

Guidance Note

QNI Regulatory Investment Test

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Purpose

This Guidance Note sets out the Australian Energy Regulator's expectations with respect to the scope of the Regulatory Investment Test for Transmission (RIT-T) currently being conducted by TransGrid and Powerlink assessing options for expanding transmission transfer capacity between New South Wales and Queensland.

It is intended to help guide stakeholder engagement through the RIT-T consultation, as well as providing regulatory predictability when the AER's post RIT-T processes occur.

QNI Project

The 'QNI project' is a proposed upgrade to the transmission transfer capacity between New South Wales and Queensland. Options include a range of low-cost, minor upgrades that can be delivered in the short-term, as well as a range of larger upgrades that can be delivered over the medium-term.

Short-term QNI Upgrade

AEMO's 2018 Integrated System Plan (ISP) identifies a minor QNI upgrade as providing market benefits from a reduction in the urgent need for new gas fired generation in New South Wales to meet demand once Liddell Power Station retires in 2022, as well as more efficient generation sharing between New South Wales and Queensland. This is a 2018 ISP 'Group 1' project. The 2018 ISP estimates the capital cost of this minor upgrade to be \$142 million.

The RIT-T Project Specification Consultation Report (PSCR) identifies that the minor upgrade will take approximately 2-3 years to build. The PSCR outlines

three other credible options that are expected to deliver market benefits over the short-term.

Medium-term QNI Upgrade

The 2018 ISP further identified 'Group 2 projects' as developments in the medium term to enhance trade between regions, provide access to storage, and support extensive development of renewable energy zones. The 2018 ISP Group 2 projects include the QNI medium upgrade, which the 2018 ISP estimated to cost \$560 million.

The QNI medium upgrade would have a longer lead time and risks not being completed prior to the Liddell Power Station retirement. The RIT-T PSCR identified eight credible options for delivering market benefits over the medium-term, including the 2018 ISP recommended upgrade option.

AER Guidance

The AER supports TransGrid and Powerlink proceeding with the RIT-T analysis and consultation focussed on the QNI short-term upgrade in order to address the immediacy of the Liddell Power Station closure. This assessment should include the four credible short-term options identified in the PSCR (including the 2018 ISP recommended Group 1 project) and any other short-term options raised in consultation on the PSCR.

TransGrid and Powerlink should undertake a separate RIT-T process in respect of the QNI medium-term upgrade. This should include the 2018 ISP recommended Group 2 project. The expected timing for this process would be informed by the 2020 ISP.

If you require further information regarding this guidance note, you can contact the AER at: RIT-T@aer.gov.au