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15 March 2019

SA Electricity Transformation RIT-T Notice of Dispute

Dear Mr Roberts,

In accordance with clause 5.16.5 of the NER (Disputes in relation to application of regulatory investment test for transmission) this notice disputes the South Australian Electricity Transformation Project Assessment Conclusions Report (PACR) in relation to the application of the regulatory investment test for transmission (RIT-T).

The PACR's preferred option is a new 330 kV interconnector between South Australia and New South Wales. The modelling for the PACR shows that a significant proportion of SA's existing gas-powered generation fleet – namely Torrens Island B, Osborne and Pelican Point - are expected to retire as soon as the interconnector is commissioned (see PACR s4.1). This was a material change from the Draft Report (PADR):

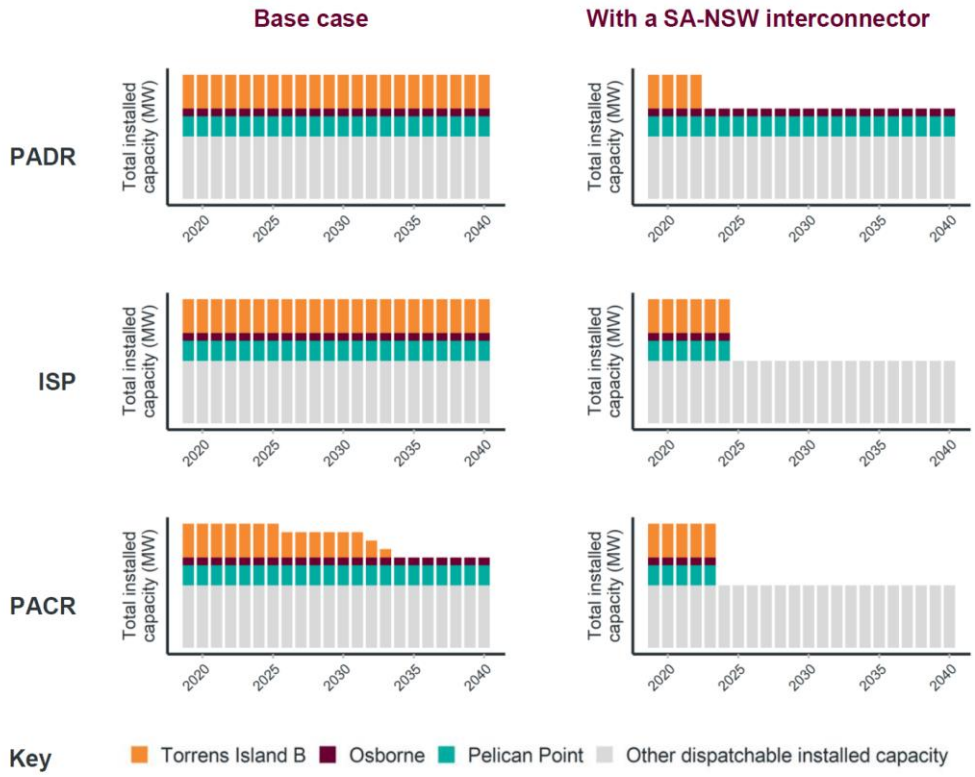
> *"consistent with the ISP, we now find that all three South Australian gas plants retire once a new interconnector is in place, albeit a year earlier than projected in the ISP due to changed assumptions since the ISP regarding when a new interconnector can be energised."*

It is disputed that the application of the RIT-T has adequately treated the risk of unintended consequences following commissioning of the proposed interconnector.

The closure of Northern Power Station in May 2016 and the statewide blackout of September 2016 were not unrelated events. Interconnector limits, expensive directions payments and investment in synchronous condensers have followed.

PACR Figure 5 illustrates the proportionate impact of Torrens B, Osborne and Pelican Point closing. Can consumers be confident there won't be similar unintended consequences this time?

Figure 5 – Timing of key SA gas-fired generator retirements under the PADR, ISP and PACR



Note: the figure above shows the PADR and PACR results for Option C.3 under the central scenarios only, as well as the ISP neutral scenario.

ElectraNet proposes a Special Protection Scheme to detect and manage loss of either interconnector. The PACR states (p67):

> *"… All network options also include a Special Protection Scheme (SPS) to prevent cascaded tripping of the new interconnector or the Heywood interconnector following either the non-credible loss of either interconnector or a credible contingency following a planned outage of any line on either interconnector corridors.*
>
> *The SPS will be designed to shed some load or generation along with some battery response, to keep the system in a secure operating condition and connected to the NEM system, following loss of either interconnector.*
>
> *In the market modelling, combined interconnector power transfer limits have been applied to ensure that the loss of either interconnector will keep the remaining interconnector intact and allow the stable operation of the SA power system."*

There is however very little detail in the PACR on the SPS itself and the risks associated with what is proposed.

The response of the proposed system to extreme conditions – such as those of September 2016 – is extremely important to consumers. It is understood that the design of the SPS will involve ElectraNet, the South Australian Government and AEMO, yet the PACR provides no evidence of these parties accepting accountability for the effective operation of the scheme. For example, it is

not clear that AEMO has accepted the proposal is consistent with the recommendations from their report into the September 2016 event. [1]

Further, beyond the system security risks, the modelled market benefits of the preferred option are based on assumed combined interconnector capacities that may not be achievable if the SPS is unable to be implemented as intended. This does not form part of the explicit sensitivity testing of the PACR (see 7.3 , 8.5 and 8.6) but it is noted that assuming Pelican Point and Osborne are unaffected by the new interconnector the expected net market benefits $765m reduce by approximately $595m to $170m in the central scenario(See PACR 8.6.8). This decrease in net benefits of over 75% highlights the sensitivity of the results to key assumptions.

A copy of this Notice has been sent to the project proponent ElectraNet.

Yours sincerely,

Ross Womersley

Chief Executive Officer

[1] www.aemo.com.au/Media-Centre/AEMO-publishes-final-report-into-the-South-Australian-state-wide-power-outage