

**Question 11: Do you agree that the scenario analysis currently prescribed in the RIT application guidelines can sufficiently capture the effects of high impact, low probability events and system security requirements? Do the RIT–T application guidelines require expanding to assist proponents in accounting for these events? Is there specific guidance you would like on this topic, or particular scenarios where a worked example would be helpful—and how (if at all) should this differ between the RIT–D and RIT–T application guidelines?**

SACOSS supports the AER view that “the consideration of high-impact, low probability events, including in the assessment of 'low-regret upgrades', is compatible with the current RIT application guidelines”.<sup>2</sup>

**Question 13: Do you support our proposal to expand our RIT application guidelines to specify that, as a default, RIT proponents should use the same discount rate when comparing different credible options?**

SACOSS strongly supports this proposal.

**Question 14: What kind of additional guidance, if any, would you like the RIT application guidelines to provide on selecting an appropriate VCR?**

SACOSS considers that additional guidance is important, as it relates to what constitutes a reputable source.

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<sup>2</sup> AER (2018) Issues Paper p.35

**Question 15: Should we revise the RIT–D application guidelines to clarify that a 'business-as-usual' base case should be used for repex projects? Is there any other guidance the RIT application guidelines should provide on selecting an appropriate base case?**

SACOSS supports the proposed clarification for repex projects.

**Question 16: Given AEMO is currently developing the Integrated System Plan (ISP), what additional guidance would stakeholders find useful in the RIT–T application guidelines with respect to the ISP?**

SACOSS believes it is essential that ISP generated projects still conduct full RIT-T assessments.

We thank you in advance for consideration of our comments. If you have any questions relating to this submission, please contact Jo De Silva on [jo@sacoss.org.au](mailto:jo@sacoss.org.au) or 08 8305 4211.

Yours sincerely,



Ross Womersley  
Chief Executive Officer

Heywood Interconnector RIT-T – Submissions  
By email to [consultation@electranet.com.au](mailto:consultation@electranet.com.au) and  
[Planning@aemo.com.au](mailto:Planning@aemo.com.au)

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ABN 93 197 662 296

26 October, 2012

To whom it may concern,

**Re: South Australia – Victoria (Heywood) Interconnector Upgrade – Regulatory Investment Test for Transmission (RIT-T): Project Assessment Draft Report**

As the peak non-government representative body for the health and community services sector in South Australia, the South Australian Council of Social Service welcomes the opportunity to provide a submission on the Project Assessment Draft Report.

SACOSS believes in justice, opportunity and shared wealth for all South Australians. With a strong membership base representing a broad range of interests in the social services arena, our core activities include: analysing social policy and advocating on behalf of vulnerable and disadvantaged South Australians; providing independent information and commentary; and assisting the ongoing development of the health and community services sector.

SACOSS is specifically interested in this process as the interconnection to the rest of the NEM has a role to play in a number of facets of the market that bear on the cost of electricity to South Australian consumers.

In general terms, as advocates for the interests of consumers, SACOSS supports the consideration of options to expand the capacity of interconnection. The questions for us are in relation to ensuring the most cost-effective options are pursued.

SACOSS is acutely aware of the need to contain electricity prices and the pivotal role of the Network Regulatory Asset Bases (RABs) in this regard. Through the regulated return on and of this capital base (through the Weighted Average Cost of Capital, WACC and the agreed depreciation schedules), the Transmission and Distribution RABs drive the revenue needs of the state's Network Service Providers. In ElectraNet's current regulatory period (2008-13)<sup>1</sup>, the return on and of the RAB capital represents \$950m out of \$1,340m in total revenue or just over 70%. The 2013-18 ElectraNet Proposal<sup>2</sup> proposes returns on and of capital that make up 68% of \$1,700m in revenue. For ETSA Utilities it represents 60% of \$3,400m in revenue from 2010-15.

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<sup>1</sup> AER Statement of updates for ElectraNet Transmission Determination following orders from the Australian Competition Tribunal Sept 2008 available at:

<http://www.aer.gov.au/sites/default/files/AER%20statement%20on%20updates%20for%20ElectraNet%20transmission%20determination%202008-09%20to%202012-13%20%28February%202009%29.pdf>

Table 3.

