Major Energy Users Inc.

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Guidelines to make the Integrated System Plan actionable
Draft Decision

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the AER Draft Decision on the guidelines for converting the Integrated System Plan (ISP) into action.

Overall, the MEU considers the AER has developed sound guidelines and has explained well why some aspects about the guidelines sought by stakeholders were not considered appropriate to be implemented, and the AER is to be congratulated in providing such detailed explanations as to why some stakeholder views were better not being incorporated in the draft guidelines.

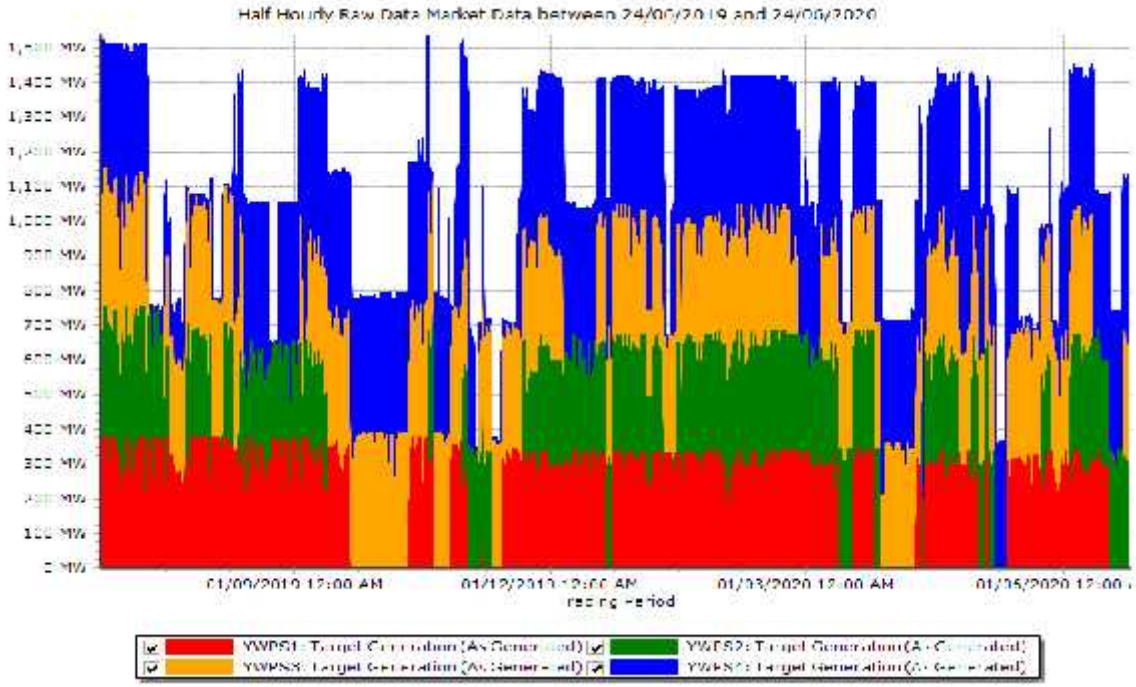
The MEU does however have some observations which might improve the guidelines coming from the discussions it has had with the AEMO team looking to develop the VNI West project which is an ISP actionable project. The MEU considers that in light of these observations, the AER might consider refining the guidelines to reflect them.

The identified need

While the guideline highlights that AEMO is to provide an identified need for the recommended augmentation, it is not clear from the guidelines what form the identified need must be presented in.

In the PSCR for VNI West, there is reference that the identified need for the project is additional south flow capacity specifically driven by the expected closure of Yallourn Power Station (YPS), although there are some other needs also

identified which are less well defined and only qualitatively described. YPS has delivered a capacity of 1500 MW although this capacity is not continuous and normally delivers output significantly well below this amount for most of the time as can be seen in the chart below.



Source: NEMReview using AEMO data

In the PSCR, AEMO posits three main options for addressing the needs for VNI West as shown in table 9 of the PSCR.

Table 9 Summary of credible network options

Option		Estimated cost ($M)*	Estimated lead time (years)**	Notional VNI export increase (MW)*	Notional VNI import increase (MW)*	Approximate Route Length* (km)
Augmentation to existing VNI corridor						
VNI 5A	New 330 kV transmission lines from South Morang to Dederang to Murray with New South Wales upgrades	515	6-8	580	1,000	350
Augmentation on new corridor via Bendigo/Shepparton						
VNI 6	New 500 kV transmission lines from North Ballarat – Shepparton – Wagga	1,335	6-8	1,930	1,800	440
VNI 6-V1	New 500 kV transmission lines from North Ballarat – Bendigo – Wagga	1,290	6-8	1,930	1,800	440
VNI 6-V2	New 500 kV transmission lines from North Ballarat – Bendigo – Shepparton – Wagga	1,455	6-8	1,930	1,800	440
Augmentation on new corridor via Kerang						
VNI 7	New 500 kV transmission lines from North Ballarat – Bendigo – Kerang – Darlington Point – Wagga	1,855	6-8	1,930	1,800	605
VNI 8	New 330 kV transmission lines from North Ballarat – Kerang – Darlington Point – Wagga	1,445	6-8	1,730	800	605

The MEU points out that the options provided in the table do not include many other options (eg options 1-4) for addressing the defined need. Of the options presented for addressing the expected closure of YPS, they demonstrate southward flow capacity increases of between 800 MW and 1800 MW coupled to considerable price differences for each of the options. The MEU does not consider that AEMO has clearly identified the need and, by not doing so, makes providing sensible comparison and options for non-network solutions quite difficult.

