

26 September 2019

Gerard Reiter
Executive Manager, Network Planning and Operations
TransGrid

via email: regulatory.consultation@transgrid.com.au



Dear Mr Reiter,

Submission to the HumeLink RIT-T PSCR

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to TransGrid's consultation as part of the RIT-T for the project to Reinforce the NSW Southern Shared Network or 'HumeLink'.

Cost and risk allocation principles in general

Given the need to invest in both new generation and networks to enable the energy transition to an affordable, low-emissions future, it is essential to determine the proper risk allocation between industry and consumers.

As with most questions of risk allocation, PIAC considers that risk should be borne by those best placed to manage it. Therefore, it is not appropriate for consumers to bear this investment risk in its entirety either through funding additional transmission investment to alleviate physical constraints or underwriting financial instruments to cover the financial impacts of curtailment.

Distinct from the allocation of risks, is the recovery of costs – noting that while the costs and risks are generally related, they are not necessarily the same.

PIAC's key principles for cost recovery are that costs are recovered according to a beneficiary-pays framework, such that those who benefit from a given investment should also pay for that investment, and where there are multiple beneficiaries, the costs should be recovered proportionally to their share of the benefits. Where it is not practical and transparent to identify or measure the beneficiaries, a causer-pays principle should be used. Cost recovery should also include the risk, to the extent it exists, of the underutilisation of assets and hence asset stranding. Cross-subsidies should only be permitted where they are accepted by informed consumer feedback (such as retaining postage stamp pricing for distribution network tariffs) or immaterially small.

The connection of a new generator to the transmission system, or the upgrade of an existing one, can impose a number of different costs and benefits on the system as a whole. Currently, generators are only explicitly exposed to some of these, namely: their shallow connection costs and the costs associated with providing any required system

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strength services as a result of the connection.¹ However, connecting parties are not exposed to other impacts they may have on the broader network such as any deeper network costs they impose on the TNSP which are then recovered from consumers.

This leads to a less efficient system overall as the interests and drivers for generation and transmission investment diverge from the interests of consumers – i.e. maximising the benefits for the individual investment decisions does not necessarily correspond to maximising the benefits for the system as a whole. If this continues, the cumulative impact of individual generation and transmission investments will diverge from the optimal system-wide outcome, with the cost of these inefficiencies borne by consumers.

Cost and risk sharing for HumeLink between consumers and benefitting generators

In PIAC's view, if the benefits to consumers of HumeLink are greater than the costs to consumers, and material costs imposed on HumeLink to enable Snowy 2's access to the energy market are recovered directly from Snowy, HumeLink would be in the interest of consumers. Otherwise, HumeLink should not be built at the expense of consumers.

As noted in the PSCR, connecting generators, such as Snowy 2.0, will be material direct beneficiaries of the increased transmission capacity proposed by HumeLink. However, they are not exposed to the risk or cost of providing this additional capacity. This is in conflict with the beneficiary-pays principle described above.

PIAC considers that, if this is the case, a greater portion of the costs of the proposed HumeLink project should be borne by connecting generators such as Snowy 2.0, commensurate with their share of the direct benefit delivered.

To the extent that these transmission and generation investments prove efficient, their costs would still be passed on to consumers through the generation revenue for Snowy 2.0. However, this would only be recovered through the competitive wholesale market (and hence only recovered from consumers) if it were a competitive and economical investment in the first place. This is in contrast to cost recovery through regulated network costs that are recovered from consumers irrespective of actual utilisation or benefit delivery once it is in use.

Recommendation 1

PIAC recommends that TransGrid determine the share of benefits from the investment that accrue directly to Snowy 2.0 and those that accrue directly to consumers. If there is a material imbalance, PIAC recommends that TransGrid highlight this fact and examine options to address this, including Snowy 2 being required to directly fund a commensurate portion of the investment, as part of the HumeLink RIT-T.

Cost and risk sharing for HumeLink between consumers in different regions

In PIAC's view, if the benefits to NSW consumers of HumeLink are greater than the costs to NSW consumers, and material costs imposed on HumeLink to enable Snowy 2's access to the energy market are recovered directly from Snowy, HumeLink would be in the interest of NSW consumers. Otherwise, HumeLink should not be built without cost recovery arrangements that correct for this misalignment.

The current investment efficiency tests, such as the RIT-T, are designed as a NEM-wide cost-benefit analysis. As a result, the modelling is insensitive to where in the NEM these costs or

¹ Exposing the connecting to their impact on local system strength is a new addition to the regulatory framework following the Managing Power System Fault Levels rule change concluded in 2017.

benefits occur – it only considers the total costs and total expected benefits across all consumers throughout the NEM. This is in contrast to the way these costs are actually recovered through network prices which are primarily based on where the expenditure occurred.²

For projects that are incremental expansions or reinforcements of the existing network far from neighbouring regions, this misalignment would not pose a significant issue as the expected benefits from the investment accrue exclusively to consumers within the network's jurisdiction. However, this is not necessarily the case for more strategic or nationally significant investments such as HumeLink where a significant proportion (even the majority) of benefits may accrue to another jurisdiction or multiple jurisdictions.

This misalignment effectively means that one set of consumers may pay for the benefits received by a different set of consumers and runs counter to one of the fundamental principles of the NEM of cost-reflectivity. Further, if the misalignment between costs and benefits is large, a particular project may actually have a negative net economic benefit (i.e. an overall detriment) for consumers in one network's jurisdiction despite being positive NEM-wide.

Recommendation 2

PIAC recommends that TransGrid examine the relative accrual of expected benefits to consumers in different NEM regions and compare this to how the consumers' portion of costs will be recovered through TUOS. If there is a material imbalance, PIAC recommends that TransGrid highlight this fact and examine options to address this as part of the HumeLink RIT-T, including reallocating regulated revenue recovery across NEM regions in line with their share expected benefit accrual.

Interaction with other RIT-T processes

PIAC is aware of a number of other related transmission investments at various stages of planning that may have material impact on HumeLink – for instance the VNI upgrade, project Energy Connect and Western Victoria RIT-T. PIAC expects clarity on how TransGrid plans to incorporate the developments in these other processes into the market modelling and options selection of the HumeLink RIT-T. This is important to ensure that any potential synergies are utilised across these multiple projects and that costs are not unnecessarily doubled up.

Recommendation 3

PIAC recommends TransGrid provide clarity on how it plans to incorporate the developments in the number of other related planning processes (such as the VNI upgrade, project Energy Connect and Western Victoria RIT-T) into the market modelling and options selection of the HumeLink RIT-T.

Interaction with broader reform processes

As noted above, the HumeLink project demonstrates many of the challenges that may prove emblematic of the transition to an affordable, low-emissions future – such as the risk and cost allocation between connecting generator and consumers and between different regions. Therefore, PIAC considers that the experience and insight gained through this RIT-T process would be valuable to inform and provide an evidence base for broader regulatory and policy reform processes.

² There are mechanisms in place to apply network costs across network jurisdictions. However, we consider the effectiveness of these in certain cases to be very limited. For instance, the inter-regional TUOS only applied to the locational component of transmission costs (currently 50%) and does not address the risk of asset underutilisation. This is discussed further in PIAC, [Submission to Coordination of Generation and Transmission Investment options paper](#), October 2018, 6-8.

Recommendation 4

PIAC recommends TransGrid use the experience gained through conducting the HumeLink RIT-T to inform broader policy and regulatory reforms such as the ESB's Actioning the ISP workstream and the AEMC's COGATI review.

Continued engagement

PIAC would welcome the opportunity to meet with TransGrid and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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