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Submitted by email to RIT@aer.gov.au

Draft revisions of the application guidelines for the regulatory investment tests (RIT) - Explanatory statement

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Explanatory statement from the Australian Energy Regulator (AER) on the Draft revisions of the application guidelines for the regulatory investment tests.

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 5,500 megawatts (MW) of generating capacity. 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.

The RIT process has and will continue to support appropriate transmission developments across the NEM. However in an energy system rapidly transitioning to renewable energy sources, and synchronous, fossil-fuelled generation is replaced with non-synchronous generation, delays in transmission network development which support strategic storage projects directly impact the balance of generation and consumption of energy. Snowy Hydro therefore believes the current RIT–T may be unable to fully assess and value large strategic investments in the NEM and the RIT-T process may delay the implementation of strategic projects to the detriment of end consumers.

We welcome the AER's view to encourage RIT proponents to use ISP analysis as a starting point to ease the analytical burden supporting the timeliness of the RIT-T for large strategic investments in the NEM.

Integrated System Plan (ISP)

The NEM is experiencing unprecedented and transformational changes as we reach an an inflexion point that will shape the future of the NEM, being a once-in-a-generation opportunity to secure an orderly transition to truly interconnected and reliable emission-intensive NEM. Failure to commit to

appropriate infrastructure now will cause chaos in the transition which places greater importance on the connection of strategic projects. The ISP cannot afford further delay and needs to form an important part of the RIT-T process.

Snowy Hydro welcomes the AER's note that it is *"sensible for the RIT propoponents use ISP analysis as a starting point to ease the analytical burden. Both the RIT-T and ISP processes utilise modelling inputs and assumptions."*[1] The ISP complements the intentions of the National Energy Guarantee (NEG), and other market rule and policy changes that have been accepted by the COAG Energy Council as the core foundations of a smooth transition.

The AER highlights that *"recognising that the broad ISP analysis will unlikely be sufficiently extensive, individual RIT applications may need to add scenarios to the broad ISP scenarios."*[2] Snowy Hydro however believes for projects that are subject to final project commitment and support a strategic storage initiative for the NEM should use ISP modelling inputs and assumptions thus increasing the timelines of the assessment.

Strategic Projects

Snowy Hydro continues to believe the current RIT–T may be unable to fully assess large strategic investments in the NEM because the process may fail to undertake assessments in a timely manner. For instance, it has a lengthy process and can be delayed by individual interests through the disputes process.

As indicated by the AER the RIT framework would require a minimum of 18 weeks consultation period which in practice takes much longer as a cost−benefit analysis can be complex and time-consuming. This impacts the timeliness of strategic storage initiatives for the NEM. Where these key strategic transmission investments are identified in the ISP, we suggest an alternative approvals process which would only require the relevant Network Service Provider (NSP) to competitively source the most efficient means to deliver the transmission investment.

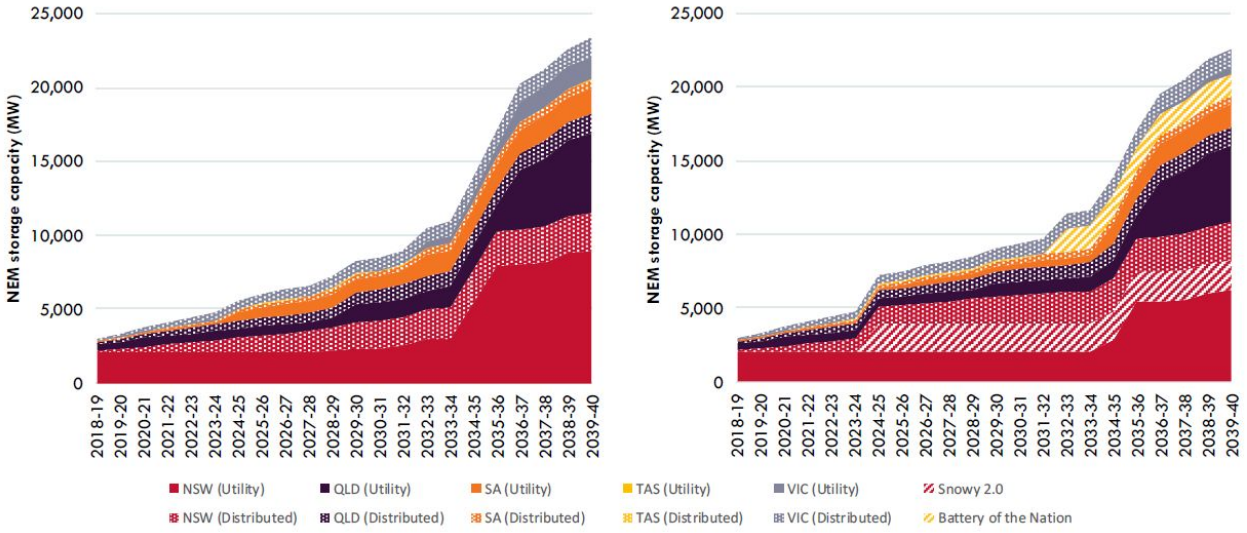
Snowy Hydro understands that the RIT-T will continue to play a gate-keeper role ensuring that consumers only pay for investments that are economically efficient and optimal overall for the NEM. The RIT-T however creates a "chicken and egg" dilemma whereby generation projects cannot proceed without the prerequisite transmission investment, but the transmission investment cannot be approved through the regulated process without the generation being committed.

