



Major Energy Users Inc.

5 June 2013

Mr Anthony Bell
Director
Australian Energy Regulator
GPO Box 520 Melbourne Vic 3001

By email: AERInquiry@aer.gov.au

Dear Mr Bell

RIT-T Augmentation of Heywood Interconnector

The Major Energy Users (MEU) welcomes the opportunity to provide its comments on the response by ElectraNet/AEMO to concerns raised by the MEU, GDF Suez and Macquarie Generation regarding the RIT-T developed by ElectraNet/AEMO for augmenting the Heywood interconnector. The MEU considers that ElectraNet/AEMO has provided a sound, sensible and balanced response to the queries raised.

After seeing the ElectraNet/AEMO response to the criticisms and observations raised by Macquarie and GDF Suez, the MEU is, if anything, even more convinced that the augmentation proposed (option 1b) is soundly based and should be approved by the AER.

This observation is made in the context that the MEU has been extremely critical of networks that have unnecessarily augmented their networks at great cost to consumers. The MEU has also been very active in preventing new rules being implemented¹ which increase consumer costs and risks through network augmentation but with little or no benefit to consumers.

In support of the ElectraNet/AEMO response, the MEU provides the following comments.

1. Demand in the lower south east of SA has fallen considerably in the past couple of years with the recent closure of the KCA pulp mill and two tissue lines. The decision by KCA to generate its own power supply at its Millicent Mill will further reduce demand in the region; this generation plant is already

¹ Such as the scale efficient network extensions rule change proposal

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near completion and scheduled to commence generation in Q3 of 2013. Effectively, these changes have removed the largest single user of power in the region and, as ElectraNet/AEMO comments, this will result in increased congestion through the effective loss of this large load.

In this regard, it must be remembered that the current design of the transmission system in the lower south east of SA was based on several significant large loads in the area which have all but disappeared since the time the Heywood interconnector was built. At the same time, there has been considerable investment in new generation in the lower south east over the past few years, especially intermittent generation.

These changes have had a major impact on the capacity of the interconnector between the two regions and, as ElectraNet/AEMO points out, change is needed to accommodate the greatly changed circumstances that now apply.

2. The MEU is very much aware of the significance of the constraint that the ElectraNet 132kV network has on the transfer of power between the regions through Heywood. The MEU has seen, too frequently, spot prices in SA rise well above Victorian prices even though the power flow through Heywood was less than at its rated capacity. On MEU questioning the reason for this, ElectraNet has advised that it was the capacity of the 132 kV network running parallel to the 275 kV line from SE substation to Taillem Bend substation that was constraining the transfer. Intermittent generation connected at Snuggery substation, and the reducing demand in the lower south east significantly aggravates this congestion.

Through its SA affiliate, the MEU was also concerned about the decision in recent years of ElectraNet to build a connection between Snuggery substation and SE substation. Whilst this connection did assist in reducing some congestion caused by the large amounts of intermittent generation connected at Snuggery substation, it added to consumer costs at a time when ElectraNet charges were increasing rapidly. Despite the cost impact, the SA affiliate of MEU was convinced by ElectraNet of the need to provide this network tie.

3. The MEU is intrigued at the apparent opposition by Macquarie Generation and GDF Suez to this proposal, especially when consumers have expressed support for the augmentation. The cost of this augmentation will fall to consumers, and the only impact that the generators will see will be an increase in competition. Prima facie, if consumers are prepared to pay for an augmentation that increases generator competition, this must be seen to be consistent with the National Energy Objective (NEO), which requires efficient investment which is in the long term interests of consumers.

In contrast, the opposition by the two generators would appear to be predicated on the calculation of the size of the market benefits identified and

how the processes of ElectraNet/AEMO reflected the process requirements of the RIT-T.

The MEU has long been critical of “market benefits” being the driver of the RIT-T and consider that as consumers pay for such augmentations, the driver should be consumer costs and benefits. Consumer costs and benefits are more clearly aligned to the requirement of the NEO which is written in terms of the interests of consumers and not the market.

4. The MEU would draw attention to the actions of other stakeholders which have resulted in less than optimum outcomes for consumers². It appears that this extensive commentary by supply side stakeholders seems to apply to inter-regional augmentation proposals whereas intra-regional augmentation proposals incur a much lower level of scrutiny – perhaps this is because intra-regional augmentations have a much lesser impact on supply side competition!

In this regard the MEU considers that the process undertaken by ElectraNet/AEMO must be seen as one of the most intensive and wide reaching consultative approaches yet seen in a RIT-T application. The MEU considers that if the ElectraNet/AEMO process is considered insufficient, then the RIT-T requirements must be flawed as to do more is unlikely to result in a better outcome. If more work is required, the MEU sees that the RIT-T process itself would prevent implementation of interconnection augmentation, as a more intensive process would likely result in decision making becoming impossible on any interconnector investment.

5. There is a degree of parallelism between the Frontier assessment of the upgrade of Heywood and the response to it by ElectraNet/AEMO, to the conversion of Murraylink from market interconnector to regulated interconnector. When the ACCC assessed Murraylink for conversion to regulated status, it made a number of assumptions about the capacity of Murraylink based on the conclusion that there would be investment in the Victorian and SA intra-regional networks to relieve congestion in the feeders to and from Murraylink and so allow it to operate at its maximum rating. In practice, little of this intra-regional investment has occurred in the decade since. As a result, Murraylink rarely provides maximum transfer at times when it is most needed by consumers.

As ElectraNet/AEMO points out, option 1b provides for augmentation both inter-regionally and intra-regionally and greater benefits flow from this composite approach.

² An example for such unnecessary action was the decision of the Murraylink proponent to oppose a proposal by ElectraNet and TransGrid to develop a connection between SA and NSW. This opposition ended in the Courts and consumers are left with a suboptimal outcome for connection between Mildura and the SA Riverland. The MEU sincerely hopes that the opposition to this proposal does not result in a similar outcome.

It would appear that Frontier has made a similar mistake to that made by the ACCC when it assessed the value of Murraylink – that the interconnector operates at its rated capacity regardless of the intra-regional constraints which actually do reduce its effectiveness. ElectraNet/AEMO quite rightly has pointed to this assumption by Frontier as being incorrect under the circumstances, because Heywood capacity is frequently down rated for different reasons at different times.

The MEU notes that the RIT-T is a guideline developed by the AER for assessing the value of network augmentations. In its current guideline (Better Regulation) developments resulting from the changes to the rules governing networks, the new rules explicitly express a requirement that the AER must develop guidelines which first meet the requirements of the NEO and then the requirements of the network revenue and pricing principles.

The AER is therefore required to address the review of this RIT-T proposal to ensure its assessment meets the requirements of the NEO. This means that the AER must assess this RIT-T as to whether this investment meets the long term interests of consumers. The MEU considers that the proposal does exactly this.

Should you wish to discuss the MEU views expressed in this response in more detail please contact the undersigned at davidheadberry@bigpond.com or on (03) 5962 3225

Yours faithfully

A handwritten signature in black ink, appearing to read 'D. Headberry', with a checkmark at the end.

David Headberry
Public Officer