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**Guidelines to make the Integrated  
System Plan actionable  
Issues Paper**

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the AER Issues Paper on the guidelines for converting the Integrated System Plan (ISP) into action. The MEU has been a consistent respondent to the various AER consultations since its inception on many other topics.

The MEU was established by very large energy using firms to represent their interests in the energy markets. As most of the members are located regionally and are the largest employers in these regions, the MEU is required by its members to ensure that its views also accommodate the needs of their suppliers and employees in those regional areas. It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumer for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

The MEU stresses that the views expressed by the MEU in this response are based on looking at the issues from the perspective of consumers of electricity but it has not attempted to provide significant analysis on how the proposed changes might impact AEMO, generators, TNSPs and other stakeholders.

As an over-riding concern, the MEU considers that the AER has to address the development of the guidelines with a view that there must be improved checks and controls within the ISP process. Specifically, the MEU considers that:

) AEMO is not an independent entity in that:

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- It is the TNSP for Victoria and so has a vested interest in ensuring adequate investment is made in the Victorian transmission network to achieve the reliability of supply it considers is needed.
  - As the operator of the electricity market, it has an incentive to make the operation of the market as easy and convenient for AEMO staff as possible, to minimise loss of supply that might impinge on its reputation and to minimise the number of credible contingencies faced by its operations staff
  - AEMO has openly expressed a view that there must be increased transmission network capacity, there must be increased reserves of generation and RERT in the market, and the Reliability Standard must be tightened to reduce the risk of loss of supply<sup>1</sup>.
- J) AEMO has carried out its forecasting with extreme conservatism and there is a real risk that such conservatism will result in significant over investment in new transmission assets<sup>2</sup>.
- J) The proposed ISP process is predicated on there being increased consultation between AEMO and stakeholders. What has been the experience of stakeholders in their interactions with AEMO and other TNSPs, is the first-hand experience of a reticence to accept that any views other than their own are have much merit or are worthy of being further examined.
- J) Reliability (certainty) of supply is being made paramount in the new ESB approach. Despite this, consumers are increasingly expressing a view that lower prices are preferable to increases in reliability of supply (see footnote 1 below).

While the Issues Paper implies that the AER guidelines should deliver more flexibility for AEMO than prescription, the MEU considers that in light of its concerns expressed above, there is a need for the guidelines to be more prescriptive than not and that any flexibility allowed must be matched by a comprehensive explanation as to why one approach is preferred over another whether this relates to assumptions and inputs or to specific project options. The AER then must ensure as part of its review process of any project whether these explanations by AEMO are satisfactory or not.

While more prescription is favoured over more flexibility for AEMO for the development of the ISP and the options<sup>3</sup>, the MEU is very concerned at the

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<sup>1</sup> The MEU points out that most of the losses in supply that consumers experience is not from lack of wholesale supplies or lack of capacity in the transmission network but from failures in the distribution networks. An increase in wholesale supply will have a marginal impact on the overall reliability of supply seen by consumers but will result in considerable cost to them

<sup>2</sup> The extent of this conservatism is evidenced by the fact that, for example, over the two past decades, AEMO (and its forerunner NEMMCo) have forecast the peak demand in Victoria such that in only two instances has the peak demand exceeded the 50PoE and has never exceeded the 10PoE level.

consultation process that has to be implemented and whether AEMO will maximise the benefits of this stakeholder input. With this in mind, the MEU considers that the guidelines must be quite prescriptive with regard to the consultation processes that AEMO must implement and use. Further, the MEU considers that due to its concerns, the guidelines should include for the AER to carry out monitoring of stakeholder concerns about the consultation process during the preparation as well as after the completion of each ISP report. The outcomes of this monitoring would provide both the AER and AEMO with a clearer understanding for improvements needed for AEMO's consultation processes.

