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Working for your business.
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Mr Hugo Klingenberg
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Dear Mr Klingenberg

I write in response to ElectraNet's request for submissions on its RIT-T Project Assessment Draft Report relating to Eyre Peninsula Electricity Supply Options, and provide this letter subsequent to our submission on your Project Specification Consultation Report.

Firstly, Business SA acknowledges that the Essential Services Commission of South Australia (ESCOSA)'s recent report on reliability and quality of electricity supply on the Eyre Peninsula concluded there were two separate reliability problems:

- ongoing reliability problems at the distribution feeder level, mainly driven by lightening strikes on radial distribution lines affecting local supplies, and;

- more recent reliability problems driven by severe weather events that mainly impacted transmission services affecting large parts of the Peninsula.

Business SA notes ElectraNet's preferred option to ensure the most economic long-term electricity supply solution to the Eyre Peninsula is to build a double-circuit 275KV transmission line from Cultana to Yadnarie, connecting to a double-circuit 132KV line extending down to Port Lincoln at an estimated capital cost of $300 million. While this would help facilitate some major mining proposals, including the Iron Road project, we acknowledge the preferred option is not predicated on mining load, rather facilitating potential wind generation projects.

It is important to make the distinction between any transmission upgrade based primarily on ensuring reliability on the Eyre Peninsula, and a further expansion based on increasing transmission capacity to enable additional wind generation.

Business SA has long supported a focus on improving and ensuring electricity reliability to the Eyre Peninsula, particularly after the significant impact on businesses from losing power for several days following the September 2016 state-wide blackout, in combination with other weather related events in the last half of 2016. In fact, ESCOSA found that between 1 July 2016 and 31 December 2016, the Unplanned System Average Interruption Duration Index (USAIDI) for the Eyre Peninsula was nearly 3,400 minutes, or approximately 57 hours, of which generation/transmission outages comprised approximately 2,600 minutes (43 hours). This compared with a 10-year average USAIDI of 530 minutes (9 hours) with an average of 400 minutes (7 hours) over the past three years.

In Business SA's recent submission to ESCOSA's inquiry, we encouraged ElectraNet and SA Power Networks, along with generators and Governments, to take reasonable steps at appropriate costs to mitigate against the impacts of similar events in future. There is no doubt that electricity reliability is critical to not only protecting the existing economy on the Eyre Peninsula, but to enabling future growth opportunities, particularly in sectors such as tourism, agri-business and mining. Furthermore, the failure of communications systems on the Eyre Peninsula during the state-wide blackout added another burden onto already struggling businesses.

While there is no doubt that ElectraNet should be upgrading its transmission infrastructure to ensure reliability on the Eyre Peninsula, Business SA has some reservations about how much of the additional cost to upgrade to a part 275KV line will be borne by South Australian electricity consumers. If ElectraNet were to only replace conductors on the existing line, at a cost of approximately $80 million, as well as maintain the existing generation support option in Port Lincoln, at a net present value of $84.6 million, the comparative figure to the preferred option would be approximately $164 million versus $300 million, a difference of $136 million. Business SA accepts that ElectraNet's analysis demonstrates market benefits which would make the preferred option more viable that just reconductoring and maintaining a back-up generator in Port Lincoln, but the fact remains that those additional market benefits justifying the preferred option are based on the construction of wind farms. In essence, all South Australian energy consumers will be predominantly footing the bill to enable the construction of additional wind farms in order to meet Australia's renewable energy target.

Business SA acknowledges that South Australia has already done more than its share of heavy lifting on national emissions reductions by virtue of our state achieving 50% renewable generation in 2016, 3 times the national average of approximately 17%[1] on the way to the national 2020 Renewable Energy Target (RET) of 23.5%. While South Australia's achievement is positive for the environment, businesses cannot typically hedge with solar or wind farms which has limited our members' ability to access firm contracts that are generally only available through high priced gas generators. Alternatively, businesses have been forced to manage on the spot market with its inherent challenges as the most volatile commodity market in the world, and in many cases involves installation of back-up diesel generators to mitigate against high priced events.

Following a recommendation from the independent Finkel Review, in conjunction with transmission networks including ElectraNet, AEMO is currently developing an integrated grid plan with the first draft already demonstrating several potential renewable energy zones on the Eyre Peninsula. It is important to recognise that the Finkel Review's recommendation was based on facilitating the efficient development and connection of renewable energy zones across the NEM. Consequently, the future costs of developing those zones should be considered in a national context, reflecting that it is Australia and other nation states which are signatories to the Paris Agreement on carbon reductions, not individual sub-national jurisdictions. Furthermore, Business SA acknowledges AEMO's comments that '*coordinated development at a national level through an integrated infrastructure development plan may lead to a more effective and lower cost outcome for consumers*'[2].

[1] AER, State of the Energy Market, May 2017
[2] AEMO, Draft Integrated System Plan, December 2017

While the current Inter-regional Transmission Use of System (TUOS) mechanism allows for recovery of charges from jurisdictions which use South Australia's transmission network, no mechanism exists to recover costs specifically related to infrastructure built to facilitate additional renewable energy required to meet Australia's renewable energy target (RET). Business SA recognises this is an issue which needs to be resolved at a national level, and we expect it to be addressed through AEMO's integrated system plan, but we still question why South Australian energy consumers should necessarily wear the additional costs of upgrading transmission capacity on the Eyre Peninsula over the default option to accommodate future wind farms, even if market benefits may ultimately offset against them. Fundamentally, there is no convincing rationale as to why this risk should sit entirely with South Australian consumers, particularly businesses which have experienced substantial price rises since Alinta announced the withdrawel of Northern Power Station in mid-2015. The current reality of the NEM is that South Australian futures prices are still 33% above the eastern states average for 2018, while this declines to an average 21% premium over 2019-21. Accordingly, all future network spending proposals need to be carefully considered to limit the cost burden on South Australian businesses.

Business SA encourages ElectraNet to ensure their decision timeframes on the proposed Eyre Peninsula upgrade allow for the finalisation of AEMO's integrated system plan to provide for agreement between states and territories to share the net costs and benefits of future energy infrastructure development required to facilitate 'Australia' reaching its carbon reduction target. Considering at present there are no firm commitments to build wind farms on the Eyre Peninsula subject to expanded transmission infrastructure being in place, it is hard for South Australia consumers more broadly to accept paying for the upgrades beyond the minimum reliability component; particularly in the absence of agreement between other states and territories on how the costs of these types of upgrades should be shared in future when facilitating more renewables to meet the national carbon reduction target.

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

Executive Director, Industry and Government Engagement