



RFI-RFP001 Bulk Supply to the Fleurieu Peninsula

Closure Notice

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SA Power Networks

www.sapowernetworks.com.au

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Abbreviations

Term	Meaning
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
kV	kilo Volt
NEFR	National Electricity Forecasting Report
NER	National Electricity Rules
NNOR	Non Network Options Report
RFI	Request for Information
RFP	Request for Proposals
RIT-D	Regulatory Investment Test - Distribution
RIT-T	Regulatory Investment Test - Transmission
VCR	Value of Customer Reliability

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Executive Summary

In 2010, SA Power Networks (then ETSA Utilities) and ElectraNet published a joint RFI-RFP notice under the former Regulatory Test (Version 3) entitled “RFI-RFP001 Bulk Supply to the Fleurieu Peninsula”. This notice requested proposals from the market to replace or defer a new Connection Point and 275kV transmission line to be constructed on the eastern Fleurieu Peninsula between 2015 and 2020. This was forecast to be required due to the strong annual growth (> 6%) measured in the area over the previous six years. A copy of the document is available from our website.

A number of proposals were received in response to this RFI-RFP and one, for an embedded generation solution, was initially assessed as being potentially viable. This was reported to the market at the end of 2010 in an interim report which can also be found on our website. Commercial negotiations between SA Power Networks and the proponent then commenced to confirm and fully develop the legal, technical and financial elements of their proposal.

However, following publication of the interim report, growth in measured demand in the region has stalled, resulting in little measurable change in demand between 2010 and 2016. There are many reasons for this, including:

1. the unprecedented uptake of subsidised solar panels;
2. the uptake of more efficient appliances (especially air conditioning); and
3. a general economic slowdown in SA.

In addition, AEMO’s 2016 state forecast indicates a continuing reduction in state level demand for the medium term. This is a substantial change from their 2015 forecast which indicated a small rise in demand over the same period, (refer to the NEFR which is available from the AEMO website). When translated to the Fleurieu Peninsula region, we expect the static measured demand trend of recent years to continue until at least 2025.

As a consequence of this material change in circumstances, we have decided to discontinue this project and therefore close the RFI-RFP until we have evidence of a substantial return to growth within the region.

As a separate exercise, in the light of static customer demand, we will reassess whether provision of a second source of supply to some or all of the major radial substations on the Fleurieu Peninsula (eg. Victor Harbor, Goolwa, Yankalilla, Myponga) is justifiable given the substantial reduction in the VCR published by AEMO in 2014. If a project to provide alternate sources of supply is shown to be viable under the RIT-D (ie. is expected to have a positive market benefit) a Non Network Options Report will be published requesting proposals from the market.

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History

Substantial growth in electrical demand on the Fleurieu Peninsula was recorded between 2000 and 2008. In response, SA Power Networks (then ETSA Utilities) and ElectraNet published in 2010 a joint RFI - RFP notice under the then Regulatory Test (version 3) requesting third party proposals to defer the need for construction of a new 275kV line and 275/66kV connection point substation to serve the Fleurieu region within the 2015-20 period. The notice identified many emerging system constraints over the following years including:

- Overload of the meshed 66kV sub-transmission network south of Morphett Vale East Connection Point;
- Overload of the radial 66kV sub-transmission lines supplying the then rapidly growing zone substations supplying both the eastern and western sides of the Fleurieu Peninsula;
- Voltage collapse at times of peak loads under contingency conditions due to high sub-transmission losses;
- The requirement for a third 275kV / 66kV transformer at Morphett Vale East Connection Point which would increase system fault levels in excess of the fault rating of existing installed equipment;
- The potential for substantial involuntary load reduction or shedding.

Please refer to the tables and graphs provided in the original RFI-RFP for information on both the measured and forecast loads and the timing of the above constraints. Note that all of the constraints (with the exception of minor overloads within the meshed sub-transmission network) were predicated on continuation of the measured growth in the Fleurieu Region.

Several proponents submitted proposals in response to the RFI-RFP; one of which was assessed as being a potentially viable alternative to the proposed network solution. An interim report noting the submitted proposals was published in late 2010 and commercial negotiations commenced with the proponent in order to negotiate a number of significant legal, technical and financial considerations associated with their proposal.

Both the original RFI-RFP and the interim report may be found on our website.

Negotiations between the parties continued with the proposal changing several times to make allowance for changes in both the location of the proposed solution and observed reductions in load growth within the region. In 2014, ongoing negotiations were deferred pending the AER's determination of SA Power Networks' 2015-2020 Regulatory Reset Proposal (RRP).

Following receipt of the AER's determination on SA Power Networks' RRP, a review of the project was undertaken considering the impact of:

- Changes in our internal load forecasts for the Fleurieu Peninsula since 2010;
- Changes in AEMO's "neutral" load forecast (NEFR) at a state level; and
- Significant changes in the VCR values for South Australia from those originally used in 2010.