The AER has a responsibility under the National Electricity Law to ensure that investments made in the transport of electricity are efficient and are provided to meet the long-term interests of consumers. What consumers have seen over the past decade or more is that there have been made many investments that have subsequently proven to be unnecessary and that consumers have been required to pay for these for 40 years or more. This means that the guidelines that the AER develops must ensure that the responsibility the AER has in relation to investments is not ceded to another party that might have an active interest in the outcome. Implicit in the changes proposed by the ESB is that AEMO could be the party deciding what projects are efficient so the AER, to maintain its role as stated in the NEL, must implement guidelines that AEMO can follow but maintains the AER responsibility for ensuring only efficient investments are implemented.

The MEU considers that the guidelines must be developed so that:

- ) That for any investment greater than (say) \$50,000,000 capital cost, there is an independent assessment of the AEMO models used to determine which projects are identified for progression within the ISP
- ) Modelling is carried out not only of individual projects but where there are a number of projects assessed at the same time (eg the southern NEM projects VNI upgrade, Vic West, EnergyConnect, VNI West and HumeLink) that the combination of projects<sup>4</sup> is modelled to ensure there is no double counting of benefits. Specifically, the ISP must assess as a separate activity the combined net benefit of all projects that are included in priority (group 1) projects and near term (group 2) projects. As part of this assessment, the deletion of one or more of the projects should be included to test if the inclusion (or deletion) provides an increase in the net benefit
- ) The rate of change in the electricity market is accelerating reflecting the reality that new generation options (especially renewable generation) can be implemented much more quickly than in the past, yet the timeframes for transmission building remains much the same. With this faster rate of change being seen in the NEM, to ensure a "no regrets" outcome means that greater care is needed to ensure that commitments are not made that

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<sup>3</sup> Including inputs, assumptions, credible options, sensitivities, probabilities, forecasts

<sup>4</sup> The MEU considers that even the QNI upgrade could provide benefits claimed by the southern projects as QNI will reduce various costs in NSW generation that might be claimed by the southern projects

cannot be adjusted at a later time to prevent any unnecessary assets being added to the RAB. The guideline therefore needs to ensure that wherever possible, projects should be structured in a way that allows flexibility in their commitment processes so that changes can be implemented when needed

- J One of the key issues for any augmentation is many such projects can be implemented in a staged manner, in that not all of the project needs to be built immediately where completion of part of the project might be sufficient to meet short term needs. This allows a review at a future point in time whether the full project needs to be carried out or if an alternative approach might deliver the same or more benefits for less cost. This means that the guidelines need to be explicit in a requirement that each option must be assessed for staged completion<sup>5</sup> with the impact of the later cash flow incorporated into the net present value calculation.
- J The ISP process includes for updates to the biennial ISP report. The guidelines should include a requirement that updates have to follow the same process controls and checks applying to the initial report, especially with regard to stakeholder and consumer consultation
- J The stakeholder consultation process implemented by AEMO must be such that AEMO can clearly demonstrate that it has addressed all of the concerns and observations raised by stakeholders about inputs and assumptions, other options to achieve the same outcomes have been properly considered and the modelling is fully transparent both in terms of process and output. If the AER agrees with the stakeholder, the guideline should require AEMO to address the concern raised and for the assessment to be changed to implement the stakeholder concern
- J AEMO has stated that it will implement an “ISP Panel”. The guidelines should determine how this Panel will be selected and funded.
- J One of the abilities of an augmentation proponent (AEMO or TNSP) is the process to select those stakeholders to provide input into the AEMO deliberations. The guideline must include a requirement for ensuring there is adequate representation of stakeholders from those impacted by the AEMO/TNSP decisions to provide **informed** input into the deliberations. It is expected that the time commitment of stakeholder representatives will be significant so there must also be a method included in the consultation process to ensure that representatives are appropriately funded so they are able to examine the proposals, inputs, assumptions, etc and then to provide detailed and informed input
- J There is implemented an ex post review after (say) 5 years of each project that proceeds in order to identify if the AEMO processes were sufficient for the need by identifying aspects that were demonstrably in error in the modelling inputs and assumptions and in the options selections.

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<sup>5</sup> Even to the extent that a staged project might be preferred over a full project that forecasts a higher net benefit

- ) A stakeholder can implement a dispute on the process implemented by AEMO at any time during the development of the ISP in order to minimise lost time.

