

26 June 2020

Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001

Provided by email to: [ISPguidelines@aer.gov.au](mailto:ISPguidelines@aer.gov.au)

Dear AER,

**RE: Guidelines to make the Integrated System Plan actionable**

Hydro Tasmania is Australia's largest producer of renewable energy, and is an active participant and contributor to the energy market reform agenda. We welcome the opportunity to respond to the AER's Guidelines.

The AER has been consultative and clear in the development of these guidelines. The explanatory statement document released in May provides interested stakeholders with clear guidance with respect to the AER's decision making. The document appropriately references these decisions back to stakeholder concerns and feedback including where the AER has come to a different conclusion.

The key elements of the AER approach are strong and are reflected throughout the guidelines:

- **AEMO flexibility**
  - o Hydro Tasmania is generally comfortable with the approach under which AEMO will rank development pathways. As stated in our earlier submissions, we believe that the current uncertainties facing the sector (in particular, the timing of future coal retirements) warrant consideration of a more risk averse transmission planning framework. This can provide some insurance value for electricity consumers who have no control of, or means to mitigate this risk.

- Probability weighting scenarios will underpin a risk neutral assessment of each ISP development path. It is appropriate that AEMO is required to initially rank development paths in this way.
  - We also support AEMO being afforded the flexibility to select an alternative way of determining the optimal development pathway (outside of this initial ranking) if AEMO believes that a different risk and decision making approach is justified (as well as subject to the points below).
- **Transparency and engagement**
- The AER framework will hold AEMO accountable for the ISP process, inputs, findings and conclusions.
  - Where AEMO has flexibility over the approach taken, the AER guidelines should ensure appropriate engagement is undertaken and that decisions are clear and accountable for stakeholders.
- **Rigorous cost benefit analysis**
- Hydro Tasmania supports alignment between the ISP and RIT-T for ‘actionable’ projects. This includes the intention that AEMO specify, and explain, which scenario/s are relevant for any RIT–T application associated with an actionable ISP project. Consistency of RIT-Ts with the ISP is critical to ensuring the system planning benefits of the ISP are realised.
  - Page 73 of the explanatory statement document states that the intention under the CBA guidelines is for *“AEMO to work with TNSPs and/or non-network proponents to develop cost estimates for the ISP projects.”* We strongly support this approach.
  - It is appropriate for continuous improvement that AEMO has: *“regard to (consideration) the performance of its previous forecasts against actual outcomes, through the post-period performance reviews set out in the Forecasting Best Practice Guidelines”.* (Page 19 of the explanatory statement).
  - Hydro Tasmania continues to believe that competition benefits in the best interest of customers may not be sufficiently captured under the RIT-T cost-benefit framework. This is because where projects increase competition and lower prices for consumers, the RIT-T may regard this as a wealth transfer between sector participants and may not attribute this value to the project being assessed.
- **Streamlined regulatory processes**
- Hydro Tasmania supports the AER’s proposals to reduce and eliminate duplication of analysis between ISP and RIT-Ts.

Additional comments:

- Hydro Tasmania continues to believe that announced, 'real-world' projects should be given additional consideration in AEMO modelling over and above theoretical future generation. Having a proponent investing in a project or project investigation should elevate the likelihood of that project being reflected in the modelling build-out. We will continue to prosecute this case with AEMO.
- Page 77 of the explanatory statement notes that the draft CBA guidelines will not require "*sensitivity testing on particular inputs (e.g. government policies)*" as AER considers that "*flexibility allows for continuous improvement and for responding to stakeholder input.*" Hydro Tasmania has previously argued that AEMO should consider modelling a least-cost NEM which could exclude the effects of some policies. We continue to believe there is value in AEMO carrying out this assessment as part of the ISP process.

If you would like any further information on any aspect of this submission, please contact Mr Colin Wain ([colin.wain@hydro.com.au](mailto:colin.wain@hydro.com.au) or (03) 8612 6443).

Yours sincerely,



Andrew Catchpole  
Chief Strategy Officer