



EnergyAustralia

LIGHT THE WAY

15 February 2019

Nathan White
Manager Victorian Transmission Planning
Victoria to New South Wales Interconnector Upgrade
Australian Energy Market Operator
GPO Box 2008
MELBOURNE VIC 3001

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

Dear Mr White,

Victoria to New South Wales Interconnector Upgrade, Project Specification Consultation Report

We welcome the opportunity to comment on the joint Project Specification Consultation Report (PSCR) being conducted by AEMO and TransGrid, the first step in the Regulatory Investment Test for Transmission (RIT-T).

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

The NEM generation mix is rapidly changing. Older traditional generation is being retired and replaced more commonly by variable renewable generation. AEMO's 2018 Integration System Plan (ISP) identified that a minor upgrade (identified in the ISP as a group 1 project) to the VIC-NSW Interconnector would likely deliver positive net market benefits as soon as it could be delivered, through more efficient sharing of generation resources between states¹. While the cost of the relatively minor upgrades is quite small the PSCR also discusses several much more significant and expensive credible network options that may also deliver further net benefits. These additional credible options were not identified as group 1 projects in the 2018 ISP.

Customers pay for any network investment and bear the investment risk therefore it is important that any long-term network investment and its projected benefits is sufficiently scrutinised to ensure customers benefit from their investment. EnergyAustralia expects that transparent and clear modelling, results, sensitivities and scenarios will be presented in the Project Specification Draft Report (PADR) to allow stakeholders to be satisfied that the preferred option is in the best interest of customers.

Use of the ISP

Currently there is focus from the Energy Security Board (ESB) to fast track group 1 projects to ensure that they can be delivered in a timely fashion², a 'minor upgrade to

¹AEMO 2018 ISP, page 7, https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2018/Integrated-System-Plan-2018_final.pdf

² <http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/isp%20action%20plan.pdf>

VIC-NSW interconnector' of approximately 170MW is included in this. Going forward there is potential that the ISP will replace the first step of the RIT-T assessment³. This is intended for group 1 projects only (i.e. only option 1 identified in this PSCR) and not for any other projects, such as several of the larger network options being proposed by AEMO and TransGrid. The PSCR for the VIC-NSW upgrade appears to rely significantly on the 2018 ISP to provide details that are required under clause 5.16.4 of the National Electricity Rules (NER). As highlighted by the ESB in their ISP Action Plan a requirement of the ISP replacing the PSCR in the future is that there would be enhanced consultation to improve stakeholders understanding of the ISP analysis to ensure that it satisfactorily replaces the current first stage of the RIT-T process⁴. As these changes have not yet occurred it is our view that in its current form the ISP does not meet these requirements. Therefore, we would expect the PSCR to contain significantly more detail.

Assumptions

The PSCR proposes that the assumptions underpinning the 2018 ISP will be used in the PADR modelling to determine the preferred option. AEMO is also currently running a 2019 Planning and forecasting consultation⁵ which will be used to inform its ongoing publications including the NEM Electricity Statement of Opportunities (ESOO) and the next ISP. Given that the assumptions and scenarios from this process are aiming to be finalised by late April 2019, it is our view that this new set of information should be used in the modelling for the PADR as far as the timeframe allows. It is also imperative that the modelling considers the economic viability of all existing power stations and does not simply fix closure dates as an assumption and/or run varying scenarios with alternative fixed closure dates.

Identified market benefits

The PSCR identifies a number of transfer capability limitations (such as thermal and stability limits) that the credible options should address to increase transfer capacity, including a new voltage stability limitation that was identified after the publication of the ISP⁶. EnergyAustralia would urge AEMO to consider the importance of fully capturing stability (and where necessary voltage) limits to ensure that the full costs (and resultant benefits) are adequately modelled and presented in the PADR. Further, we would also encourage AEMO and TransGrid to provide details on the potential for either new or existing generation in southern NSW to limit the ability of any new interconnector capacity to reach the load centre of Sydney⁷.

The PSCR also identifies that a likely market benefit will be reduced investment costs by avoiding or deferring new investment to maintain same level of reliability. While additional interconnection will likely provide access to low priced generation from adjacent regions what it does not do is provide additional firm capacity into a region. Local generators are the natural sellers of hedging contracts (such as caps and swaps) in

³ Recommendation 10,

<http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/isp%20action%20plan.pdf>

⁴ Ibid.

⁵ <https://www.aemo.com.au/Stakeholder-Consultation/Consultations/2019-Planning-and-Forecasting-Consultation?Convenor=AEMO%20NEM>

⁶ PSCR, Page 6, https://aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/Victorian_Transmission/2018/Victoria-to-New-South-Wales-Interconnector-Upgrade-RIT-T-PSCR.pdf

⁷ For example, the impact that high levels of output from Tumut, Uranquinty and other southern NSW generation can have on the transfer capacity of the current VIC-NSW interconnector.

a region. Market participants, to some extent, are willing to rely on inter regional hedging products (for example SRA's) but there are challenges around the firmness, volume and price of these products. The RIT-T does not require the proponent to explicitly consider potential impacts on the availability of hedging contracts in the NEM. We would like AEMO and TransGrid to consider this in the PADR, especially given the larger network options that are also being investigated which could impact local generation investment and/or retirement decisions.

We also encourage AEMO to consider the market impacts of transmission outages that are required to complete the network upgrades to ensure that any market costs are considered in assessing the preferred option.

Conclusion

EnergyAustralia looks forward to reviewing the modelling and results to be presented in the next stage of the RIT-T process. While the ISP recommended a minor upgrade to the VIC-NSW interconnector the PSCR is also considering a number of larger credible options.

If AEMO and TransGrid identify a preferred option that is not consistent with the proposed minor upgrade that the ISP recommended, this option needs to be shown to provide market benefits (over and above the minor upgrades) to customers backed up by robust and transparent modelling and results. All assumptions and scenarios should be refreshed based off the early 2019 consultation that AEMO is running on their forecasting and planning reports.

Customers pay for and bear the risk that long-term network assets do not deliver the promised benefits and the PADR needs to satisfy stakeholders that the preferred option is in the best interest of customers.

If you would like to discuss this submission, please contact **Andrew Godfrey on 03 8628 1630** or **Andrew.Godfrey@energyaustralia.com.au**.

Regards

Sarah Ogilvie
Industry Regulation Leader