The MEU notes that the current RIT-T process is intended to be a market benefit test which therefore does not address any transfers of wealth between consumers and generators. This raises two core issues – as noted above consumers are increasingly expressing a view that the price they pay is perhaps even more important than the reliability of the wholesale supply of electricity and the observation that the CoGaTI process being assessed by the AEMC is potentially leading to consumers paying for costs that are rightly the responsibility of generators. With this in mind, the MEU considers that in addition to a RIT-T process AEMO could also carry out a consumer benefits test to balance the price vs reliability balance and to identify what any transfer of wealth is being made from consumers to generators for any of the ISP projects.

Our responses to the posed questions are attached below.

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](mailto:davidheadberry@bigpond.com) or (03) 5962 3225

Yours faithfully



David Headberry  
Public Officer

**Below are responses to some of the AER posed questions. Our responses are informed by the comments made above and are in addition to these earlier comments**

**1. Do stakeholders agree with our proposed objective for the ISP guidelines?**

The MEU considers the objective should be more explicit. The use of the NEO as the fundamental driver is correct but the ISP guideline objective should not necessarily include a net economic benefit for producers and those providing transport services as it is consumers that will pay for the investment made. While the NEO implies that producers and networks should have an incentive sufficient only to provide the services needed by consumers, the net benefit should be primarily for consumers.

The MEU agrees that effective consultation is essential with all stakeholders as this will deliver a better outcome for all. As consumers are paying for the investment, there must be an explicit requirement that there be effective consultation with consumers, and this will drive increased consumer confidence in the process and outcomes.

**2. Do stakeholders agree with our proposed approach to flexibility and prescription for AEMO in the CBA guideline? Will this provide sufficient certainty and transparency to stakeholders?**

As noted above, the MEU considers that greater prescription is needed as this should drive lower costs for consumers by reducing the over-investment that comes from the extreme conservatism seen in AEMO forecasting

**3. What are stakeholders' views on our proposed approach to AEMO's development of inputs and assumptions? Are there additional principles we should consider?**

We agree with AEMO having some discretion in developing inputs and assumptions providing these are transparent, internally consistent and use reputable sources, and if AEMO carries out appropriate sensitivity analyses.

However, there has to be appropriate level of effective consultation in the development of these inputs and assumptions. Our experience in recent times is that while AEMO is increasing its level of stakeholder engagement and level of transparency, this is still at the "inform" level seen in the IAP2 spectrum; there is still considerable room for improvement.

**4. What are stakeholders' views on our proposed approach to AEMO's development of reasonable scenarios? Are there additional principles we should consider?**

AEMO should have some discretion in the selection of scenarios. An essential element is that these must also be tested against effective and informed consultation.

What is missing from the AER listing of controls is that the scenarios must be assigned probabilities that have wide agreement with stakeholders

**5. What are stakeholders' views on our proposed CBA steps for the ISP? Are the amended steps from the RiT-T application guideline applicable to the ISP analysis? Are there particular areas where a worked example would be helpful in providing this guidance?**

The MEU agrees with the AER that prescription is needed in defining the key steps for developing a sound CBA and considers that a starting point for the development should be the RiT-T Guideline.

**6. What are stakeholders' views on our proposed approach to AEMO's selection of development paths for assessment? Are there additional principles we should consider?**

The MEU considers the proposed approach is sound.

However, the MEU considers that the consultation with stakeholders should achieve wide agreement on which development paths will be tested, noting that many different paths could lead to a similar outcome for consumers and that timing and staging of projects might well be different.

**7. What are stakeholders' views of characterising the ISP counterfactual development path? Should replacement and small augmentation expenditure be included or excluded?**

While the MEU sees that the development of a counterfactual is essential but, with the dynamics extant in the NEM, identifying a single counterfactual might be difficult so the guideline needs to define what the criteria are for developing the counterfactual.

In this regard, we note that each TNSP will be carrying out its own regional network development, and generators will be making their own decisions on investments so these investments will impact the basis for the counterfactual.

