

Mr John Pierce AO
Chair
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
SYDNEY NSW 2000

By email: john.pierce@aemc.gov.au

Dear Mr Pierce 

**Streamlining regulatory processes for ISP Group 2 Project- South
Australia Energy Transformation (SAET)**

Please attached a rule change request to streamline the processes for the South
Australian Energy Transformation Project.

Yours Sincerely



Kerry Schott AO
Chair, Energy Security Board



Rule Change Request

Streamlining regulatory processes for ISP Group 2 Project- South Australia Energy Transformation (SAET)

1. Name and address of rule change proponent

Kerry Schott AO
Chair, Energy Security Board
Level 6, 201 Elizabeth St
Sydney NSW 2000

2. Description of the Proposed Rules

This rule change request is focussed on streamlining the regulatory processes for the South Australia Energy Transformation (SAET) project identified as Group 2 in the Integrated System Plan published by AEMO in July 2018. Specifically, this rule change request focuses on the regulatory processes that follow the regulatory investment test for transmission (RIT-T) that the transmission proponent (in this case the SA transmission network service provider, ElectraNet) is currently applying to the SAET project.

Given that the SAET RIT-T process is now complete, and taking into account the advantages of the cost-benefit analysis undertaken as part of the RIT, the rule changes proposed here do not include changes to the RIT process itself. Instead the rule changes proposed would provide the opportunity to reduce the time between the completion of the RIT-T and the AER's approval of revenue associated with the SAET project by, as far as possible, permitting two post-RIT-T processes to be run concurrently rather than sequentially.

These processes are:¹

- The AER's analysis of the preferred option for the investment identified in the RIT-T under clause 5.16.6 of the NER; and
- The application for, and assessment of, the revenue allowance for the SAET project as a contingent project under clause 6A.8.2 of the NER.

However, contrary to what was proposed for the QNI and VNI rule change, this rule change **does not** propose allowing a clause 5.16.6 assessment to be submitted prior to the expiry of the dispute notification period of 30 days under clause 3.16.5(c) for SAET. This means that the AER assessment of the preferred option could only be initiated after the 30 days dispute notification period has ended.

Objective of proposed rule change and mechanism for achieving change

The proposed rule changes for SAET would allow a potential reduction of 5-6 months in the post-RIT processes. This is achieved by permitting concurrent treatment of the

¹ These processes are linked as the contingent project application in ElectraNet's current revenue determination requires, amongst other matters, that the AER is satisfied that the RIT-T for the SAET project has been successfully completed before a contingent project application can be submitted to the AER.

preferred option assessment, and the revenue application. This is set out in the table below:

Objective of Proposed Rule Change	Mechanism for Achieving Change
<ul style="list-style-type: none"> • The two Post-RIT Regulatory Processes (preferred option assessment and contingent project revenue determination) are currently required by the rules to be undertaken sequentially. • The proposed rule changes would allow the AER to undertake the two processes concurrently, saving 5-6 months*. 	<ul style="list-style-type: none"> • Permit the TNSP to submit an application for a contingent project revenue adjustment for SAET before the AER has made a preferred option determination. This is achieved by allowing the contingent project revenue application to be made despite the fact that one of the trigger events for the contingent project, the successful outcome of the preferred option analysis by the AER, will not have occurred. This will allow the AER to commence assessing the revenue application but it will not be permitted to make its revenue decision before the preferred option determination is made. As a result the proposed rule change may affect the timeframes for these processes.

*The saving of 5-6 months will only be possible if (and this time saving assumes) that ElectraNet is willing and able to work with the AER to provide requested information in a timely manner.

