

Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

17th January 2020

Submitted via e-mail to: ISPguidelines@aer.gov.au

Dear Sir/Madam,

Guidelines to Make the Integrated System Plan Actionable
Reference: 63054

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Australian Energy Regulator’s (“**AER’s**”) *Guidelines to Make the Integrated System Plan Actionable Issues 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 Security Board (“**ESB**”) is presently consulting on draft National Electricity Rules to make the Integrated System Plan (“**ISP**”) actionable.¹

While the Energy Council supports the role of the ISP as providing a unified design towards the development of transmission, the need for robust cost benefit analysis of augmentation to the monopoly network remains paramount to protect customers from wasteful expenditure, but equally importantly, to provide predictability for competitive investors about the circumstances in which networks will expand.

The Energy Council supports initiatives to expedite the assessment of transmission projects and deliver the benefits identified promptly. Unfortunately the proposed measures create two separate classes of transmission projects – those identified within the ISP (“**actionable ISP projects**”), and those not so identified (“**non-ISP projects**”).

Despite the differences between the two classes of transmission projects, the Energy Council believes that to the extent possible the Regulatory Investment Test for Transmission (“**RIT-T**”) process should be kept consistent, and any accommodations made for actionable ISP projects should be limited to removing duplicated effort as a result of AEMO’s deliberations in the ISP.

Discussion

ISP Guidelines’ Objective

The Issues Paper proposes that one of the objectives of the ISP Guidelines should be “to promote ISPs that identify the optimal development path that optimises the net economic benefit to all those who produce, consume and transport electricity in the relevant market”.² The Energy Council appreciates that in developing its ISP AEMO has a number of technical considerations to maintain security and reliability, nevertheless “optimisation” implies considering a number of weighted parameters to arrive at one of a number of possible

¹ Energy Security Board, *Converting the Integrated System Plan into Action – Consultation on Draft ISP Rules*, November 2019

² p.16

solutions. Instead, the Energy Council suggests that once reliability and security obligations are met, AEMO should seek to maximise the nett economic benefit, thereby mirroring the assessment process in the RIT-T.

Forecasting Best Practice Guideline

The Energy Council notes that the proposed Forecasting Best Practice Guideline will be prepared by adapting the Retailer Reliability Obligation Forecasting Best Practice Guideline, the interim version of which has already been published.³ The Energy Council agrees that the similarities are such that consistency between the documents should be maintained, however a notable omission from the existing interim guideline is a target to indicate what constitutes best practice. The document focusses on process, and it is possible for AEMO to meet the guidelines by fulfilling all the process obligations, such as stakeholder consultation, yet produce forecasts which are significantly inaccurate when compared with actual data after the event. To combat this shortcoming, the Energy Council recommends that the AER, using consultants for advice if necessary, include measures within the Guideline (such as targets for accuracy over specified time periods) which allow AEMO to test whether it is complying with the Guideline or not.

ISP Cost-Benefit Analysis

Robust cost-benefit analysis will underpin AEMO's conclusions for the optimal development path. The Energy Council does not believe it is sufficient for this path to be based on a "positive nett benefit" regardless of its quantum, but this is an issue for the Draft Rules rather than the Guidelines. Nevertheless, the existence of positive rather than maximum nett benefit increases the sensitivity of the ISP's conclusions to differences in expected costs and likely benefits. This places greater reliance on these assumptions being accurate, so that the viabilities of the projects being considered are not inaccurately represented, thereby altering the optimal development path. To this end, the Energy Council supports the Cost-Benefit Analysis Guideline assigning probabilities to different scenarios to ensure analysis is as robust as possible. In addition, to limit customers' exposure to wasted capital, it is also recommended to include a measure of capital efficiency in the Guideline, to ensure capital-intensive projects with marginal returns are not preferred to cheaper projects with similar returns. This suggests that the Cost-Benefit Analysis Guideline should include rate of return as an assessment measure, since this considers the capital employed.

The Energy Council also believes that expediting the ISP should not provide latitude for the scrutiny involved in the RIT-T process to be reduced. Draft Rule 5.22.5(d)(4)(i) specifies that the Cost-Benefit Analysis Guidelines (and hence the Cost-Benefit Analysis conducted by AEMO) must consider the counterfactual development path, and the Energy Council notes that the AER's initial view is that the ISP counterfactual development path "should contain no ISP projects that are not already committed".⁴ This suggests that the optimal development path may consider projects in aggregate, which risks including projects which may not be economically successful in their own right. The Energy Council stresses the need for projects to be individually viable, and not "carried" by related projects.

The Energy Council supports the AER proposed approach to High Impact Low Probability ("**HILP**") events in that they should be treated consistently with the rest of the cost-benefit analysis, i.e. their value is adequately described by the simple multiplication of their probability and consequence. If HILP events were ascribed an exaggerated value it would skew the results for a group of arbitrarily selected events.

Public Policy Needs

The Energy Council disagrees that "public policy needs" should be included in AEMO's assessment of the optimal development path. While acknowledging that individual jurisdictions may have particular desires for the energy industry, it would be disruptive to incorporate such considerations into a document like the ISP which should be underpinned by the defensible, national concepts enshrined in the National Electricity Objective.

There is already a body of literature on how the economic effects of legislated environmental schemes, such as renewable energy targets and carbon pricing, can be correctly incorporated into cost-benefit analyses in a way that is entirely consistent with the National Electricity Objective. There should be no ability for planners to incorporate vague notions of "public policy" which would introduce subjectivity and unpredictability into network development.

³ Australian Energy Regulator, *Retailer Reliability Obligation – Interim Forecasting Best Practice Guidelines*, September 2019

⁴ Australian Energy Regulator, *Guidelines to Make the Integrated System Plan Actionable – Issues Paper*, November 2019, p.25

RIT-T Application Guideline

As mentioned above, the Energy Council supports the RIT-T process remaining as consistent as possible between actionable ISP projects and non-ISP projects. In particular, the cost-benefit analysis required under the Project Assessment Draft Report (“**PADR**”) must continue for both classes of transmission projects, since this detailed report provides assurance to the market that all credible options which address the identified need have been assessed, and the preferred option ascertained.

Under Rule 5.16.49(o)(1) the RIT-T proponent must provide AEMO with a summary of the PADR, and it will be important for AEMO to consider the information provided, and revise its ISP if necessary (as it is obliged to do under Draft Rule 5.22.12).

Conclusion

In conclusion, the Energy Council believes that substituting the ISP for the Project Specification Consultation Report, and using the ISP’s assumptions and initial modelling, are useful means by which transmission projects can be expedited. Nevertheless, it is very important to maintain due process by ensuring that the PADR is prepared rigorously, and consistencies maintained, to the extent possible, between actionable ISP projects and non-ISP projects. In addition, the Energy Council recommends that the guidelines be written to encourage proponents to maximise nett benefits, and seek capital efficiency, thereby minimising the burden for consumers.

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,



Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council