Noting that it will be consumers that will have to fund the augmentation, the MEU considers that a clearly identified need must be more specific in what additional capacity is considered necessary to address the needs of consumers. The MEU notes that for the VNI West PSCR, the identified need also includes reference to increased generation capacity for new generation in REZs in Victoria and southern NSW. While such increased connection might deliver benefits to consumers, the identified need is primarily to provide connection capacity for new generation and therefore should be considered to be a need for new generation rather than a consumer need.

The MEU considers that the guideline needs to be more specific as to what constitutes the “identified need” and for this to be detailed in more firm quantitative terms that address the needs of the consumer which will fund the augmentation, and provide a more explicit requirement such as “1000 MW increased capacity for southward flow to maintain reliability of supply to consumers in Victoria”.

The MEU considers that a need that provides access for new generation should be funded by those generators which will benefit from the augmentation.

The issue of double counting of benefits

During the discussion with the VNI West team, there was a statement from AEMO that the ISP process is to examine the net impact of all of the augmentations that are included in priority 1 projects but potentially priority 2 projects as well. This means that the net market benefits of the actionable ISP projects are calculated on the basis that all identified projects proceed. The ISP looks at all of the credible alternatives for each option for the priority projects to test which option delivers the best outcome; this means that there are effectively multiple runs of the ISP priority projects benefit test to identify which group of ISP projects delivers the best overall net benefit.

To test the net benefit of each element of the group of actionable ISP projects, the ISP process excludes one of the elements to identify what the net benefit remaining is. This new net benefit is subtracted from the total net benefit and so provides a net benefit for the element removed – this process is then used to identify which is the best option for each element. The approach implicit in the draft guideline develops the best net benefit for each element but not necessarily for the group of the projects that work together (eg such as when EnergyConnect, VNI West, HumeLink and maybe QNI major all act in concert)

The MEU considers that the process explained by the VNI West team provides a high level of certainty that the benefits claimed by one element of the ISP are not also claimed by another element of the ISP. With this in mind, the MEU sees that the guideline must embed this process for all ISP projects so that it underpins the development of each individual element as part of the ISP rather than the individual project being assessed in isolation.

Sensitivities

The experience of consumers during the development of EnergyConnect and VNI West projects have exemplified a major concern that consumers have with regard to identifying the "best" option for an augmentation in that the capex and expected benefits are calculated with a very wide range of expected accuracies.

The MEU considers that the guideline should require an explicit statement as to the accuracy of the capex assessments and benefits (eg in terms of +/- %) and then sensitivities should be tested around the stated accuracies. For example, if the capex accuracy is assumed to be +/- 30%, then the sensitivities should go at least to these boundaries (ie +/- 30%) if not beyond these values. This provides confidence that the expected net benefits are likely (or not) to be delivered within the expected accuracies of the inputs.

Forecast capex

Based on the experiences of EnergyConnect and more recently the AEMO statement that they were increasing capex estimates by up to 30% for their 2020 ISP, there needs to be built into the guideline the process as to what happens if the forecast capex is wrong (particularly if the estimate proves to be low) as it gets refined for each stage of the RIT-T process. This is especially important after the contingent project application is made.

In theory, if the contingent capex is exceeded when the augmentation is built, under the existing rule S6.2.2A, if the allowed capex is exceeded, as well as imposing a CESS penalty, the AER can carry out an ex post review and assess whether the higher capex incurred still provides a net benefit. If the net benefit is less than zero, again in theory, the AER can reduce the amount of capex transferred to the RAB.

The MEU considers that the guideline should be explicit on what is to occur in the event that the expected capex might be exceeded. The MEU views such an explicit statement would provide guidance to TNSPs to ensure that sound capex development practices are implemented.

Ex post reviews

The MEU notes that a report provided by Frontier Economics into the expected benefits from the last major transmission augmentation project provided in the NEM (ie the Heywood Interconnector upgrade) identified that some of the expected benefits used to substantiate the Heywood upgrade have not eventuated. This raises a concern as to the accuracy of the calculation of benefits.

With this in mind, the MEU considers that the guideline should require TNSPs to recalculate the assessed benefits (say after 3 years after the project is completed) for every augmentation to test the accuracy and validity of the forecast benefits. The MEU does not consider that this ex post assessment would provide justification to revisit the decision or impose a revaluation of the RAB but to provide feedback on how well the forecasting of benefits has been done and refine the process for the future.

This ex post assessment of benefit accuracy and validity should be reported.

The step between the ISP (or PSCR) and the PADR

As noted in identification of the need (see above), there is concern that the ISP (or the PSCR) does not sufficiently define what the augmentation is to provide, and the MEU considers that the guideline should make it clear what an augmentation is to deliver (eg 1000 MW capacity southward flow). The ISP (or the PSCR) calls for non-network solutions to be provided. The PADR is then to be published with a preferred option and presumably a few non-preferred options included in the assessment.

As, after the ISP (or PSCR) the PADR is the next way point in the review process, there is limited ability for stakeholders to test whether the TNSP has really identified the best option at the PADR stage because until the PADR is published there is no clarity as to what the augmentation is to achieve and what non-network options might be available to meet the identified need, especially if that need has not been clearly defined. This means that there needs to be an additional stage (eg a preliminary PADR) so that there is a clear definition as to what the augmentation is to provide and what non-network options are available to meet this need (or part of the need).

The MEU then considers the official PADR could be published with its preferred option to achieve the now clearly defined need. While this is not a defined step in the ISP or RIT-T process, the MEU noted there was some acceptance of this approach by the VNI West team, although the team expressed a view that the official PADR should be published first and then a subsequent “explanatory” PADR issued after the official PADR before development and release of the PACR. The MEU is uncomfortable with this proposed approach as it doesn’t really provide clarity as to what is needed, how best the need might be addressed and what options would clearly deliver against the identified need.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully

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