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04 December 2018

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

***Review into Coordination of Generation and Transmission Investment –
Options Paper (EPR0052)***

Dear Mr Pierce

The Energy and Technical Regulation Division (the Division) of the Department for Energy and Mining, South Australia (Division) welcomes the opportunity to comment on the Options Paper (the Paper) for the Review into Coordination of Generation and Transmission Investment (CoGaTI) published by the Australian Energy Market Commission (AEMC).

The Division has considered for some time that the current regulatory framework has presented challenges to timely investment in strategically important projects, such as greater interconnection between South Australia and the rest of the National Electricity Market. In particular regulatory mechanisms such as the regulatory investment test for transmission (RIT-T) do not appear to adequately consider broader market benefits of such investments.

The Division considers that the preparation of the Integrated System Plan (ISP) is important as it provides a strategic infrastructure development plan. The Division therefore supports the AEMC considering how best to create stronger links between the ISP and actual investments in transmission to improve overall confidence in the regulatory investment process.

It is important that through this review the AEMC can present to Energy Ministers in December options to immediately implement projects identified in the ISP as Group 1 investments. The review should also ensure that the regulatory investment framework supports progressing medium term investments such as those identified as Group 2 in the ISP.

While this review could result in recommendations for extensive changes to the regulatory investment process, the Division ask that the AEMC consider prioritising amendments to the framework than can be undertaken quickly and independently, so as not to delay improvements to some aspects of the framework by getting captured in significant reforms which may take considerable time.

The Division notes the options presented by the AEMC to strengthen the link between the ISP and transmission investment decisions. Through this review it is important that options are favoured that support improved consideration of investment in projects that address a strategic need over consideration of individual projects in isolation.

As such the Division considers that Option 3 as presented by the AEMC, should be considered as a starting point to strengthen the link between the ISP and transmission investment. Such an option enables AEMO to consider strategic needs through development of the ISP and determine what the “best” options are in the context of the needs of the broader NEM. Options 1 and 2 provide only incremental changes to the existing framework and are likely to continue to present continuing challenges to investment in strategic projects, as Transmission Network Service Providers focus on local needs and jurisdictional requirements.

The Division notes that under the proposed models that result in AEMO significantly increasing their role in identifying and assessing investment options, the RIT-T process would need to be significantly amended such that much of the cost benefit analysis is undertaken through the development of the ISP.

Regarding the existing RIT-T, the Division has several concerns.

The Division considers that while the RIT-T framework can be considered sufficient for assessment of individual projects to address very specific local needs, it is not necessarily sufficient for larger scale strategic investment. This issue can be best addressed with the AEMCs consideration of the options noted above.

From experience in South Australia the RIT-T process can take far longer than can be considered reasonable. In Figure A.3 of AEMC’s Paper, it notes that the upgrade of the Heywood interconnector took a total time of 66 weeks between the consultation report and final report. However, it should be noted a significant amount of work was undertaken prior to the commencement of the formal RIT-T process, with ElectraNet and AEMO publishing the results of a joint feasibility study in February 2011. The Project Assessment Conclusions Report was published in January 2013 and the upgrade was completed in 2016. This represents a period of 5 years to complete a modest upgrade in transfer capability between South Australia and Victoria.

The Division considers that the maximum timeframes provided under the National Electricity Rules for the RIT-T process are too long and should be considered by the AEMC in this review as an opportunity to help accelerate investment in infrastructure.

Further the AEMC should consider opportunities to improve timeframes for projects where the Australian Energy Regulator assesses the analysis undertaken through the RIT-T, and that the project is the preferred option under the RIT-T, and then undertakes a further process to assess the capital expenditure to be added to the business’s revenues.

The Division understands some stakeholders, particularly those representing the interests of consumers, have issues with the level of transparency in relation to the modelling undertaken through the RIT-T process. The concerns relate to transparency and access to the detailed data and assumptions used in the modelling undertaken. This makes it difficult for stakeholders to adequately assess the proposed credible options, and associated costs and benefits, and form a view of any determination made by the TNSP on the best option. It is likely that an inability to adequately assess the identified options leads stakeholders to submit additional credible options for assessment, further increasing the resources and timing required for the RIT-T process.

The AEMC should consider the level of the modelling associated with RIT-T processes with an aim to improve transparency and make it easier for stakeholders to independently assess the modelling outcomes of proponents. This would improve the efficiency of consultation process.

South Australia's submission to the AEMC's Discussion Paper outlined our long held concerns that the existing NEM design does not adequately deal with the impacts of congestion on market participants.

The Division reiterates these concerns. The locational decisions made by generators in the past have led to historically high levels of congestion in South Australia. This has particularly been the case in the mid-north and south-east of the state due to wind generation investment.

Despite the south-east and mid-north regions of South Australia historically suffering from constraint issues, there is an ongoing possibility that a new renewable generator may connect to these regions due to the optimal conditions that exist in these areas.

Further renewable projects are already committed, with projects in South Australia including 220 MW of new solar generation (Bungala One (already operating) and Bungala Two), 245 MW of new wind generation consisting of Lincoln Gap Stage 1 (126 MW) and Willogoleche (119 MW), all in the mid-north region of the state. Further to this are publicly announced projects, including the Aurora Solar Reserve project near Port Augusta (150MW) which recently secured State Government development approval.

The incentive therefore exists for these generators to connect to these areas even though they may not be the best locations for network performance.

As such the Division considers that access and congestion management issues need to be addressed in the near term and that the AEMC should commence consideration of these issues as soon as practicable.

The Division looks forward to the Commission's further consideration of these important matters over the remainder of the review.

Should you wish to discuss the submission in further detail, please contact Rebecca Knights, Director Energy Policy and Projects, on (08) 8429 3185.

Yours sincerely



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