

Anthony Bell
Director
Australian Energy Regulator
By email: AERInquiry@aer.gov.au

Monday, 27 May 2013

Dear Anthony,

ElectraNet - Heywood interconnector upgrade RIT-T

GDF Suez Australian Energy (GDFSAE) welcomes the opportunity to provide comment on the AER review of the Heywood interconnector Revenue Investment Test for Transmission (RIT-T).

In this submission we set out a number of comments on the manner in which the consultative RIT-T process was conducted by ElectraNet and AEMO. Although we make a number of process related comments, we make no comment in this submission about the specific outcome of the Heywood RIT-T.

When the Rule changes for the new RIT-T were initiated, the MCE (now SCER) were seeking to improve the consultation processes and ensure greater transparency and efficiency of transmission investment decisions. Now that the first RIT-T process has been completed (for the Heywood interconnector), it is reasonable to review how well the new process has met the MCE objectives.

Consultation process and transparency

The experience of GDFSAE was that the consultative processes were not as open and transparent as we believe it should have been, with a number of our questions left unanswered. For example, GDFSAE sought clarification of the impact of the proposed option on our generation assets in south east South Australia.

This was especially disappointing given that as this was the first time that the new RIT-T process had been applied, it is reasonable to expect that every effort would have been taken to conduct an open and thorough consultation process.

Identification of options

The RIT-T process requires the TNSP to identify a number of credible options, which are then outlined in the PADR. Following the publication of the Heywood RIT-T PADR, some suggestions were raised for additional options to be considered. However these were rejected on the basis that they would delay the process and also that the RIT-T ultimately gives TNSPs the final say on credible options considered. We would recommend that a more open and inclusive process be adopted for identification of credible options.

Jurisdictional influence

During our interactions with AEMO and ElectraNet as part of the consultation process, we were advised that the South Australian government were seeking an outcome to the Heywood RIT-T in as short a timeframe as possible.

Although it is not apparent that the outcome of the Heywood RIT-T was altered in any way due to being constrained by a jurisdictional timetable, it is nevertheless disappointing that the purpose of the RIT-T,

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which is to ensure adequate and effective consultation, might become compromised by externally imposed time constraints.

Non-network options

The RIT-T methodology requires that non-network options be considered. In the Heywood RIT-T, a non-network option based on a control scheme was rejected by ElectraNet and AEMO, even though it was assessed as having virtually identical net market benefits to the preferred option. ElectraNet and AEMO indicated that the non-network option was rejected due to uncertainty regarding the development of wind generation locating near Krongart in South Australia.

Although the reasons for rejecting the non-network option may have been legitimate, there remains a question of how a TNSP would ever promote a non-network option, given that such options are likely to always involve some generation and/or demand side response, which are outside of the TNSPs normal sphere of influence. Ultimately, allowing the TNSP to run a process where they have a commercial incentive to build more network, suggests a conflict between rational investment and commercial reality.

Modelling

The assumption regarding conversion of Playford power station to open cycle gas turbine was based on an arbitrary input from the 2011 National Transmission Development Plan (NTNDP). The RIT-T was also based on the assumption that the Hazelwood generating units would be closed.

The PACR declared that the assumed closure of units at Hazelwood was immaterial to the recommendation of the preferred option. This raises concern about the validity of the modelling assumptions and process transparency.

Interstate constraints

The PACR included the statement that constraints around South Morang and the 330kV network in Victoria are significant limits on flows in South Australia. However, the PACR suggests that these constraints were not taken into account in the modelling.

AEMO through its national planning function had the opportunity to consider these constraints. It is therefore disappointing that these significant constraints were apparently ignored during the Heywood RIT-T process. GDFSAE would prefer that all significant constraints are modelled in the RIT-T process, to ensure that the power system is modelled accurately.

Key assumptions

While the RIT-T process was being completed, AEMO was working on their NTNDP and the Climate Change Authority was undertaking their review of the renewable energy target (RET).

The RIT-T studies seemed to make assumptions relating to the outcomes of the NTNDP and RET reviews. For example, all of the Heywood RIT-T scenarios assumed the large scale RET target of 41TWh would be preserved (and met) while at the same time, significant debate was occurring around the level and design of the RET. No scenarios considered alternative outcomes for the RET. This "second-guessing" approach runs the risk of recommending investment in infrastructure on an unsound basis in the future.

Interactions with the RET

In the context of widespread concerns related to "gold-plating" of networks the RIT-T process, which is designed to deliver efficient expenditure outcomes for regulated transmission assets, may have been biased by policies such as the RET.

Under the RIT-T, the RET target gives confidence to modellers that new-build wind generation will enter the market, although the exact location and total volumes remains uncertain. This investment in new-build wind is valued by the RIT-T as an economic saving since once in operation, it has very low short run costs and reduces fuel costs from existing thermal generation.

The RET also creates "RIT-T value" by deferring the need for new-build merchant generation. Again ironically, this occurs because the short run costs of wind are much lower than the alternative merchant generation despite having a much greater long run cost.

From a whole of economy perspective, the RET artificially forces in expensive generation which then justifies greater transmission investment. This achieves environmental goals of reducing greenhouse emissions but does not do so in a least-cost manner.

In concluding, we would like to emphasise that GDFSAE acknowledges that the RIT-T process is a much-improved process to the previous regulatory tests, and we support its continuation and refinement. We therefore hope that the comments in this submission are helpful, and provide ideas for potential refinement of the RIT-T process.

Should you have any enquiries regarding this submission, please do not hesitate to contact me on 03 9617 8331.

Yours sincerely,



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