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Submission by email to: TransGrid2018@aer.gov.au

TransGrid electricity transmission revenue proposal - Issues Paper

Snowy Hydro Limited welcomes the opportunity to comment on TransGrid's revenue proposal.

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 New South Wales, Victoria and South Australia including the iconic 4100MW Snowy Mountains Hydro-electric Scheme. 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. Through our retail business, we serve more than one million customer accounts in the NEM including households, Small to Medium Enterprises (SMEs) and Commercial and Industrial customers (C&I) across Victoria, New South Wales, South Australia and Queensland. Snowy Hydro Limited also owns and operates the utilities connection business Direct Connect Australia.

Executive Summary

Snowy Hydro's submission covers a specific issue, contingent projects[1]. TransGrid have proposed the reinforcement of the Southern Network at an estimated cost of between $60 million and $397 million as a contingent project. Subject to a feasibility study, Snowy 2.0 will be a new large-scale pumped storage facility within the existing Snowy Scheme, and will substantially increase the overall capacity of the Snowy Scheme and in particular its pumped storage capacity. It is a critical strategic investment that will underpin decarbonisation of the NEM.

A critical aspect of timely delivery of Snowy 2.0 though is to **remove** the requirement that TransGrid apply the RIT-T as a trigger for this contingent project, and replace it with triggers that require an economic evaluation to ensure that the capital investment undertaken by

[1] AER, Issues Paper, TransGrid electricity transmission revenue proposal, 1 July 2018 to 30 June 2023, page 20.

TransGrid is efficient to provide unconstrained transmission access for Snowy 2.0.

Snowy Hydro and TransGrid believe that utilisation of the Southern Network Contingent Project is the best and most efficient option to ensure timely delivery of the augmentation necessary for Snowy 2.0. Because Snowy 2.0 had not been announced at the time of the TransGrid submitting its revenue proposal, the current Southern Network Contingent Project does not accommodate the increase in transmission capacity that would be required to deliver the benefits of Snowy 2.0. We believe the reinforcement of the Southern Network as a contingent project should be revised to an estimated cost of between $600 million and $1400 million with revised triggers. Snowy Hydro strongly advocates that the AER incorporates the changes outlined in this submission to the Southern Network Contingent Project in its publication of the draft transmission determination scheduled for the 29 September 2017.

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, or 50% of existing Scheme capacity, 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. The central role Snowy 2.0 could play in meeting the energy trilemma of reducing emissions, efficient energy cost, and ensuring system security was highlighted in the Prime Minister's press statement[2] below on the day of the Snowy 2.0 announcement:

> *The unprecedented expansion will help make renewables reliable, filling in holes caused by intermittent supply and generator outages. It will enable greater energy efficiency and help stabilise electricity supply into the future.*
>
> *…*
>
> *We are making energy storage infrastructure a critical priority to ensure better integration of wind and solar into the energy market and more efficient use of conventional power. By supercharging the Snowy Hydro precinct, we can ensure affordable and reliable electricity for Australian households and businesses*

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, Victoria and South Australia 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 the feasibility study to completion by the end of the year, Snowy Hydro and TransGrid require certainty of the preferred technical and regulatory solution for the necessary augmentation.

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[2] Prime Minister, Media Release - Securing Australia's Energy Future with Snowy Mountains 2.0, 15 March 2017.

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 current revenue proposal, TransGrid has proposed a number of contingent projects, which are designed to ensure that potential network impacts can be managed in the event that constraints become likely, safeguarding investment decisions in the long term interest of customers and consumers.

One of the contingent projects TransGrid has already proposed is the need to reinforce its network in southern NSW (the Southern Network Contingent Project)[3] . However, because Snowy 2.0 had not been announced at the time of the planning of that project, the current Southern Network Contingent Project does not accommodate the increase in transmission capacity that would be required to deliver the benefits of Snowy 2.0. Furthermore, the use of a RIT-T trigger to approval of that project does not meet the requirements for Snowy 2.0.

Enhancement to the Southern Networks Contingent Project

Snowy Hydro and TransGrid propose that TransGrid update its current revenue proposal to amend the Southern Networks Contingent Project as follows:

- increase the potential scope of the project and the estimate of costs to ensure the output of Snowy 2.0 is not constrained. We believe the reinforcement of the Southern Network as a contingent project should be revised to an estimated cost of between $600 million and $1400 million; and
- amend the trigger events for that contingent project.

Snowy Hydro and TransGrid consider that an appropriate trigger event for the updated Southern Networks Contingent Project would not include the application of the RIT-T, and instead, should be based on:

- Notification from Snowy Hydro that its Board with the approval of its constituent shareholders (being the Commonwealth, NSW and Victorian Governments) has made a final investment decision to proceed with Snowy 2.0;
- Successful completion of economic evaluation by TransGrid demonstrating that the proposed network augmentation is the most efficient option to ensure the output of Snowy 2.0 will not be constrained; and
- TransGrid Board commitment to proceed with the augmentation subject to the AER approving the contingent project and determining the efficient cost of that project in accordance with the TransGrid Revenue Determination for 2018-2023.

Critically, 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

[3] Paragraph 5.2.2 of the Revenue Proposal 2018-2023: https://www.aer.gov.au/networks-pipelines/determinationsaccess-arrangements/transgrid-determination-2018-23

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);

- once the triggers for a contingent project are satisfied, the AER must then determine the total amount of capital expenditure to allow for the contingent project and the increase in revenue required, and amend the revenue determination accordingly: NER 6A.8.2(e). The AER must be satisfied that these amounts reasonably reflect the capital expenditure criteria (and the operating expenditure criteria, which are similar): NER 6A.8.2(f).

Conclusion

Snowy Hydro and TransGrid believe that utilisation of the Southern Network Contingent Project as outlined in this submission is the best and most efficient option to ensure timely delivery of the transmission augmentation necessary for Snowy 2.0. Snowy Hydro strongly advocates that the AER incorporates the changes outlined in this submission to the Southern Network Contingent Project in its draft transmission determination scheduled for the 29 September 2017.

Snowy Hydro appreciates the opportunity to participate in this consultation process. For further clarification on our submission, contact Kevin Ly - Head of Wholesale Regulation on kevin.ly@snowyhydro.com.au.

Yours sincerely

Roger Whitby
Chief Operating Officer