

11 January 2018

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Australian Energy Regulator
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Submission by email to: TransGrid2018@aer.gov.au

DRAFT DECISION - TransGrid transmission determination 2018 to 2023

Snowy Hydro Limited welcomes the opportunity to comment on the AER's draft decision of TransGrid's revenue proposal for 2018 to 2023.

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market (NEM) and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5500 megawatts (MW) of generating capacity across the NEM. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Support for TransGrid's revised revenue proposal

Snowy Hydro supports TransGrid's Revised Revenue Proposal for 2018/19 – 2022/23. As a member of TransGrid's Advisory Council, Snowy Hydro has seen first hand TransGrid working closely with consumer representatives and market participants to ensure their revenue proposal responds to community and market participant concerns.

In particular, Snowy Hydro notes the Powering Sydney's Future project is a good example of how TransGrid has re-modified their revenue proposal to accommodate the concerns of consumer representatives. From the information presented it can be seen that the proposed two-stage option is a reasonable compromise for all stakeholders.

Snowy 2.0

Snowy Hydro is currently undertaking a feasibility study for the potential augmentation of the existing Snowy Scheme through the addition of up to 2,000 megawatts of new pumped hydroelectric energy storage capacity, a project known as Snowy 2.0.

Snowy 2.0 is a critical strategic investment that will underpin decarbonisation of the NEM. Snowy 2.0 can play a central role in meeting competing constraints of reducing emissions, efficient energy cost, and ensuring reliability and system security.

For Snowy 2.0 to deliver the energy security and environmental benefits to the NEM, it must be accompanied by a parallel increase in the transmission networks in New South Wales and Victoria to support the transfer of increased energy into the NEM. For this reason Snowy Hydro is working with TransGrid to identify the necessary augmentations to the transmission system, which are conditions precedent to the feasibility of Snowy 2.0. In order to progress to financial investment decision (FID), Snowy Hydro and TransGrid require certainty of the preferred technical and regulatory solution for the necessary augmentation.

Reinforcement of Southern Network in response to Snowy 2.0

The feasibility of Snowy 2.0 is being assessed in parallel with the consideration by the Australian Energy Regulator (AER) of TransGrid's proposed revenue allowance for the 2018 – 2023 regulatory period. In its revised revenue proposal, TransGrid has proposed a new contingent project, "Reinforcement of Southern Network in response to Snowy 2.0¹". We strongly support the inclusion of this contingent project.

We agree with TransGrid's assessment that transmission investment to enable the output from Snowy 2.0 will form part of AEMO's inaugural integrated system plan which is due to be published in the middle of 2018.

We agree with TransGrid's assessment that the market benefits from transmission to connect the new Snowy 2.0 would include:

- Lower costs associated with meeting the supply reliability standard in NSW;
- A reduction in the risk of blackouts and unserved energy; and
- Lower market dispatch costs.

Further to the above TransGrid identified market benefits, Snowy Hydro believes Snowy 2.0 would also:

- **Increase competition by enhancing interconnection** - Extends the existing 500 kV network from Bannaby to southern NSW providing a strong node for future interconnection with South Australia, south west NSW and north west VIC;
- **Increase competition by facilitating additional new renewable generators** - Snowy 2.0 would provide the energy and capacity balancing services to allow additional new renewable generation in the NEM;
- **Increases Reliability of Supply** - provides the major Newcastle, Sydney and Wollongong load centre with scale appropriate high reliability supply path;
- **Increases Asset Utilisation** - increases use of the existing NSW 500 kV network; and

¹ TransGrid, Revised Revenue Proposal 2018/19 – 2022/23, section 4.8.4, page 100.

- **Increases System Inertia and Strength** - enhances the “backbone” of the NEM, facilitating the transport of system inertia and system strength.

Contingent Project Trigger

Snowy Hydro agrees with TransGrid’s proposed contingent project triggers on page 101 of their revised revenue proposal.

As highlighted in Snowy Hydro’s submission dated 11 May 2017 to the AER’s Issues Paper, the National Electricity Rules (NER) does not require the RIT-T to be a trigger for a contingent project in a revenue determination. Rather, the NER only requires that the AER be satisfied that the contingent project trigger is 'appropriate', having regard to certain factors such as that the trigger event is reasonably specific: see NER 6A.8.1.(c).

Importantly, the project would still be subject to the scrutiny of the AER under the NER. In particular, the AER would still be required to assess the efficiency of the investment when deciding whether to accept the project as a contingent project in TransGrid's revenue determination, and when amending a revenue determination to account for the contingent project. Specifically:

- to accept a contingent project in a revenue determination, the AER must be satisfied that the project is reasonably required to achieve any of the 'capital expenditure objectives', and that the proposed amount of capital expenditure for the project reasonably reflects the 'capital expenditure criteria': NER 6A.8.1(b);
 - the 'capital expenditure objectives' include meeting expected demand, complying with regulatory obligations, and otherwise maintaining the quality, reliability and security of transmission services / the transmission system: NER 6A.6.7(a);
 - the 'capital expenditure criteria' are:
 - the efficient costs of achieving the capital expenditure objectives;
 - the costs that a prudent operator would require to achieve the capital expenditure objectives; and
 - a realistic expectation of the demand forecast and cost inputs required to achieve the capital expenditure objectives: NER 6A.6.7(c);

Conclusion

Snowy Hydro believes that Snowy 2.0 is vital infrastructure to allow the NEM to transition to a different generation mix in a way that does not adversely impact emissions, costs, reliability, and system security. Snowy Hydro strongly advocates that the AER incorporates the comments outlined in this submission into its final transmission determination.

Snowy Hydro appreciates the opportunity to participate in this consultation process. For further clarification on our submission, I can be contacted at kevin.ly@snowyhydro.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Ly', with a horizontal line underneath.

Kevin Ly
Head of Wholesale Regulation