29 October 2020

Clare Savage
Chair
Australian Energy Regulator

Lodged via email

Dear Ms Savage,

**Submission to consultation on Project EnergyConnect contingent project application**

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 the AER's call for stakeholder submissions on the contingent project applications from TransGrid and ElectraNet for Project EnergyConnect.

PIAC has engaged with both TransGrid and ElectraNet throughout the planning and development process for Project EnergyConnect and with AEMO on its Integrated System Plan. Through these processes and related reforms, we have raised concerns about the fairness of how the costs and risks of major projects such as Project EnergyConnect are shared and allocated.

PIAC opposes Project EnergyConnect proceeding under the current regulatory framework where all costs and risks are borne by consumers. We have strong concerns whether it represents an investment in the long-term interests of consumers. Allocating risks to parties who are best able to manage them and recovering costs from parties commensurate to how they benefit (i.e. on a beneficiary-pays basis) must be central to Project EnergyConnect proceeding.

## Costs have increased

The capital costs for Project EnergyConnect have increased substantially. In February 2020, ElectraNet's Project Assessment Conclusions Report (PACR) estimated the total cost for the project to be $1,530 million. AEMO's ISP in July 2020 estimated it to be $1,990 million. Now, the contingent project applications are seeking costs of $2,430 million, representing an additional $900 million or an increase of 53% from the PACR estimate.

The fact that the estimated cost is now over one and a half times that used in the PACR is of considerable concern and raises the question why such a substantial cost increase was not anticipated and incorporated in the PACR cost estimate.

## Net benefits have decreased

In conjunction with the increasing project costs, the expected net benefits have decreased significantly. The project was originally estimated to provide net benefits of $924 million in the PACR. This was subsequently revised down by

Level 5, 175 Liverpool St
Sydney NSW 2000
Phone: 61 2 8898 6500
Fax: 61 2 8898 6555
www.piac.asn.au
ABN: 77 002 773 524

the AER to $269 million in its review. Now, in the contingent project application, this modelling by ElectraNet and TransGrid has further diminished this to just $148 million – representing an 84% reduction from the PACR estimate.

Such a significant reduction in net benefits makes the overall project far more susceptible to deviations from the modelling (such as cost over-runs and changes to generation forecasts or policy assumptions) that may mean the Project EnergyConnect no longer provides any net benefit to consumers at all.

**Project EnergyConnect does not present a good return on investment for consumers**

PIAC is deeply concerned that the project does not present a reasonable "return on investment" for consumers under the current regulatory framework. The most recent modelling paints a picture of a project with high costs and comparatively small net benefits.

It is essential that large regulated projects such as Project EnergyConnect represent not only a net benefit for consumers, but deliver benefits to consumers of a scale and certainty commensurate to cost.

If approved, the costs for the project will be included in the Regulated Asset Base (RAB) of ElectraNet and TransGrid. Increases in network RABs have long term impacts on energy affordability as consumers must pay them off for decades to come. This impact will be exacerbated when network financing costs (and regulated rates of return) increase from their current historically low levels. Inclusion in the RAB also means that consumers take on the entirety of the asset stranding risks as there is currently no mechanism to remove or revise the value of assets in the RAB in line with the actual utilisation and delivered benefits.

**Recommendations**

PIAC strongly recommends pausing the regulatory process for Project EnergyConnect to reconsider whether it is in the long-term interests of consumers for it to proceed under the current risk and cost allocation frameworks.

PIAC recommends examining alternative options for risk and cost allocation for the project in order to allocate risks to parties better able to manage them and to recover costs on a more beneficiary-pays basis.

Consumers are not well-placed to manage the risk of cost increases or the failure to deliver the modelled benefits of Project EnergyConnect. An alternative could include PIAC's risk and cost sharing model for Renewable Energy Zones[1] to recover some costs from connecting generators as Project EnergyConnect is expected to enable new renewable generation connection along its path.

In addition, PIAC recommends revisiting the current inter-regional transmission cost allocation to more fairly share costs between NSW and SA consumers from Project EnergyConnect. The current framework (involving IR-TUOS and settlement residues) is generally unsuitable to address significant misalignment of costs and benefits between NEM-regions and is better suited to managing smaller, seasonal changes in net power flows across regions. Instead, an alternative could allocate the cost of Project EnergyConnect to NSW and SA RABs in proportion

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1 It shares risk between consumers through the RAB and a speculative transmission investor (who is not necessarily the incumbent TNSP) while costs are shared between consumers via normal arrangements and generators as they connect to the REZ. This model is described further AEMC, *Renewable Energy Zones discussion paper*, October 2019, 46-49.

to the share of modelled benefits to each region rather than the cost of assets physically located in each state.[2]

### Continued engagement

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

Yours sincerely,


**Miyuru Ediriweera**
Senior Policy Officer, Energy and Water
Public Interest Advocacy Centre

Direct phone: +61 2 8898 6525
E-mail: mediriweera@piac.asn.au

**Craig Memery**
Policy Team Leader, Energy and Water
Public Interest Advocacy Centre

Direct phone: +61 2 8898 6522
E-mail: cmemery@piac.asn.au


2 This is described in further detail in PIAC, *Submission to COGATI Access and Charging consultation paper*, April 2019, 16-18.