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CoAG Energy Council Secretariat
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Dear Secretariat

Review of the Regulatory Investment Test for Transmission (RIT-T) Consultation Paper 30 September 2016

The Major Energy Users (MEU) welcomes the opportunity to provide its views to the review of the Regulatory Investment Test for Transmission (RIT-T).

About the MEU

The MEU represents the interest of large energy consumers operating in the NEM and in other jurisdictions. The MEU comprises some 30 major energy using companies in NSW, Victoria, SA, WA, NT, Tasmania and Queensland. MEU member companies – from the steel, cement, paper and pulp, automobile, tourism, mining and the mining explosives industries – are major manufacturers in the NEM and in other jurisdictions and are significant employers, and are located in many regional centres including Gladstone, Newcastle, Port Kembla, Albury, Western Port, Mount Gambier, Port Pirie, Kwinana and Darwin.

Analysis of the energy usage by the members of MEU shows that in aggregate they consume a significant proportion of the gas produced and electricity generated in Australia. As such, they are highly dependent on the competition that applies to the provision of gas and electricity, the retail functions needed to enable the competition to apply and to the transport networks to deliver efficiently the energy so essential to their operations.

Many of the members, being regionally based, are heavily dependent on local suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views

to not only represent the views of large energy users, but also those of smaller power and gas using facilities, and even at the residences used by their workforces that live in the regions.

The detriment of the RIT-T for consumers

At its most basic, an interconnector provides the ability to trade electricity between adjacent regions and those transmission assets that provide this capability are interconnectors. The MEU also notes that to enable trade across a regional boundary, it requires the transmission network providers on both sides of the regional boundary to both provide sufficient assets to enable the interconnector to deliver maximum flows between the regions. Thus an interconnector also encompasses network assets embedded within each of the regional networks to enable the “wires” crossing the regional boundary to operate consistently at their rated capacity.

While the consultation paper observes that there is no such physical asset as an “interconnector”, the MEU is of the view that any transmission network asset that provides the ability to trade electricity between regions can be clearly identified in physical terms and it is those assets which impact on the price differential between regions.

The consultation paper also highlights that the RIT-T process has only been used for two interconnector projects. With this in mind, the MEU agrees that the RIT-T process used for intra-regional electricity transport might not be the most appropriate test for interconnector assets. In particular, the RIT-T when used within a region accepts that that the release of constraints within an intra-regional network provides a benefit to the regional market in that generators and consumers see lower prices within the region through the reduction in out of merit order generator dispatch.

However, this benefit (of lower prices) is not recognised as a benefit to consumers with regard to price differentials between regions yet, as the consultation paper highlights, interconnectors can have a major impact on pricing in different regions. The MEU points out that just as out of merit order generation dispatch within a region is minimized by release of constraints intra-regionally, an interconnector assessment needs to examine both the carrying capacity of the wires crossing the boundary, but also the constraints within each region which limit the ability to maximize trade between regions. Specifically, constraints result in out of merit order dispatch of generators and this is inefficient. While the impacts of intra-regional constraints are not seen overtly, constraints limiting the trade of electricity between regions are seen in the inter-regional price differences. These constraints result in out of merit order generator dispatch (albeit in different regions) resulting in potentially significant price differentials between regions which are measurable. While these price signals are seen as providing guidance for new generator investment, they also provide a signal for increased interconnection, yet the RIT-T process specifically excludes this price signal as a signal for network investment. It is concerning that a clear price signal is used just for generator investment but not

for network investment. There has been no satisfactory explanation for this dichotomy.

What is also extremely important to note, is that it is consumers that pay the costs associated for all transmission assets, except for the connection assets used by generators (entry point charges) with the use of system shared assets (TUoS) and common services paid by all consumers in proportion to their usage¹. As it currently stands, the RIT-T assessment of the value of interconnector assets to the market reflects equal value to the interests of generators and consumers (through a market based test) even though it is consumers paying for the assets.

For example, when an interconnector has reached capacity and generators within an importing region are needed to be dispatched, the competition they face is significantly reduced because the competition provided by generators in the exporting region is eliminated causing, in most cases, prices in the importing region rising. This imposes a significant cost on consumers in the importing region and there is a transfer of wealth from consumers to generators in the importing region².

