Dr Kerry Schott AO
Energy Security Board

21st June 2019

Submitted via e-mail to: info@esb.org.au

Dear Dr Schott,

Retailer Reliability Obligation Converting the ISP into Action Consultation Paper

The Australian Energy Council (the "**Energy Council**") welcomes the opportunity to make a submission in response to the Energy Security Board's ("**ESB**'s") *Converting the Integrated System Plan into Action Consultation Paper*.

The Energy Council is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

The Energy Council supports efforts for the transmission system to participate in industry transformation, subject to projects rigorously demonstrating their individual nett benefits under the Regulatory Investment Test for Transmission ("**RIT-T**").[1] Using the Integrated System Plan ("**ISP**") as the basis for projects' scenario analysis should, if done with similar rigour, encourage national consistency and increase efficiency, but the Energy Council believes responsibility for transmission development should continue to rest with Transmission Network Service Providers ("**TNSPs**"). They should be able to make use of work already performed to prepare the ISP, but ultimately they need to take ownership of their projects, and justify them on their own terms, including the ability to adjust plans as input information changes.

Development of different areas of the grid should be done on a consistent and technology neutral, but always economic, basis. Renewable energy zones ("**REZs**"), as recommended by the Finkel Review,[2] were intended only as a technical rather than regulatory concept. They were conceived as a useful way for the engineers developing the ISP to classify geographic areas in order to simplify their complex task. After that, however, economic justification should occur in exactly the same way, and with the same rigour, as occurs in all parts of the grid.

The Energy Council therefore believes that the ISP should not be treated as a "gold standard", and the Australian Energy Regulator ("**AER**") should continue to have responsibility for the assessment of transmission projects using the framework set out in the RIT-T Application Guidelines.[3]

According to the National Electricity Law, the role of the ESB is to provide advice to the Ministerial Council on Energy,[4] therefore the Energy Council considers it to be the role of the AER to develop Application Guidelines for the ISP, should they be required. The Energy Council considers it is inappropriate for the ESB to draft guidelines such as the ones set out in the Consultation Paper.

Discussion

In relation to the individual issues set out in the Consultation Paper, the Energy Council makes the following responses.

[1] National Electricity Rule 5.16
[2] Dr Alan Finkel AO et al., *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future*, June 2017, Recommendation 5.2
[3] Australian Energy Regulator, *Application Guidelines – Regulatory Investment Test for Transmission*, December 2018
[4] Clause 2(1)

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ISP Timing Deadlines

The ISP is developing into a critical document for system planning and National Electricity Market development, with its assumptions and conclusions being used for Transmission Annual Planning Reports, transmission Project Specification Consultation Reports, Project Assessment Draft Reports and Project Assessment Conclusion Reports, as well as government reports such as the AER's State of the Energy Market.

The Energy Council regards it as helpful for the overall regulatory cycle if there is an expectation regarding the time at which the ISP will be published, but does not believe that it needs to be mandated in the National Electricity Rules. Instead it should be sufficient for the Rules to set out the Australian Energy Market Operator's ("**AEMO**'s") obligation to publish the ISP at least every two years (but not a date by which this needs to occur), and ensure the expected date of publication, and the consultations being conducted to facilitate its production, are well-known.

ISP Governance – Provision of Draft Guidelines

The Energy Council supports the AER in providing guidelines to direct the performance of transmission planning, amongst other functions, for both AEMO and the TNSPs. The AER should now work towards delivering these, a task in which its independence will be critical to providing stakeholder confidence. It is appropriate that the ESB's paper has described the broad scope of these guidelines, but the paper should not have proposed drafts (described in italics) which will now be seen to create a starting point for the AER's work.

The ESB's provision of examples is most concerning with respect to some features of the cost-benefit guideline that appear to conflict with the AER's view developed over time in the RIT-T Application Guidelines (discussed below). As such, the draft could be seen as an intervention by the ESB into the AER's role in economic regulation.

ISP Governance – Forecasting Guidelines

The Energy Council agrees that it would be helpful for the AER to provide guidance to AEMO. Separately the AER is preparing a Forecasting Best Practice Guideline for the purpose of assessing whether a reliability instrument under the Retailer Reliability Obligation has been appropriately triggered. Whilst AEMO's role in the RRO trigger is quite a different function to its role in ISP development, the inputs and assumptions going into the modelling of each should be the same. It would be more sensible to have one AER guideline to cover all AEMO's forecasting functions.

