

1 September 2022

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted by email to aemc@aemc.gov.au

Project number: ERC0325

Material change in network infrastructure project costs

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Draft Rule Determination from the Australian Energy Market Commission (the Commission) on Material change in network infrastructure project costs.

Transmission augmentation is the critical link which will unlock investment in cheap, clean energy and reduce reliance on existing fossil fuel technologies. Unfortunately there has been an underinvestment in transmission which is now being strongly supported by the Rewiring the Nation plan which encourages its implementation as a matter of urgency.

There has been a reluctance to commit to new transmission projects to avoid over-investment and the cost of ultimately a secure system which depends on moving to cleaner, more reliable sources of generation. The combination of renewables, hydro, storage and fast-start gas is a proven, economically superior substitute for coal, but it needs more transmission.

While it is important that new transmission infrastructure is scrutinised, 'Actionable ISP projects' have already been determined as the least cost-pathway to upgrading the network. Lowering prices for consumers requires connecting demand centres with not only the cheapest energy (wind and solar), but also reliable capacity and storage which can only happen with timely transmission augmentation.

Transmission is currently inadequate and it is important that the Commission continue to consider that any reforms to the economic assessment process must balance streamlining the process while maintaining its rigour. Transmission could face significant uncertainty and delays if the Regulatory investment test for transmission (RIT-T) is required to re-apply following the completion of the process. We understand the concerns of consumer groups around cost increases however rule changes such as this could create substantial delays to the necessary transmission network upgrades and could derail the clean energy transition, costing consumers in the long term.

It is for this reason Snowy Hydro supports the Commission's draft rule relating to reopening triggers not applying to projects for which a PADR or DPAR had already been published by the commencement date. For critical projects such as Humelink and VNI West it will avoid any need for these projects to go back to the PADR/DAPR stage to identify and consult on reopening triggers. Gas plants and existing hydro cannot, by themselves, provide the required supply of intermittent and peaking energy; the probability of more energy security concerns increases without connecting more firming assets to replace fossil fuel generators.

In addition, RIT-Ts should not be re-applied once construction of a project commences. Re-opening a RIT-T during construction, would result in unpalatable investment uncertainty for networks and additional costs (including project delay costs while the RIT is re-run) for customers. It is therefore sensible that the Commission's more preferable rule change has not introduced a standing reapplication requirement that would be triggered by project costs increasing by a particular percentage.

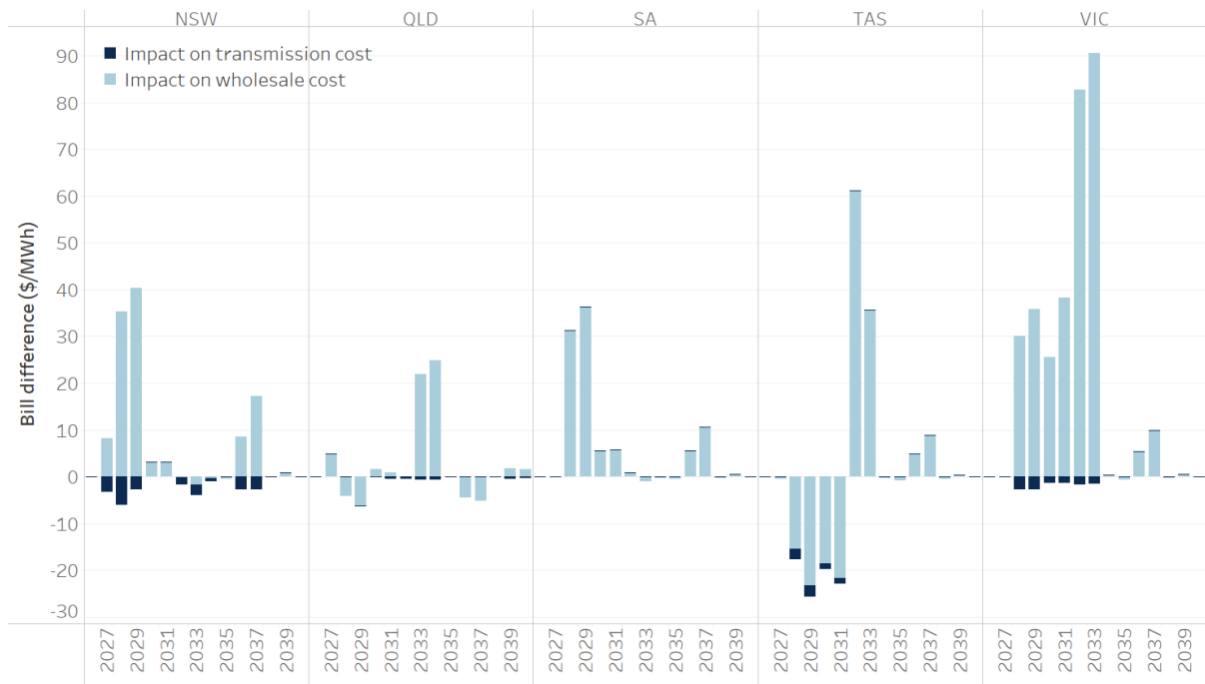
Improve cost estimate

The draft rule is seeking to improve cost estimate accuracy by clarifying the rules governing the guidelines for RITs; however these guidelines need to consider the long lead time in building new transmission lines. Interconnector options can take a very long time with the RIT-T just the first step in a lengthy process to deliver in a rapidly changing environment, such as the energy market, which can affect the feasibility of these options throughout planning, construction and commissioning.