One way of consumers can mitigate this reduction in competition (with the associated price rise) is to augment the interconnection assets so that higher competition amongst generators is maintained for greater amounts of time. The question then arises, if consumers are paying a significant premium for the electricity they are buying as a result of the importing region generators raising their prices, should this price increase be used as a signal to indicate a need to increase interconnector capacity? Under the current approach, the price signal resulting from interconnector constraint is used to indicate a need for new generation and/or increased load reduction at critical times, yet the price signal is not used as an indicator for interconnector augmentation.

With the increasing cost of gas, the price of gas fired generated electricity is increasing significantly; this particularly applies to SA region where all synchronous generation is gas fired. A lack of interconnection with the eastern states effectively denies SA consumers to access to low cost coal fired generation. As a price differential is not accepted as a driver for increased interconnection, this effectively denies SA consumers to lower cost electricity supplies.

The need for neutrality in technology

The MEU is aware that there are seen to be other options which may occur in the future (either in concept or from price changes³) to address some of the concerns

¹ The MEU notes that exit charges are paid only by those users which are connected at these exit points

² Generators in the exporting region effectively face a constraint of trade as the network is insufficient to deliver their product to the market.

³ For example, 5 years ago batteries were not seen as viable for network service yet there seems to be a view that this might change. Further, while the costs for this option now as seen as prohibitive, prices are being seen to fall such that at some time in the future they might be competitive.

that might trigger the need for greater interconnection. The MEU is concerned that incorporating a view that future options might present an alternative to a network solution moves away from the concept of “competitively neutral”. While future options might deliver a better outcome such an approach introduces the potential for paralysis while potential options are investigated and either deemed at some point in time in the future to be potentially viable or not. Such an outcome is considered to be “technology picking”.

The MEU sees that there is a very strong chance that a future option (eg batteries) might be able to provide a solution at a price that would make the option commercially viable, there is also a chance that the time taken to reach commerciality might well be wrong and take much longer (or less time). To defer an action which needs a solution now on the basis there might be another more commercial option in the future, means that consumers will continue to be harmed but without any certainty that a more commercial solution might be available in time to deliver an outcome that is more in the long term interests of consumers.

Overall, the MEU considers that the RIT-T:

-) Needs to include price benefits to consumers that result from an augmentation as consumers underwrite network augmentations
-) Process is too long between identification of a need to its completion

We appreciate the opportunity to have provided this input to the review process of the LMR. Should you wish for amplification of any of the comments provided in this response, please contact our Public Officer (David Headberry) on 03 5962 3225 or at davidheadberry@bigpond.com .

Yours faithfully



David Headberry
Public Officer

The MEU notes that the responses to the specific questions need to be seen in context with the comments made in the foregoing part of this response to the discussion paper

#	Questions for stakeholders	MEU response
1	Are there specific aspects of interconnector projects that present particular challenges to the application of the RIT-T?	<p>Yes, see comments in introduction</p> <p>While intra-regional network augmentation is seen to benefit all consumers in a region (and so the costs are levied on all consumers) even though an augmentation in one part of the region might never benefit consumers in another part of the region (eg augmentation in the far north of Queensland is unlikely to benefit consumers in SE Queensland) the consumers in SE Queensland incur significant costs as a result of the augmentation which provides no benefit to them. Yet a RIT-T for inter-regional augmentation differentiates between consumers in different regions.</p>
2	Do existing transmission planning processes/incentives support the timely initiation of a RIT-T to assess options to relieve existing or emerging transmission constraints?	<p>No. Especially in the case where one region considers greater connection with another region is needed more so than the other region.</p> <p>For example, the capacity of Murraylink is frequently limited by the capacity of the networks in the two regions to deliver power to the point of transfer, especially in Victoria, reducing the value of Murraylink to SA consumers. The incentive to increase the network capacity within (say) the Victorian region is limited by the value Victorian consumers would get from augmenting the network to allow greater export to SA. Thus, SA consumers face increased generation costs when the Victorian network to Murraylink is constrained. While the IRTUoS is intended to transfer the cost for the use of assets delivering power from another region, this does not get reflected in an intra-regional assessment for augmentation within Victoria to increase exports; effectively the RIT-T needed to be satisfied for Victorian consumers does not reflect the value</p>

