

17 January 2020



Mr Mark Feather  
General Manager, Policy and Performance  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Dear Mr Feather

**Ergon Energy and Energex submission to the Australian Energy Regulator consultation on Guidelines to make the Integrated System Plan Actionable – Issues Paper**

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex) welcome the opportunity to provide comment to the Australian Energy Regulator (AER) on its Guidelines to Make the Integrated System Plan (ISP) Actionable – Issues Paper (Guidelines).

Ergon Energy and Energex hold the position that the cost-benefit analysis (CBA) for the ISP process should focus on the most effective methodology and inputs to be used in determining the benefits in economic terms, considering network efficiencies, affordability, security and adaptability to the new national electricity market (NEM) conditions and consumers' evolving needs while also promoting transparency. Therefore, any proposed investment in new infrastructure, operational systems, platforms and operational models should undergo a robust and transparent CBA with the engagement of all significantly impacted stakeholders.

We would also like to highlight that while the ISP is transmission focussed, the National Electricity Objective may in some places be most economically served by distribution network service providers (DNSPs) as opposed to transmission network service providers (TNSPs) and consideration should be given to the benefits of a whole of market approach.

This is especially important regarding distributed energy resources (DER), to which the Guidelines include significant references. As such, Ergon Energy and Energex would expect that the "Renewable Integration Study" that the Australian Energy Market Operator is currently undergoing would involve stakeholders from across the industry and any activities surrounding DER should involve the stakeholders that are best placed to manage the risks. For example:

- retailers are actively contracted with customers for DER and will be exposed to the commercial risks;
- DNSPs are actively connecting DER and are exposed to the distribution network technical risks; and

- the market is exposed to the system risk, noting that it is a significantly diversified impact of DER to which the market is exposed.

The Guidelines also include references to DER technical and market integration requirements which we suggest should commence immediately. As the penetration of rooftop photovoltaic systems continues to increase, technical issues due to network constraints on the low voltage (LV) network should not be underestimated. DNSPs will require active management of DER connected to LV networks for the long-term interests of all consumers with and without DER. Additionally, as the ISP is currently transmission focussed, by its nature it potentially excludes consideration of large-scale distribution connected projects. However, we have noted in several submissions to various consultations that DNSPs have a significant level of generation connecting to their networks, particularly in Queensland. For example, as at the end of December 2019, Ergon Energy and Energex together had connected 1177 medium to large-scale DER (with a total capacity of approximately 643MW) and four committed projects in construction with 205MW of total capacity. A further 91 projects are also in various stages of the application process worth a total of 3.95GW estimated capacity. As such, the implications for distribution connected generators should be considered in any ISP modelling.

The benefit of the ISP is that it is forward-looking and long-term. As such, it has the ability to strategically consider measures, such as utilising generation closer to load centres, and the ability to examine system resilience with respect to increased extreme weather events due to climate change. It can also develop strategic examination of changing load profiles and network life-cycle conditions due to rapid changes in environmental patterns. Ergon Energy and Energex suggest the five ISP scenarios modelled should specifically analyse the correlation between global climate and regional weather change; network asset capabilities and security and their ability to respond to the ISP requirements; and changes in the system and regional load patterns (also considering minimum demands).

Notwithstanding the benefit of the long-term approach, given the 20-year planning horizon, we suggest the ISP be subject to regular revision, amendments and potential evolution to reflect future changes in the NEM and business environments. Another noted benefit of the ISP is that it can expediate the implementation of a project once it has been identified as the optimal path. Ergon Energy and Energex are supportive of the proposed approach in applying the regulatory investment test for transmission to actionable ISP projects.

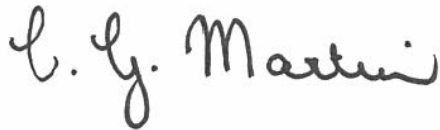
At present, the ISP focusses on TNSP transmission infrastructure, defining “actionable projects” as either being a transmission asset, or a non-network option. Distribution projects are considered under the ISP as “development opportunities”. Noting the majority of customer-owned DER, energy storage and electrification of transport impacts on distribution networks (both LV and Medium Voltage), Ergon Energy and Energex suggest these differences are articulated in the Guidelines and that the AER assess the impact of any potential changes required to the regulatory investment test for distribution guidelines.

Finally, the Issues Paper indicates that urgent and well-targeted reforms are required to support DER and distribution connected large-scale renewables. However, the Guidelines are silent on the regulatory and market reforms that are required. While we

understand this may still be under development, we have concerns about the already substantial volume of regulatory changes that are occurring in the industry and the co-ordination and prioritisation of these changes. Without a holistic, well-planned and prioritised regulatory transition path there may be unintended consequences or even rule changes with competing outcomes, all of which will create market uncertainty and potentially reduce investment.

Should you require additional information or wish to discuss any aspect of this submission, please contact either myself on (07) 3664 4105 or Barbara Neil on (07) 4432 8464.

Yours sincerely

A handwritten signature in black ink that reads "C. G. Martin". The signature is written in a cursive style with a large, looped initial "C".

Charmain Martin  
**Acting Manager Policy and Regulatory Reform**

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