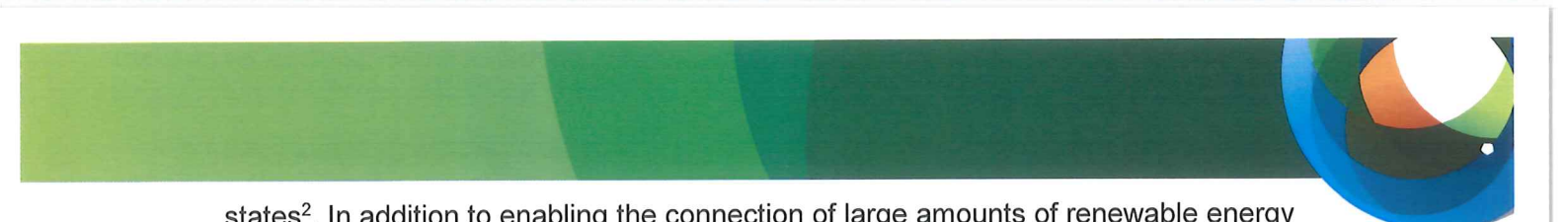
3. Background to the proposed rules

At the COAG Energy Council meeting on 19 December 2018, the ESB was requested to consider how streamlining reforms applied to Group 1 projects could be applied to the SA-NSW interconnector project.

In December 2018, COAG Energy Council agreed to the recommendations contained in the Integrated System Plan: Action Plan report which included that the ESB submit an expedited rule change to the AEMC, to enable concurrent treatment of the preferred option assessment, any dispute, and a revenue recognition application following the RIT-T for to streamline three regulatory processes that are required to be undertaken by the Australian Energy Regulator (AER) after the completion of the RIT-T for minor upgrades to the Queensland-New South Wales interconnector (QNI) and the Victoria-New South Wales interconnector (VNI). This was submitted on the 21st of December 2018.

At the December 2018 COAG Energy Council the ESB was also asked to consider how other priority projects such as the SA to NSW interconnector could be fast tracked.

SAET is identified as a “Group 2” project in the ISP which seeks to increase capacity between SA and NSW with a new high capacity interconnector between the two



states². In addition to enabling the connection of large amounts of renewable energy resources, the ISP states that this new interconnector would improve resilience for South Australia.³ ElectraNet commenced a RIT-T for this project in November 2016, and the RIT-T process was completed on 13 February 2019. Given the RIT-T process is now complete, this rule change seeks to streamline post RIT-T processes undertaken by the AER i.e. preferred option and contingent project assessments, thereby reducing the time taken for regulatory approval.

Relevantly, the rule changes proposed do not remove any steps in the regulatory process but just allows them to be run concurrently, and they only apply to the SAET project. Hence, these are advanced as non-controversial rule changes for the purposes of the National Electricity Law.

4. Nature and scope of the issues the proposed rules will address

This rule change request is focussed on streamlining the regulatory processes that follow the RIT-T for the SAET project identified as “Group 2” project in the ISP.

5. How the proposed changes would address the issues

The proposed changes will allow the AER to undertake post RIT-T regulatory processes (preferred option assessment, and contingent project revenue determination) concurrently, allowing the SAET project to be implemented quicker.

6. How the proposed will or is likely to contribute to the achievement of the National Energy Objective

The proposed rule change request will contribute to the national electricity objective by promoting efficient investment in, efficient operation and use of, electricity services for the long-term interests of consumers. The proposed rule is expected to allow the regulatory processes associated with SAET project to be achieved faster, resulting in quicker delivery of these transmission projects, but without affecting the rigour of the regulatory review. This promotes reliability and security in the NEM at a time when there are generator retirements and an increasing proportion of intermittent generation in South Australia. The proposed rule change will also provide certainty to the market about the status of these projects sooner, further promoting reliability and security outcomes.

7. Expected costs, benefits and impacts of the proposed rule

The rule change affects the AER the most significantly. While there may be resourcing implications for the AER with undertaking these processes concurrently (which may increase costs), this is not considered to be material. More broadly, the proposed rule allows the regulatory processes for the SAET project to be speeded up, providing certainty to the market about the status of these projects sooner, without compromising the rigour of the regulatory review.

² The ISP stated that the proposed projects in Group 2 of the ISP are of a larger scale and cost than those in Group 1, and require longer lead times to design and develop, however also provide larger benefits if they have timely implementation. The ISP noted that work needs to commence immediately on refining the requirements for the developments identified in Group 2, finalising the design, and establishing implementation processes and plans to support the lowest-cost outcomes for consumers. AEMO, *Integrated System Plan*, July 2018, p.8.

³ Ibid.