		<p>to SA consumers of the increased capacity, despite the IRTUoS contribution. In fact, it is not clear whether the RIT-T for Victorian augmentation includes the revenue contribution from the IRTUoS.</p> <p>When the decision was made to allow Murraylink to be a regulated interconnector, there was an assumption by the ACCC (which approved the change) that the value to consumers of the full Murraylink capacity would be achieved by additional investment in the Victorian network. This investment has never occurred as it does not pass the RIT-T requirements for augmentation for the Victorian network. Yet increasing the capacity within the Victorian region would enhance the capability of Murraylink and so benefit SA consumers. The MEU notes that similar issues apply for transport on the SA side of Murraylink.</p>
<p>3</p>	<p>Do the RIT-T process and related planning frameworks adequately take in to account the evolving technology and policy environment? If not, how should they be included as part of the RIT-T process to support assessments/decisions about economically efficient options?</p>	<p>No. The value of export from SA (for instance) of renewable generation (such as wind) to other regions is not included in the RIT-T and similarly, the value of synchronous base load generation for SA from Victoria (with the associated benefits of providing back up and increased security of supply) were excluded from the RIT-T for the recent augmentation of Heywood.</p>
<p>4</p>	<p>Does the RIT-T process adequately assess all benefits interconnectors provide, including the contribution to efficiently achieve national carbon reduction goals, wholesale market competition and power system security and stability?</p>	<p>No. There is no recognition of the benefit provided to the RET by the high efficiency wind generation in SA for the benefit of all regions. Similarly the high efficiency solar generation in northern SA and Queensland is not reflected in the RIT-T for achievement of the national RET goals.</p> <p>It also excludes the benefits to consumers of increased competition amongst generators, even though consumers alone pay for the cost of the increased capacity.</p>

<p>5</p>	<p>Is the RIT-T, as currently framed, appropriate to the assessment of interconnection investments? If not, what changes and/or alternative mechanisms should be considered?</p>	<p>No. The value to consumers of increased competition among generators needs to be an integral element of the cost benefit analysis as it is consumers that pay for the investment yet the benefit from the greater competition between generators that an interconnector provides is excluded. Conversely, generators do not want increased competition as this erodes their profit margins, so they benefit from under investment. So there is an imbalance between the incentives and benefits between generators and consumers</p>
<p>6</p>	<p>Are there any particular barriers to the timely and effective conduct of the RIT-T?</p>	<p>The current process is too long – firstly in identifying a need, secondly in requiring both networks involved in agreeing to research and cost the options, thirdly in reaching an optimum solution and fourthly gaining regulatory approval. The maximum benefit to consumers of an interconnector augmentation is for the investment to be operational as soon as possible. For example the time for the Heywood augmentation to be operational has been nearly 5 years in the development and, particularly over the last 1-2 years of this process, consumers have incurred considerably higher prices for electricity due to low competition between generators in SA, despite there being surplus generation in Victoria which could have met the needs of SA consumers.</p>
<p>7</p>	<p>Does the current RIT-T process strike the right balance between speed and efficiency versus a comprehensive and consultative process?</p>	<p>No. See response to Q6</p>
<p>8</p>	<p>Are compliance costs associated with applying the test commensurate with benefits consistent with the guidelines? If not, how could a better balance be achieved?</p>	<p>The costs to fully develop an interconnector are excessive compared to the costs (say) for an intra-regional augmentation and takes considerably longer. The additional stages for the development and the need to coordinate firstly on the concepts and then on the development of the most appropriate options creates a significant barrier to implementation of any interconnector</p>

