

Guidelines to make the ISP actionable

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1. Background

Requirement for AER to develop and update guidelines

- Draft rules provide for two binding guidelines prepared by the AER:
 - Cost benefit analysis guideline
 - Forecasting best practice guideline (adapted from RRO guidelines)
- The guideline work will also cover changes to:
 - RIT application guideline for ISP projects
 - RIT application guideline for non-ISP projects
 - Existing RIT instrument.

AER guidelines within the governance framework for the actionable ISP

National Electricity Rule				
Sets out high level framework				
Forecasting guideline (AER) Describes forecasting process – to be based on equivalent RRO guideline	CBA guideline (AER) Sets out mechanics of CBAs for the ISP and ISP RIT-T processes			
Two yearly ISP p Includes inputs assumptions and sce draft and				
RIT-T regulatory instrument (AER)				
RIT-T application guidant	RIT-T application guidelines for non-ISP projects (AER)			
RIT-T for ISP p PADR and PACR explores different tee parameters. AEMO to confirm that pref	RIT-T for non-ISP projects (TNSP)			
4 New Existing				

Existing New

Timing of guideline development

- In order to have the Guidelines finalised more quickly, we have started preparing them while the rules are being prepared – released an issues paper on 20 Nov 2019
- This means that if the rules change there may need to be Guidelines changes

Milestone	Expected date
Issues Paper published	20 November 2019
Final rules (ESB)	Early 2020
Draft Guidelines	March 2020
Stakeholder workshop	April 2020
Final Guidelines (whole package of reforms commence)	30 June 2020

AER's role in Transmission Planning

- We are responsible for the economic regulation of electricity network services in the NEM – and have corresponding economic expertise.
- We are also responsible for monitoring, investigating and enforcing compliance with obligations under the national energy legislation – and have corresponding investigative and legal expertise
- As such, our role in transmission planning with the ISP includes:
 - Develop guidelines
 - Dispute resolution body
 - Compliance and monitoring activities in respect of how AEMO and TNSPs comply with rules and guidelines.
 - Assessing capex in setting revenue caps in 5 yearly determinations, and assessing contingent project applications.

2. AER Guidelines– overview and key issues

Objective of AER Guidelines

- Want to ensure there is:
 - Rigorous cost benefit analysis of proposed investments
 - Effective consultation and processes.
- This will promote effective stakeholder engagement and input.
- Overall, the objective of the guideline is to promote investment efficiency by optimising/maximising net economic benefit
- Generally, our approach will be to give AEMO flexibility in its analysis but require AEMO to provide a high level of transparency in its reasoning.

Objective of transmission planning framework

To promote efficient investment in network assets

This promotes efficient market outcomes in the long term interests of consumers

Objective of AER guidelines

To provide certainty, transparency & accountability for AEMO, RIT–T proponents and stakeholders

To promote investment efficiency by optimising / maximising net economic benefit

To promote forecasting accuracy through effective consultation and processes

Structure of issues paper

Section	Description			Inputs, assumptions &	Forecasting best
1	Introduction		ISP sets stage	scenarios	What is needed for
2	Background	ISP sets stage ISP methodology Draft and final ISP		effective engagement?	
3	Objective and scope of AER guidelines		Draft and final ISP	 CBA guideline (ISP part) What CBA elements required? What level of 	
4	Issues regarding key CBA elements for the ISP process	Optimal development path Identified needs for actionable ISP projects			evelopment path ied needs for
5	Other issues for the CBA guideline			ole ISP projects	flexibility?
6	Issues regarding the	Simplified RIT-T process	PADR	CBA quideline	
	RIT-T and forecasting best practice guideline		process	PACR	 (RIT-T part) How to integrate with
7	Issues regarding dispute resolution, compliance and enforcement		Preferred option		the ISP?
0		1	Updates t	o the RITs and RIT ap	oplication guidelines for

non-ISP projects

Prescription vs flexibility

At a high level:

- We intend to prescribe some high level steps AEMO must follow in conducting a sound CBA
- But AEMO will have flexibility to choose optimal development pathway based on consideration of net economic benefits in different scenarios

Framework for classifying elements of the guideline

Different elements will be:

- requirements for AEMO; OR
- considerations AEMO must take into account or have regard to; OR
- discretion for AEMO, which should be tested with stakeholders through a robust process.

2 Key elements of cost benefit analysis for the ISP

- Inputs and assumptions
- Reasonable scenarios
- Identify a set of development paths (inc. counterfactual)
- Quantify costs and benefits
- Sensitivity analysis
- Choosing an optimal development path.



- **Output** of ISP CBA is net economic benefit for each development path under each reasonable scenario
- Aim is to assess a range of options and minimise risk of inefficient investment, which has significant market impacts on participants connected to the network, and consumers who fund the network

Choosing an optimal development path

AEMO has some flexibility as to how it chooses between DP1, DP2 and DP3 – but the final choice must be positive in the most likely scenario and AEMO must explain its reasoning.

Scenario	Net economic benefit			
	DP 1 (\$, mil)	DP 2 (\$, mil)	DP 3 (\$, mil)	
Neutral (central)	180	220	195	
Slow Change	-10	20	220	
Fast Change	125	-20	-50	
High DER	-30	50	100	
Step Change	175	-10	-30	

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Other key issues

- Choosing the identified need to maintain integrity of optimal development path but allow TNSP to explore new credible options
- Option value
- What ISP network development and generation should be adopted in the RIT-T?
- Should the RIT-T just consider the most likely scenario?
- Non-network options.

Forecasting Best Practice Guidelines

- These guidelines will be adapted from the similar RRO guidelines – so one set of guidelines will apply to both ISP and RRO.
- Provides guidance/direction to AEMO on the ISP processes and engagement with stakeholders.



- Guidelines will specify high level processes for AEMO to follow in developing the ISP.
- For every ISP, AEMO must prepare a:
 - Inputs, Assumptions and Scenarios Report
 - ISP methodology

Forecasting Best Practice Guidelines

- Guidelines will set a process for AEMO to follow to prepare Inputs, Assumptions and Scenarios report and ISP Methodology each time an ISP is prepared.
- Likely to involve a single stage of written consultations.
- Guidelines will also set out how AEMO must consult on an ISP update

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We are interested in any areas of the ISP where stakeholders consider further transparency / consultation is required.



3. Next steps

Process going forward

Milestone	Date
Issues Paper published	20 November 2019
Submissions close on Issues Paper	17 January 2020
Final ISP Rule Changes to COAGEC (ESB step)	Early 2020
Draft AER Guidelines published	March 2020
Stakeholder workshop	April 2020
Submissions close on Draft Guidelines	May 2020
Final AER Guidelines published	30 June 2020