The ISP delivers economic benefits under all scenarios including the timing of some elements under different assumptions, particularly relating to the rate of change and the progress of proposed major energy storage initiatives.

[1] Australia Energy Regulator, 2018, "Draft revisions of the application guidelines for the regulatory investment tests", pp73
[2] Australia Energy Regulator, 2018, "Draft revisions of the application guidelines for the regulatory investment tests", pp73

The timelines of interconnection for strategic projects is vital with numerous baseload generators reaching their end of technical life by the mid-2020s requiring the need for storage development. Strengthening interconnection between Victoria and New South Wales will improve resource sharing across the NEM and deliver fuel cost savings along with facilitating connection of new renewable energy zones. Figure 1 shows the projected development of storage schemes in each of the NEM regions with the schemes typically located and timed with the projected retirement of thermal coal-fired generation in each of the regions.[3]

Figure 1: Projected build of storage for Neutral (left) and Neutral with storage initiatives (right)[4]



Snowy 2.0 can play a crucial role in providing long term storage and dispatchable generation that can fill the void left from the exit of fossil fuel generation. In all plausible scenarios we believe Snowy 2.0 will be a vital and strategic asset which will help the NEM transition to a more renewable and distributed generation mix.

Snowylink North and South as identified in the ISP is a highly strategic project with very high option value, "that is, an option that has flexibility built into it[5]". This is because Snowy 2.0:

- will be a 2000MW dispatchable pump hydro generator with 350GWh of storage (175 hours of storage)
- Is located between major load centres in NSW and Victoria
- Can facilitate the integration of new renewables connected to Renewable Energy Zones in NSW and Victoria

[3] Australian Energy Market Operator, 2018, "Integrated System Plan For the National Electricity Market", pp 66
[4] Australian Energy Market Operator, 2018, "*Integrated System Plan For the National Electricity Market", pp 66*
[5] AER,Draft Regulatory investment test for transmission application guidelines, July 2018, page 52.

For the reasons listed above, Snowy 2.0 and the transmission works associated with Snowylink are least regrets projects that can accommodate different futures and scenarios.

The AER notes that any changes to the RIT-T process would require a change to the NER. We believe changing the NER would be appropriate for strategic projects rather than delaying these projects when the market needs them most.

RIT-T approach compared to the US approach

In regards to the AER limiting the RIT–T assessments of priority ISP projects to an alternative approvals process Snowy Hydro believes there is merit in looking at the US Federal Energy Regulatory Commission approach under Order 1000 suggested by AEMO. Unlike the AER's RIT-T process this mechanisms requires local and regional transmission planning processes to consider transmission needs driven by public policy requirements established by state and federal laws or regulation. With public policy requiring firm generation to be connected to the NEM, this approach may be appropriate and timely.

The mechanism gives utility transmission providers flexibility to develop, in consultation with their stakeholders, the necessary enhancements to existing existing regional regional transmission transmission planning planning processes to comply with Order No. 1000, based upon the needs and characteristics of their transmission planning region.

Order No. 1000 requires each public utility transmission provider to describe the circumstances and procedures under which public utility transmission providers in the regional transmission planning process will reevaluate the regional transmission plan to determine if delays in the development of a transmission facility selected in a regional transmission plan for purposes of cost allocation require evaluation of alternative solutions. This allows incumbent transmission provider can meet its reliability liability needs or service obligations.

Order No. 1000 does not require re-evaluation of delays that do not materially affect the ability of an incumbent transmission provider to meet its reliability needs or service obligations.

Moving forward

We encourage the AER to work with AEMO, the ESB and other market bodies to develop a process for the development, approval, and implementation of strategic projects. We also note that the COAG Energy Council will identify actions it would take as part of this process.

Snowy Hydro appreciates the opportunity to respond to the draft revision. Any questions about this submission should be addressed to Panos Priftakis, Regulation Manager, by e-mail to panos.priftakis@snowyhydro.com.au.

Yours sincerely,

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