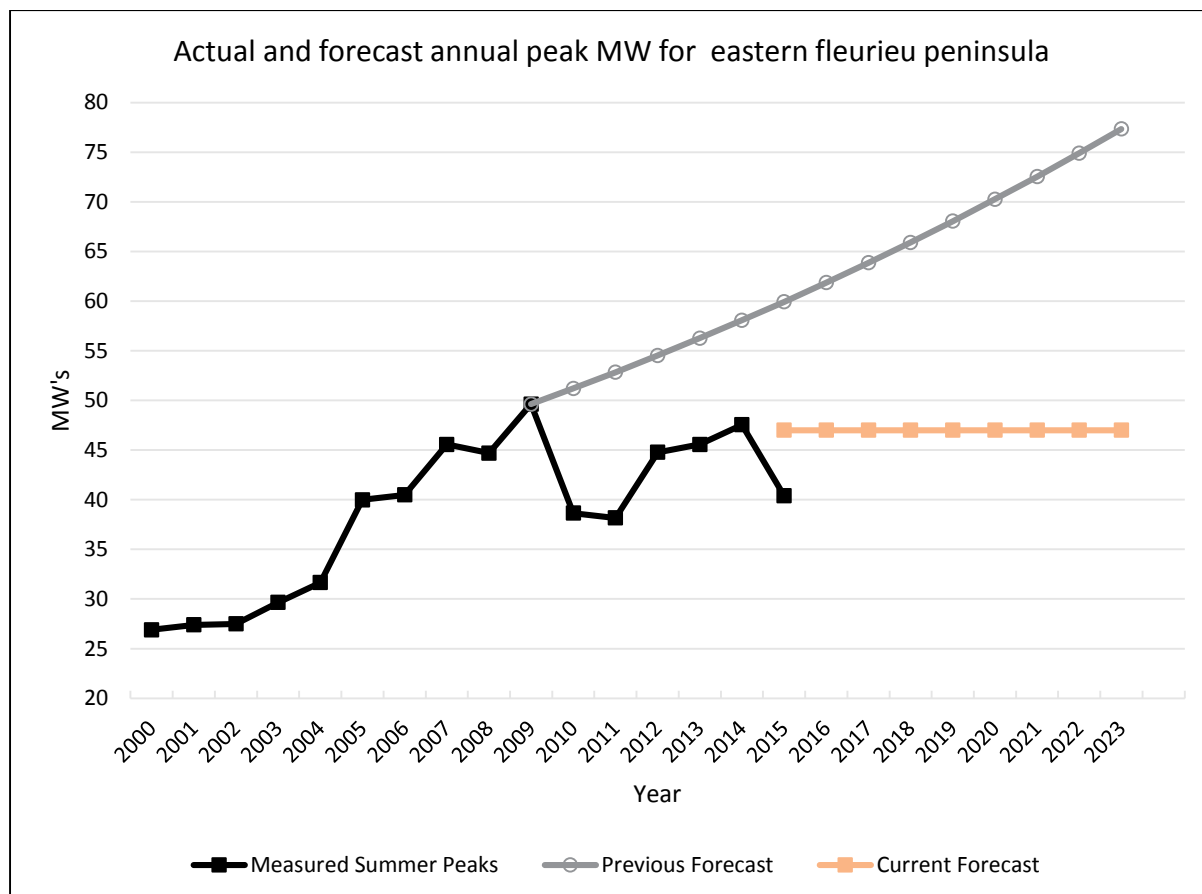
This review concluded that the system constraints identified in the original 2010 RFI-RFP are unlikely to eventuate in the short to medium term and therefore all network or non-network options required to address these constraints are no longer required for the foreseeable future based on present demand forecasts. As such, SA Power Networks proposes to close the existing consultation until such time as constraints re-emerge.

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Reasons for cancellation

Change in Substation Load Forecasts

The graph below illustrates both the rapid rise in peak diversified demand in the eastern Fleurieu Peninsula between 2000 and 2010 and the essentially static demand growth since then. This pattern is also common to the western peninsula's diversified demand and also to the individual substations making up the demand.



This change has been due to a number of factors, many of which could not have been reasonably foreseen at the time, such as the substantial uptake of subsidised residential PV and the general slowdown in economic activity in South Australia post 2010. This substantial reduction in the rate of growth has resulted in those system constraints originally forecasted not materialising, therefore removing the need to augment the network.

Change in State wide growth

AEMO have forecast in their 2016 NEFR that the 10% POE state wide demand for South Australia will decline over the next few years at a compound rate of 1% per annum¹. Whilst this forecast does not apply to any specific region within the state, it does provide further evidence that the load forecasts contained within the 2010 RFI-RFP are unlikely to eventuate in the period to 2025.

The NEFR is available from the AEMO website.

¹ Page 25, National Electricity Forecast Report; AEMO 2016.

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Change in Value of Customer Reliability

When the RFI-RFP was published in 2010, we used the best available estimate for VCR of \$50,000 per MWh. These were based on the 2007 study for VENCORP in Victoria (\$47,850 per MWh), and adjusted for use within South Australia. In November 2014, AEMO published revised values for South Australia of \$38,000 per MWh (excluding direct connect customers) a reduction of 25%.

The effect of this reduction was to reduce the market benefit value of providing a second source of supply to those radial substations within the Fleurieu Peninsula. This benefit was a significant factor in several of the network and non-network options being explored under the RFI-RFP evaluation.

Conclusion

As a result of material changes in demand and the low probability of growth in the Fleurieu Peninsula restarting in the medium term, there is little likelihood of the constraints forecast in the 2010 RFI-RFP eventuating. Therefore, SA Power Networks is formally closing the existing consultation under the present RFI-RFP.

Should constraints re-emerge, SA Power Networks will advise the market in accordance with the requirements of the NER.