<sup>2</sup> <http://www.aer.gov.au/sites/default/files/ElectraNet%20Revenue%20Proposal%20.pdf>

SACOSS is also aware of the recent downward revision of demand forecasts by AEMO in the 2012 National Electricity Forecasting Report.

Further, the NEM regulatory environment is currently in a particularly pronounced state of flux with a number of reviews and proposals that have a relationship to the matters being considered in this RIT-T. These include the AEMC's Transmission Frameworks Review, Power of Choice Review, Economic Regulation of Network Service Providers Rule Change and Inter-regional Transmission Charging Rule Change, the Productivity Commission Inquiry into Electricity Network Regulatory Frameworks and the broader recommendations of the Review of the Limited Merits Review Regime for the SCER.

On this basis, SACOSS believes it is very important that the Heywood RIT-T proceeds with a high degree of conservatism - to the point where investment should be delayed or staged in order to ensure that the identified need (and the attendant costs and benefits) hold true over the coming years. We note that the preferred option has a projected commissioning date of 2016. We acknowledge that such projects are technically complex and have substantial procurement lead times but believe that the moderating of demand does allow for some additional time to ensure a solution that is compatible with not just the regulatory frameworks and market conditions of today but those of several years hence.

Based on the summarised costs and projected benefits (outlined in Table 6-1, pg. 41), SACOSS is drawn more to Option 4 than the PADR's preferred Option 1b. We note that Option 4 is largely a subset of the works of 1b but comes at a cost of \$40.6m (NPV of \$30.6m in Table 6-3) compared to the \$107m (NPV of \$79.8m in Table 6-3) of Option 1b. In this respect Option 4 could be seen as an early stage of the proposed preferred option.

Option 4 is modelled to yield benefits with a Net Present Value (NPV) of \$155m compared to the \$270m of 1b (Table 6-3, page 59). Option 4b therefore has a much greater ratio of benefits to costs (5:1 compared to 3.4:1) even though we must acknowledge that this is not the criteria outlined in the RIT-T process.

One of the main differences between Option 4 and 1b is the inclusion of a 3<sup>rd</sup> Transformer at Heywood (circa \$37m). We note that page 15 acknowledges previous submissions from generators that question the need for the transformer augmentation given that addressing network congestion issues in SA would firm-up the Interconnector's existing capacity. And, further, that at page 60, ElectraNet notes a 3<sup>rd</sup> transformer is likely to be needed at some future point to address reliability issues (possibly around 2020-25) anyway.

SACOSS also notes the sensitivity testing reported in Table 6-4. One concern we have is that many of the projected benefits of options occur some distance into the future. Given the uncertain nature of the current regulatory environment it would be normal investment evaluation practice to apply a relatively high discount rate to reflect the risks associated with this uncertainty. We note that Table 6-4 shows the relative results of applying a discount rate of 13% (compared to the central estimate of 10% used for the recommendations). Under this we note that Option 4 fares relatively well with its net market benefits falling to \$82 m compared to \$123m for

Option 1b. If we consider the estimated costs of Table 6-3, we can see that Option 1b has costs of \$79.8m and potential benefits of \$123m, while Option 4 has costs of \$30.6m and benefits that are over 2.5:1 (\$82m) even when heavily *discounted for risk*.

Further, SACOSS were somewhat surprised by the results of the consideration of a 200MW Demand Response capacity being offered by EnerNOC (part of option 5 where it is combined with 1b). It was disappointing to see a non-network option so readily dismissed.

In terms of the potential benefits of greater interconnector capacity, SACOSS is particularly interested in the role of interconnection in lowering the costs of peak demand and limiting the potential for generator market power. The benefits of increasing the export potential of the state's Wind Energy resource is also supported but it is possible that the Optional Firm Access (OFA) proposal of the AEMCs Transmission Frameworks Review might provide a more market-based and efficient driver of network investment in this regard. EnerNOC's proposal to potentially increase demand in high wind scenarios is also of interest. SACOSS is of the view that a staged approach to network investment (ie Option 4 rather than 1b) may be a more prudent approach in the meantime.

