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Mr Hugo Klingenberg
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Business SA
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Working for your business.
Working for South Australia

Dear Mr Klingenberg

I write in response to ElectraNet's request for submissions on its RIT-T Project Specification Consultation Report relating to Eyre Peninsula Electricity Supply Options, acknowledging our comments are preliminary ahead of the full options analysis being published later this year.

Executive Summary

- Business SA welcomes ElectraNet's transparent approach during the RIT-T process and the constructive engagement it has made with consumers, not only through its Consumer Advisory Panel but also visiting the Eyre Peninsula to speak directly with impacted consumers.
- Business SA acknowledges the significant complexity involved in decisions to improve reliability, renewable energy export capacity and mining potential on the Eyre Peninsula and the balancing act between costs falling on all South Australian consumers, reliability to Eyre Peninsula consumers, and benefits to the State more broadly from future renewable energy and mining projects.
- From ESCOSA's recent analysis of reliability on the Eyre Peninsula, it appears the most likely cost effective improvements will come from distribution network upgrades through SA Power Networks and ElectraNet's proposals are more in relation to maintaining existing reliability levels and building for a future with potential for increased renewable generation and mining output.
- ElectraNet's decision to build a new interconnector to either New South Wales or Victoria will be a key contributing factor in any case to build up the transmission capability of the Eyre Peninsula to export renewable energy.
- While Business SA is very conscious of ensuring Eyre Peninsula businesses have adequate reliability, upgrades will also be paid for by South Australian businesses more broadly and need to be very carefully considered in light of recent extreme price increases, particularly over the past two years.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney





Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- The increase in electricity prices, particularly over the last two years, has had a devastating impact on South Australian business at a time when the State's economy is attempting to transition with the pending closure of Holden's manufacturing operations in October.
- South Australia has the highest proportion of non-firm renewable generation in the National Electricity Market (NEM) and the exit path of Alinta's Northern Power Station which began in mid-2015 has put significant pressure on South Australia's wholesale electricity market, effectively leaving two key players to hedge the base-load electricity needs of industry meaning large market customers, which consume as little as 160MW hours per annum, have experienced peak energy cost increases from seven cents per KWh to as high as 22 cents today.
- South Australia's small market customers, which include most small businesses, have also been caught up in the energy crisis and although the impacts have been delayed due to the nature of annual price reviews, last year bill increases were approximately 10% on average, depending on the retailer, and small businesses have been hit again this year with circa 20% bill increases effective from 1 July 2017.
- Up until mid-2015 when South Australia's wholesale electricity prices began to rise dramatically, network costs had been the primary driver of the significant increases in electricity costs over the past decade and South Australian businesses cannot afford to return to the spending patterns associated with that period which have been compounded through rising regulated asset bases.
- South Australia's blackout on 28th September 2016 crystalised the importance of reliability to business, costing at least \$450 million¹ overall including \$8.33 million for Eyre Peninsula businesses, and it is important that ElectraNet, along with generators and Governments, take reasonable steps at appropriate costs to mitigate impacts of similar events in future.

Key Policy Points

1. Business SA acknowledges the need to ensure that all spending to improve reliability to electricity consumers on the Eyre Peninsula, whether it be by Government, ElectraNet or SA Power Networks, is appropriately targeted and the aggregate price impact on consumers, particularly businesses, is minimised.

The Essential Services Commission of South Australia (ESCOSA) recently inquired into reliability and quality of electricity supply on the Eyre Peninsula. While we recognise that some of ESCOSA's calculations on per annum costs of various reliability improvement options on the Eyre Peninsula are based on estimates subject to further refinement, ESCOSA's report² does make it clear that most of the reliability shortfalls, outside of significant weather events over the past 12 months, are due to shortcomings in the distribution, not transmission, system.

¹ Business SA, adjusted cost following additional public company results since Blackout Survey Results report, <http://business-sa.com>

² Inquiry into the reliability and quality of electricity supply on the Eyre Peninsula, ESCOSA, May 2017



This report places particular onus on ElectraNet to ensure that its proposed spending to address reliability on the Eyre Peninsula is actually justified on the basis of improving outcomes for consumers, or at least ensuring that reliability as pertaining to the transmission network does not diminish. Consumers' willingness to pay for significant transmission network upgrades needs to be adequately contextualised, particularly if those upgrades are not related to improved reliability, rather ensuring that the existing level can be achieved at a more efficient cost.

2. Prima facie, on the evidence submitted in ESCOSA's report, Business SA considers the following points to be key considerations for what additional spending on the Eyre Peninsula is in consumers' best long term interests:

- assuming that ElectraNet could build a new 132 KV double circuit line at the lower end of its estimated cost range, \$200 million, while it would appear a more cost effective option than replacing the conductors on the existing single circuit 132KV line and maintaining the existing network support contract beyond the time taken to complete the new transmission line's construction, there would still be several years of required network support at approximately \$9 million per annum.

- there may be other commercial options available to support the back-up generators in Port Lincoln should they no longer be required beyond construction of a new transmission line, particularly in light of the new Generator Reliability Obligation to be implemented across the NEM.

- Business SA is mindful that future significant mining loads would likely require additional transmission capability beyond 132KV and that even building a new 132KV double circuit line as described in Options 2 & 3 would be redundant if a 275KV line was required.

- existing and future wind power plants would utilise additional transmission line capacity, recognising that ElectraNet's RIT-T report advises the two existing wind farms on the Eyre Peninsula were constrained for up to 24 percent of the time in 2016 and 15 percent of the time in 2015.

- the ability for new and future wind farms to export renewable energy to the Eastern States will be significantly influenced by ElectraNet's decision on whether or not to proceed with another contingent project, being the new interconnector to either New South Wales or Victoria.

- to put option 4 into context, a new single circuit 275 KV capable transmission line is in a cost range equivalent to the State Government's proposed 250 MW backup generator for South Australia, forecast to cost \$360 million, and this is before an additional \$120 million needs to be spent to increase the operational capacity of that line to 275KV should a sufficient mining or renewable load justify it.

- A key recommendation from the independent Finkel Review was for the Australian Energy Market Operator (AEMO), in conjunction with transmission network providers, to develop an integrated plan to facilitate the efficient development and connection of renewable energy zone across the NEM. To proceed to build out the Eyre Peninsula transmission network to export more renewables ahead of such planning may be premature, and may also result in additional costs being picked up by South Australian consumers which may otherwise be shared on a national basis should the decision come via AEMO.

- replacing the conductors on the existing 132 kV transmission line at a cost of \$80 million would be up to \$300 million cheaper than the least cost 275KV capable transmission line upgrade, even though it would still require approximately \$9 million per annum in network support.



3. Business SA supports ElectraNet's endeavours to address reliability on the Eyre Peninsula, not only for Port Lincoln but also to northern customers situated within the State's largest single grain growing region which is mostly exported. The blackout events highlighted the vulnerability of Pt Lincoln customers which were particularly exposed given businesses expected the regional city's backup generator to provide support in the event of a network failure. Furthermore, the September 28 blackout on the Eyre Peninsula lasted for more than two days while the majority of the State was back up the same night.