15 February 2019

Mr Joe Spurio
Victorian Planning Manager
AEMO
GPO Box 2008
Melbourne VIC 3001

Submitted by email to Planning@aemo.com.au

Friday 15/2/2018

**RE: Victoria to NSW interconnector upgrade project specification consultation report (PSCR)**

Dear Mr Spurio,

ENGIE appreciates the opportunity to comment on the Victoria to New South Wales Interconnector Upgrade project specification. ENGIE is a member of the Australian Energy Council (AEC), supports the associations submission and makes the following additional comments.

## 1. Need for detailed information

The PSCR consultation document is pitched at a relatively high level and lacks the detail needed to effectively assess the options and approach being considered for the RIT-T process.

The modelling methodology and its application warrants a detailed description and a justification for why it is considered to be "fit for purpose" in the RIT-T context.

As a matter of principle, the RIT-T process should show how the augmentation benefits will be maintained in the face of a large volume of new intermittent generation entering each of the regions.

## 2. Assessment of market benefits

The treatment of inherent risks when quantifying market benefits is material to the RIT-T assessment. Once a set of parameters is selected to construct a specific scenario, the theme of the scenario will be certain, but there will be many parameters within the scenario that are not certain.

For example, when quantifying fuel savings, costs will become progressively more uncertain over the modelling horizon. Another example may be the delay in capital investment, whilst timing may be certain in a “least cost model” that essentially resembles “perfect foresight/central generation planner approach”, it will be uncertain in the context of a market driven investment. A project proponent may be built early to gain a first mover advantage or gain a specific commercial advantage to the project that doesn’t represent the lowest cost for the entire plant portfolio.

Using a lower discount rate is appropriate for a centrally planned generation investment but is not appropriate when quantifying market benefits where outcomes are less predictable. Using a low discount rate essentially discounts the risk and treats potential benefits as more certain than they are which may not be in the interests of consumers. When quantifying market benefits a commercial discount rate should be used.

Some categories where a commercial discount rate should be used are as follows:

- Variations in operating costs
- Variations in maintenance costs
- Variations in investment costs to other parties due to better utilisation of existing plant.
    - Delays/advances in capital expenditure on generating plant
- Variations in voluntary load curtailment and involuntary load shedding

In summary, it is inappropriate to use the same discount rate for quantifying market benefits and regulated revenue transmission assets; the latter are much closer to a risk-free rate. AEMO is urged to apply a commercial discount rate for market benefits assessment.

## 3. Choice of scenarios

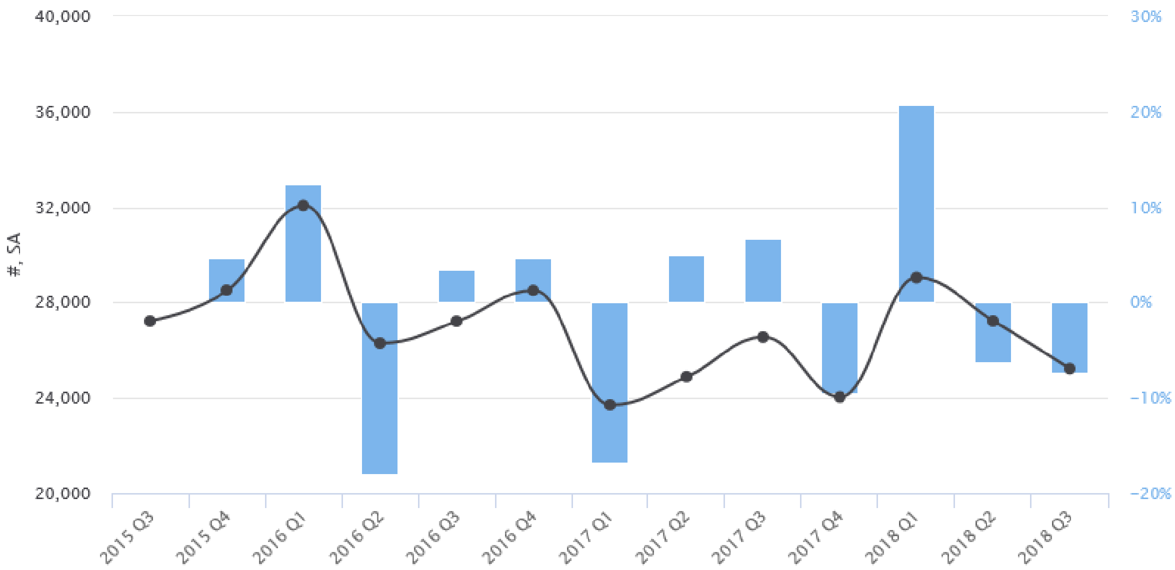
Economic performance continues to slow globally and domestically due to a range of factors. The conservative International Monetary Fund (IMF), continues to revise its forecasts down and warns of “Softening Momentum, High Uncertainty” ahead. It should be noted that given its conservative approach and based on past performance, the IMF is more of a trend follower rather than a trend predictor.

Overview of some of the key indicators:

- Lower global economic performance, also impacting Australia
    - EU economy slowing
    - China economy slowing
    - Latin America slow/some economies in a depression

- Australia specific considerations
    - Real estate bubble is showing signs of bursting, with accelerating price drops nationally
    - Fall over rate of off-the plan real estate jumped from 5% in 2015 to 25-35% in 2018???
    - Stagnant wages growth
    - Persistent under-employment
    - Slowing housing starts
    - Likely change of Fed government and new tax policies covering capital gains, negative gearing of real-estate property, dividend imputation credits.

Figure: Australian Housing starts




*Ref Moodys Analytics (https://www.economy.com/australia/residential-housing-starts/seasonally-adjusted)*

To cover the range of economic performance uncertainty, a scenario which incorporates very low economic performance is needed. Ideally such a scenario should be added to the list AEMO intends to employ in the RIT-T process.

Should this prove too difficult under the timing constraints, a distant second best would be to use the existing scenarios but the weighting of the “Slow Change” scenario which incorporates a weak economic growth should be increased to circa 40%. This is likely to be a better fit with the existing scenarios but will suffer from a lack of a more stretching economic scenario to the downside.

ENGIE trusts that the comments provided in this response are of assistance to the AEMO in its RIT-T process. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 0417343537.

Yours sincerely,

**David Hoch**
Regulatory Strategy and Planning Manager