		augmentation
9	<p>What has been your experience of the RIT-Ts carried out to date?</p> <p>a. Do you consider that they have delivered timely and effective investment outcomes?</p> <p>b. Do you consider the process has particular issues, problems or limitations?</p>	<p>No. The time taken has been excessive. Further, by the time the SA augmentation was completed, it became apparent that the augmentation was insufficient</p> <p>The need for one (or other) of the regional networks to identify a problem and then gain the support of the other regional network requires considerable time. It would be better if (say) AEMO was charged with identifying a need and then taking the lead in developing the best option and gaining the support of the regional networks involved. This should not prevent a regional network or government asking AEMO to start the process.</p>
10	<p>Should the RIT-T process be streamlined for certain types of investment? If yes, by whom and on what grounds should those investment types be determined?</p>	<p>Yes. See comments in the introduction and in answers to earlier questions. However, assessments must be made on a technology neutral basis, as there is a risk that trying to select specific technologies to address specific concerns and goals, could be counter-productive.</p> <p>The MEU considers that an assessment must be made on the current available technologies and not on the promise of something better being available in the future.</p>
11	<p>Do transmission investment decisions made using the RIT-T take into account the full value of the options considered to those who produce, consume and transport electricity in</p>	<p>The MEU is concerned that the question imposes a requirement for the investment to be made in the interests of producers (generators) and transport (networks) of energy as well as consumers. Generators and networks do not take responsibility for the payment for the investments, whereas consumers</p>

	the NEM?	underwrite the investment and ultimately pay for it. Generators only pay for their connections to the transmission network and the networks have a guarantee that their investment will be paid for by consumers for the life of the investment. This means that the party that pays and underwrites the investment (ie consumers) should be the only party that has its interests considered when assessing the benefits of the “interconnector” investment. This would allow the value to consumers of increased competition in generation to be included in the investment test.
12	Is the current range of allowed costs and benefits appropriate? If not, what other costs or benefits should be captured in the test?	No. See comments in the introduction and to other answers including to Q11
13	Is greater clarity required in the NER or guidelines on how implemented government policies should be accounted for in assessing investment options? Are there other aspects of the NER or guidelines, such as option value assessments, which could be clarified or improved?	Governments have imposed policies on the electricity market (eg RET, increased renewable generation, feed-in tariffs, etc) that have distorted the market. What is of concern to the MEU is that when government policies are implemented, there is no clarity on how the outcomes will impact consumers. For example, the SA government policy to increase renewable generation above the RET levels has resulted in significant challenges to the SA regional market. Further, the amount of renewable generation in SA is reaching a level where there is likely to be insufficient demand in SA to use all of the renewable electricity generated and the balance has to be exported. At the same time, SA needs to have some synchronous generation available in the event that the interconnectors go out of service. This means that there is potentially insufficient export capacity from SA for the amount of renewable generation within the region. Equally, when there is no renewable generation in SA (no wind, no sun) the interconnectors need to be sized to ensure there is sufficient competition of generation in SA to ensure that prices in SA do not reach excessively high

		<p>levels due to lack of competition or appropriate generation. To overcome this, augmentation of the interconnectors is a sensible option to meet the outcomes of the incentives provided by government renewable energy policies.</p>
14	<p>Are the transmission businesses best placed to undertake the assessment of interconnection investments in the changing energy market? If not, who should be involved and who should be the final decision maker?</p>	<p>Networks have a vested interest in expanding their networks and so are perceived to have a bias towards network solutions. The MEU considers that AEMO (as the market operator and national planner) is best placed to identify a need for new interconnection and the best options to implement the sought after outcomes. AEMO should be required to seek consumer input into the options, possible costs for each alternative and to assess the proposals prepared by the networks for network solutions, but AEMO should be responsible for the assessment of the non-network solutions to achieve the same goals. It is expected that AEMO would work closely with the networks involved but also with consumers. Ultimately, the AER, as regulator, should review the outcomes and assess whether the optimum outcome has been identified and be satisfied that there has been adequate consumer input into the deliberations.</p>
15	<p>Is the level of oversight afforded to the test sufficient to ensure rigorous consideration of all credible options?</p>	<p>While the MEU considers that AEMO is both competent and able to provide an independent assessment regarding any greater interconnection, the MEU considers that the AER should make the final decision as this could result in a need for intra-regional network augmentations that would impact the regular regulatory processes.</p>

