

Mr Sebastian Roberts
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By email: AERinquiry@aer.gov.au

11 July 2019

Dear Mr Roberts,

RE: ElectraNet – Main grid system strength contingent project application

As the peak body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) has an established history of interest, engagement and provision of proposed advice on the supply of essential services including electricity. We thank the AER for the opportunity to make a submission on ElectraNet's Main Grid System Strength Contingent Project Application, dated 28 July 2019.

SACOSS research shows that the cost and supply of basic necessities like electricity have significant and disproportionately greater impacts on vulnerable people. SACOSS' advocacy is informed by our members and direct consultations with consumers and other consumer organisations: organisations and individuals who witness and experience these impacts in our community.

The Main Grid System Strength contingent project involves the installation of four high inertia synchronous condensers on the South Australian transmission network. This project has been identified as a Group 1 priority project in AEMO's Integrated System Plan (ISP), and has the benefit of streamlined regulatory approval processes in accordance with the AEMC's recent rule change.¹

On 18 February 2019, the AER determined ElectraNet's Economic Evaluation Report, which modelled expenditure of between \$140-180m, satisfied an economic evaluation equivalent to a regulatory investment test for transmission (RIT-T).

The purpose of this application is for the AER to now determine whether the capital and operating costs required to install the synchronous condensers are prudent and efficient, and also to determine the incremental revenue that ElectraNet may recover within the 2018-23 regulatory control period.

¹ See the Australian Energy Market Commission's (AEMC) recent rule change to allow for the [early implementation of ISP priority projects](#), 4 April 2019. The project and has the benefit of recent Rule changes put forward by the Energy Security Board (ESB) and approved by the

ElectraNet's latest cost estimates contained in this application provide for a total project cost of \$172.3m (comprising capital expenditure of \$169.4m and operating expenditure of \$2.9m). SACOSS notes this is at the upper end of the ElectraNet range modelled in the economic evaluation report of between \$140-180m.

ElectraNet's application also forecasts an indicative net cost saving of \$3 to \$5 per year off a typical South Australian residential electricity bill. This forecast saving for South Australian customers is based on ElectraNet's assumption that direction compensation costs (of \$22m per annum) and reactor investment costs (of \$10m) will be avoided as a result of the installation of the synchronous condensers.²

In exercising its power to determine whether ElectraNet's forecast expenditure is prudent and efficient, the AER must make a determination that contributes to the achievement of the National Electricity Objective³ to:

'promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- *price, quality, safety and reliability and security of supply of electricity*
- *the reliability, safety and security of the national electricity system.*⁴

The AER must also ensure consumer associations that have an interest in the determination are informed of material issues under consideration and given a reasonable opportunity to make a submission in respect of the determination before it is made.⁵

Consumers face significant challenges associated with assessing whether the costs of this proposal are prudent and efficient (noting that consumers bear all the risks, and therefore the costs, of network investment options).⁶ It is difficult enough for consumers to monitor and track the multiple initiatives proposed by ElectraNet and AEMO's ISP, let alone have confidence that consumers will not end up potentially paying twice for the same service. SACOSS therefore has serious concerns about the meaningfulness of the consumer consultation on this application, and other related proposals.

SACOSS is asking the AER to ensure the assumptions made by ElectraNet supporting costs savings for consumers as a result of this proposal, are investigated and proved valid. SACOSS is also seeking assurance from the AER that the forecast \$172.3m expenditure is prudent and efficient in the context of the additional proposals in the ISP relating to system security, noting again that the forecast amount is at the very top of the modelled expenditure range of between \$140-180m.

We thank you in advance for consideration of our comments. If you have any questions relating to this submission, please do not hesitate to contact me on 8305 4223, or by email ross@sacoss.org.au.

Yours sincerely,



Ross Womersley, Chief Executive Officer

² ElectraNet, Main Grid System Strength Project, Contingent Project Application, 28 June 2019, p. 28.

³ Section 16(1), National Electricity Law.

⁴ Section 7, National Electricity Law.

⁵ Section 16(1)(b)(v) and 16(1)(c) of the National Electricity Law.

⁶ See SACOSS, Submission to the AER on the South Australian Energy Transformation PADR, dated 31 August 2018.