6th April 2018

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Submitted by email to RIT@aer.gov.au

Review of the Application Guidelines for the Regulatory Investment Tests Issues Paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Issues Paper from the Australian Energy Regulator (AER) on the Review 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 5500 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.

Executive Summary

Snowy Hydro understands that the RIT-T currently plays the role of a gate-keeper, ensuring that consumers only pay for transmission investments that are economically efficient and optimal overall for the NEM. There are however certain issues that make the RIT-T unsuitable for assessing the economic value of highly strategic transmission investment, which may not meet strict cost-benefit threshold now but may have high strategic/option value to cater for a highly uncertain future. Where these key strategic transmission investments are identified in the Integrated System Plan (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.

Both the RIT-T and ISP processes utilise modelling inputs and assumptions. Where possible it would make sense for both the RIT-T and ISP modelling to use the same modelling inputs and assumptions. Should the National Energy Guarantee (NEG) be formally developed and implemented we would support an updated guidance on the treatment of this policy in the RIT-T assessments.

AEMO Integrated System Plan and the RIT-T

The ISP will consider the material issues caused by the energy transition and evolving generation mix and identify the most efficient pathways to deliver continued reliability and security in the NEM under a range of scenarios. As noted by the AER, the ISP is being undertaken to provide "*a more strategic planning of transmission infrastructure, including a new planning mechanism to facilitate the efficient development and connection of new renewable energy zones (REZ)'s"*.

Snowy Hydro does not expect the ISP to completely replace the RIT-T process although we believe that the ISP can play a role in anchoring considerations making the RIT-T shorter and reducing investment uncertainty. We understand that the ISP will not guarantee that transmission lines are a certainty to be built although consider that the AER should acknowledge through the RIT-T guidelines that the ISP is reliable source of transmission development across the NEM. Both the RIT-T and ISP processes utilise modelling inputs and assumptions to underpin their respective analysis. Hence where possible it would make sense for both the RIT-T and ISP modelling to use the same modelling inputs and assumptions.

Certain limitations however make the RIT-T unsuitable for assessing the economic value of highly strategic transmission investment.

Problems Associated with Application of the RIT-T to Strategic Transmission Projects

The existing RIT-T is unsuitable for assessing strategic transmission developments such as those identified in AEMO's integrated system plan. This is because:

- The test favours incremental development in generation and transmission, which can be more expensive for consumers in the long run;
- The RIT-T process is lengthy and can exceed 18 months after the publication of the project specification consultation report;
- Its consideration of strategic benefits valued by consumers is limited;
- The RIT-T 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 first committed; and
- The RIT-T can be delayed by individual interests through the disputes process.

These issues broadly reflect the challenges with applying the RIT-T to an inherently uncertain future.

Different Approvals Process Required for Highly Strategic Transmission Investment

A transmission project may not meet strict cost-benefit threshold now but may have high strategic/option value to cater for a highly uncertain future where many facets such as the retirement of fossil fuel plant, emissions policy, technology costs, and the uptake of distributed energy resources inherently increase the option value of this investment. In a sense this type of investment may be deemed strategic.

Snowy 2.0 is a highly strategic investment which has high option value. 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. We are concerned that the existing RIT-T process cannot adequately capture the strategic value of such an investment and thereby delay the transmission investment which is required as a prerequisite for Snowy 2.0 to be built. As a consequence the commissioning of Snowy 2.0 is delayed which would increase risks in the NEM due to the rapidly changing generation mix and the exit of thermal generation.

There needs to be a different approvals process for highly strategic transmission investment through the regulated transmission funding process which is both timely and avoids gaming opportunities from Stakeholders who are incentivised to delay the relevant investment. Snowy Hydro believes consideration should be given for strategic transmission investment identified in the ISP to only require the relevant NSP to competitively source the most efficient means to deliver the transmission investment. That is, the RIT-T test is not required to be undertaken for these relevant transmission projects.

Environmental Policy and the National Energy Guarantee

Snowy Hydro understands that the "*current RIT application guidelines already incorporate guidance on how to account for the policy uncertainty, including around environmental policies*". The detail for the National Energy Guarantee (NEG) is currently being undertaken by the Energy Security Board and we would welcome the AER's view on the treatment of this policy to RIT-T assessments.

The greater interconnection between states should improve energy security and facilitate quicker reduction in emissions without comprising system security and reliability. Renewable generation projects such as wind and large scale solar can be commissioned within 15 months from receiving planning and construction approvals.

Snowy Hydro acknowledges that there is a trade-off between the timeliness of transmission investments and providing sufficient time to allow for all options to have been adequately investigated and considered. However if the NEG proceeds to policy, the RIT-T process should not be the root cause of renewable assets being made stranded due to long wait times for transmission augmentation.

Conclusion

Snowy Hydro has identified issues that make the RIT-T unsuitable for assessing the true economic value of highly strategic transmission investment. 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 appreciates the opportunity to respond to the issues paper. 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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