In summary, SACOSS acknowledges the complexity of the RIT-T process and appreciates the transparency of what has been published but given the moderating of demand and the regulatory uncertainty around network investments, believes the appropriate course of action is for lower capital expenditure with a higher ratio of likely benefits to costs.

Please contact SACOSS Senior Policy Officer, Jo De Silva if you wish to discuss any aspects of this submission on 08 8305 4211 or via [jo@sacoss.org.au](mailto:jo@sacoss.org.au)

Yours sincerely,

A handwritten signature in black ink, appearing to read 'RWomersley', with a large, sweeping flourish at the end.

Ross Womersley  
Executive Director

Australian Energy Regulator

Submitted electronically to [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

7<sup>th</sup> February 2014

**RE: ElectraNet: Heywood Interconnector upgrade -  
Contingent project application**

AER Ref: 53155

Att: Mr Paul Dunn, Director



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ABN 93 197 662 296

Dear Mr Dunn,

Thank you for the opportunity to comment on ElectraNet's Contingent Project Application<sup>1</sup>.

As the peak body for the community services sector in South Australia, SACOSS has a long-standing interest in the delivery of essential services and in particular the cost of basic necessities like electricity because they impact greatly and disproportionately on vulnerable and disadvantaged people.

SACOSS has commented at various points in the process to date for the Heywood upgrade<sup>2</sup>. Our view is that a more cost-effective option should have been pursued given the uncertainties related to the long-term need for the project and the potential changes to the regulatory frameworks that may govern transmission investments in the future<sup>3</sup>. However, the matter at hand is the timing and cost of the selected option, not the consideration of alternate options.

With this in mind, SACOSS is particularly interested in the optimal timing of the project. It is noted that since the conclusion of the Regulatory Investment Test (RiT-T) some significant changes to the project's context have occurred. The change in federal government in September 2013 is expected to remove the carbon price and has seen increased uncertainty in the future of the Renewable Energy Target (RET). In December 2013, AEMO released the 2013 National Transmission Network Development Plan (NTNDP)<sup>4</sup> and considers lower projected electricity consumption growth than forecast in 2012 and that RET-driven renewables, particularly wind, will be the only new generation investment out to 2020.

SACOSS notes that Wind Energy generators are key beneficiaries of the upgrade<sup>5</sup> and remains concerned that consumers are being asked to fund this upgrade regardless of the

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<sup>1</sup> <http://www.aer.gov.au/node/23187>

<sup>2</sup> [www.aemo.com.au/Electricity/Planning/Regulatory-Investment-Tests-for-Transmission/Heywood-Interconnector-RIT-T](http://www.aemo.com.au/Electricity/Planning/Regulatory-Investment-Tests-for-Transmission/Heywood-Interconnector-RIT-T) and [www.aer.gov.au/node/19916](http://www.aer.gov.au/node/19916) and [www.electranet.com.au/network/current-and-planned-projects/south-east/new-developmentpage-9/](http://www.electranet.com.au/network/current-and-planned-projects/south-east/new-developmentpage-9/)

<sup>3</sup> [www.aemc.gov.au/Market-Reviews/Completed/transmission-frameworks-review.html](http://www.aemc.gov.au/Market-Reviews/Completed/transmission-frameworks-review.html)

<sup>4</sup> <http://www.aemo.com.au/Electricity/Planning/National-Transmission-Network-Development-Plan>

<sup>5</sup> See, for example, the South Australian Minister for Energy 04.09.13 at [www.dmitre.sa.gov.au/article/view/1385](http://www.dmitre.sa.gov.au/article/view/1385)



fact that these benefits accrue to wind generators or, under a much reduced RET, do not appear at all.

In summary, SACOSS asks the AER to revisit the assumptions underpinning the timing of this investment in light of the changing market needs. It is imperative for the AER to reach a position where it can assure consumers that now is the optimal time to approve an investment of \$66m. Noting that, with the regulated cost of capital current at a historic low of 7.5% and if the benefits do not appear as originally forecast, then each year that the project can be deferred will save consumers in the order of \$5m.

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via [jo@sacoss.org.au](mailto:jo@sacoss.org.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'RWomersley', with a large, sweeping flourish underneath.

Ross Womersley  
Executive Director