ISP Governance – Cost Benefit Analysis Guidelines

The planning of customer-funded monopoly transmission should always be conducted on an economic, nett market-benefit basis in order to balance the needs of the industry with those of consumers, and to provide a predictable framework around which market-based investments, such as generators, can invest. In attempting to achieve this objective, AEMO's approach to ISP economics should be identical to TNSPs' approach in the RIT-T. Whilst it has never been explicitly required, to the Energy Council's understanding, AEMO's National Transmission Planning function has always emulated the approach recommended by the AER's RIT-T Application Guidelines. To do otherwise would not be sensible, as AEMO could recommend a project that a TNSP is subsequently unable to progress under RIT-T economics.

The Energy Council is concerned that the paper is now promoting different guidelines to underpin, respectively, the RIT-T and ISP economic assessments. The Energy Council considers there is no rationale to entertain different instruments, and instead recommends that the RIT-T Application Guidelines remain the only basis for determining how transmission should be economically assessed by any party. This role of the RIT-T Application Guidelines in ISP preparation should now be mandated formally, and, if necessary, the AER should include within the RIT-T Application Guidelines specific guidance to the ISP stage of transmission planning.

The Energy Council objects to the second half of the draft Guidelines that specifically invite AEMO to take a different economic approach to how the TNSPs must justify projects under the RIT-T Application Guidelines, in particular, the allowance to:

> "Take a broader definition of 'NEM obligations' than the current RIT-T Application Guidelines and give AEMO greater flexibility to manage uncertainty, have sufficient regard to power system resilience, public policies, broader interactions with other systems, and report on a range of benefits."[5]

[5] p.8

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With respect to nett market benefits, the existing RIT-T Application Guidelines already allow all relevant benefits within the market definition to be taken into account. For example, if an investment increased resilience, then this can be valued and included in the RIT-T as a benefit through the probabilistic valuation of an avoided High-Impact Low Probability ("**HILP**") event. Similarly, to the extent external public policies affect the valuation of transmission projects, these are already specifically accommodated following detailed consideration of the matters over many years by the AER.

This inclusion within the draft guidelines by the ESB causes two major concerns to the Energy Council,

- firstly that the ESB is encouraging AEMO to include benefits that lay outside the strict market definition recommended by the AER, for example looking into forms of community or public policy benefit; and
- secondly that the ESB is inferring that the AER's RIT-T Application Guidelines are too strict in their current construction, and this is thereby interfering in the AER's independence.

Further Subordinate Documents

While the Energy Council appreciates the certainty granted by including obligations in the Rules, the diminution in flexibility can outweigh the benefit of the certainty. This is the case in the ESB's proposal to include more prescription in the Rules as to how AEMO is expected to prepare its ISP. The Energy Council recommends that AEMO be obliged to develop, in consultation with stakeholders, public documents setting out its inputs, assumptions, methodologies, system limits, and other relevant matters, but the extent of such documents does not need prescription.

AER Revenue Approval

The Energy Council notes the strict timeframes for the AER to conduct its assessment of the efficient level of costs associated with a TNSP's preferred option,[6] and supports retaining them in the Rules. Nevertheless the Energy Council appreciates that circumstances change, and suggests including a trigger mechanism to cater for unexpected events.

Dispute Resolution

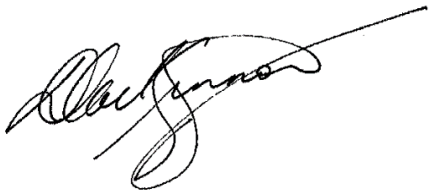
The Energy Council expects that AEMO's planned consultation in the preparatory stages of the ISP will diminish the need for disputes to be called. Nevertheless the Energy Council supports the ESB suggesting a formal mechanism for stakeholders to raise concerns regarding the ISP if they believe that their issues are sufficiently grave and have not been addressed by AEMO in its ISP development.

Conclusion

In conclusion, the Energy Council cautions against the ESB being too prescriptive in the obligations imposed upon AEMO and market participants. In addition, it is preferred that existing governance arrangements, which rely on the AER providing oversight, be maintained.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,



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[6] National Electricity Rule 5.16.6