



28 February 2019

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

Submitted by email to Planning@aemo.com.au

Thursday 28/2/2018

RE: Western Victoria Renewables Integration PADR December 2018

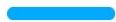
Dear Mr Spurio,

ENGIE appreciates the opportunity to comment on the Western Victoria Renewable Integration Project Assessment Draft Report (PADR).

The market is undergoing a challenging phase in terms of changing environmental policies, generation mix and decentralised generator connection requirements. In the face of unprecedented uncertainty this makes planning for long lived network assets particularly challenging. AEMO has considered a wide range of credible options, scenarios and tested several sensitivities.

ENGIE appreciates the consistent, methodological and transparent process adopted by AEMO.

The opportunity to participate in two separate workshops dealing with specific issues was both welcome and considered to be an effective way of engaging participants. ENGIE is a member of the Australian Energy Council (AEC), supports the associations submission and makes the following additional comments in relation to 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 a given 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. To quantify benefits over time, the discount rate used needs to be consistent with the risk profile.

Using a low discount rate is appropriate for regulated businesses or 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 future risk and treats potential benefits as more certain than is the case. This may not be in the interests of consumers as they essentially underwrite such risks.

The AER RIT-T guidelines state that - “The present value calculations must use a commercial discount rate appropriate for the analysis of a private enterprise investment in the electricity sector. The discount rate used must be consistent with the cash flows being discounted.”¹

In this case the base discount rate of 6% as used in AEMOs calculations should be replaced with a higher commercial rate when quantifying market benefits.

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 relation to the Western Victoria Renewable Integration, adopting a higher discount rate will change the preferred option from C2 to B3². This results in a cost reduction (and risk reduction) to consumers from \$499M to \$340M³ for the corresponding options.

¹ Australian Energy Regulator, Regulatory Investment Test for Transmission, June 2010, p.6

² PADR p50 last dot point

³ PADR p21 and p22

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.

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