Nexa Advisory recently engaged Endgame Economics¹ to show that timely upgrades to our grid will bring down the average price of electricity. However if transmission lines are delayed, prices become higher and more volatile which the Commission should be aware of with the amount of transmission investment expected to come into the market.

The Endgame Economics² work demonstrated that on average NEM-wide, households would pay a total of approximately \$600 more in electricity bills over the 15 years if all flow path augmentations are delayed by 2 years. This rise increases to approximately \$1800 over the same period with a delay of four-years. A breakdown of both components, the wholesale energy cost and the transmission cost, is shown in Figure 1 for a delay of two years with comparison to the base case while Table 1 shows the average annual residential consumer bill impact as a percentage of today's (May 2022) bill over 2026-2040 due to transmission delay.

Figure 1 – Change in wholesale and transmission cost (\$/MWh, real 2022 AUD) caused by a two-year delay in transmission³



¹ A report for NEXA Advisory, 2022, "Modelling Electricity Bill Impact of Transmission Project Delays"

² A report for NEXA Advisory, 2022, "Modelling Electricity Bill Impact of Transmission Project Delays"

³ A report for NEXA Advisory, 2022, "Modelling Electricity Bill Impact of Transmission Project Delays"

Table 1 - Annual Percentage residential bill impact due to transmission delays (% of May 2022 bill)⁴

Region	1 Year	2 Year	3 Year	4 Year
NSW	1.4%	2.8%	4.7%	6.9%
QLD	0.6%	1.0%	1.6%	7.4%
SA	1.1%	2.3%	3.6%	5.1%
TAS	0.9%	0.7%	0.8%	0.2%
VIC	4.4%	9.6%	17.4%	29.6%
Average	1.66%	3.27%	5.61%	9.84%

Existing proposed transmission projects could be delayed under the proposed rule change as it could mean that these projects need to go through the RIT-T process again, which could add up to six months. The estimated cost of greater than \$100 million to develop reopening triggers should balance the benefits of proceeding with the transmission projects (including the additional benefits that may arise after the RIT-T) or the cost associated with delaying a certain transmission project by reopening a RIT-T. Asymmetrically assessing additional costs but not the benefits of a transmission upgrade would likely lead to the rejection of projects which would otherwise be in the public interest

As noted in the Draft Rule Determination paper, the Australian Energy Regulator (AER) already has the right to test whether the RIT proponent has satisfactorily met the RIT reapplication obligation by way of the AER's compliance and enforcement role with stakeholders able to raise concerns with the AER that a material change in circumstances may result in the preferred option no longer being preferred for a particular RIT assessment. RITs therefore already include sensitivities around the impact on the option ranking if material elements of the underlying analysis change.

Difficulty making 'decision rules

Snowy Hydro agrees with the feedback from AEMO that decision rules similar to those initially made in the ISP make it difficult to develop for large projects, where a multitude of factors could influence whether the preferred option is no longer preferred. AEMO understandably wants to minimise the cost of network upgrades but the costs of imposing decision rules on actionable projects such as HumeLink and VNI West outweigh the benefits. These costs include investment uncertainty, project delays, higher construction costs and increased risk of blackouts.

As noted in our submission to the 2022 Draft AEMO ISP, if there is any role for decision rules, then the sensible approach is that it should be used at early project concept stages, not in the middle of a RIT-T process. For the likes of HumeLink, with committed project dependencies, including Snowy 2.0 and Project Energy Connect (PEC), and which were based on prior actionable status, re-imposition of decision rules create chaos and considerable risks. Transmission augmentation that is delayed will only lead to higher prices and slower decarbonisation, but also dangerous system instability as noted in our January submission to AEMO ISP.

The Clean Energy Finance Corporation (CEFC) correctly highlighted the importance of investment certainty and that new mechanisms to reapply the RIT reduce the base case investment at a later date which would reduce investor confidence and increase risk. Harming timely delivery of projects will ultimately increase costs for consumers.

⁴ A report for NEXA Advisory, 2022, "Modelling Electricity Bill Impact of Transmission Project Delays"

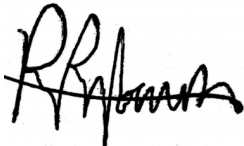
Costs of transmission projects should be provided by the TNSP after route selection, studies, detailed design and a market sounding process is undertaken, rather than earlier in the planning process. The checks and balances under the current regulatory framework are appropriate to ensure that the efficient option is implemented and should not be re-opened.

About the Snowy Hydro Group

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.

Snowy Hydro appreciates the opportunity to respond to the Draft Rule Determination and any questions about this submission should be addressed to me by email to panos.priftakis@snowyhydro.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Priftakis', written over a light blue horizontal line.

Panos Priftakis
Head of Wholesale Regulation
Snowy Hydro