The AER needs to define at what stage of these other projects AEMO is to use to develop the counterfactual as well as for its various development pathways. The MEU considers that any discretion AEMO has in developing its pathways and the counterfactual, can lead to over investment so clarity as to what stage of projects developed by others will be used by AEMO in its assessments is critical.

**8. What are stakeholders' views on quantifying costs and market benefits? What market benefits do stakeholders consider need to be estimated using probabilities?**

The MEU agrees with the AER assessment.

However, as noted above market benefits arise from a range of input assumptions (eg such as what generation might be planned, its size and location) and these can significantly skew the assessments of the benefits. Making the wrong assumptions and using less likely inputs can lead to consumer harm.

To address these concerns will require AEMO to get wide agreement from stakeholders (and consumers in particular) about how the benefits are quantified

**9. What are stakeholders' views on whether and how AEMO should conduct sensitivity analysis in its ISP process?**

The MEU agrees with the AER assessment and considers that the same level of transparency and consultation is needed on the sensitivities as for other inputs, assumptions and probabilities.

Rather than leave it to AEMO to decide on what will be sensitivity tested, the MEU considers that every development path should be subject to sensitivity testing, and not just those paths selected by AEMO.

**10. What are stakeholders' views on our proposal to provide AEMO with the flexibility to choose its decision making approach(es) to determine the optimal development path, subject to consultation and justification? Does this satisfy the draft rules requirements and sufficiently mitigate the risks of over-investment, under-investment, premature or overdue investment?**

The MEU has concerns about the AER proposed approach

While considering the AER approach might deliver an acceptable outcome, it does not recognise the significant concern the MEU has with AEMO's extreme conservatism and the experiences to date the MEU (and others) have with the level of consultation AEMO has provided in the past. Further, it is not clear that the decision to limit disputes with AEMO to "process only issues" would allow stakeholders to appeal a concern about AEMO discretion to select the optimal development path.

The MEU considers that probabilities should be assigned to each scenario, yet the AER proposal only seeks qualitative assessments. The MEU considers that some quantitative analysis is required and this requires probabilities be assigned to each scenario; this allows a quantitative analysis to be undertaken which should be supported (or otherwise) by the qualitative assessment.



For example, the MEU has expressed a major concern about AEMO conservatism. A quantitative analysis using probability measures can help in assessing the impact of the level of conservatism that is embedded in the model, which would lead to over-investment.

**11. What are stakeholders' views on our proposed approach to describing the identified need to be used by TNSPs in applying the RIT–T for an actionable ISP project?**

The MEU agrees with the AER assessment.

**12. What are stakeholders' views on how AEMO should take option value into account in the ISP, and TNSPs in RIT–Ts for actionable ISP projects?**

The MEU agrees with the AER assessment. The MEU also considers that there needs to be wide stakeholder input and acceptance in the development and assessment of the various options and their value

**13. What are stakeholders' views on our proposed guidance on non-network options in the CBA guideline?**

The MEU agrees with the AER assessment and supports the approach outlined for AEMO to provide guidance in the ISP on what is considered necessary allowing proponents of non-network options fully understand what is required before they make their proposals.

**14. What are stakeholders' views on our proposed approach to RIT–T application guidance for actionable ISP projects and non-ISP projects?**

The MEU agrees with the AER assessment and supports the approach outlined.

Where the MEU has a concern, is with regard to the preparation of the PADR. The draft rules allow the TNSP(s) to add other options into the PADR which will not have experienced the PSCR process. This means that the TNSP can unilaterally include or exclude options to the ISP option without any stakeholder input that would have occurred had a PSCR process been followed.

The MEU considers that the AER guideline must require stakeholder input for the inclusion of any option proposed by the TNSP in the PADR that has not been considered (and presumably rejected) in the ISP process.

**15. What are stakeholders' views on what network development should be included in the base case of the RIT–T for actionable ISP and non-ISP projects? What are stakeholders' views on what generation (and other) development should be included in the base case of the RIT–T for actionable ISP and non-ISP projects?**

The AER has highlighted a major issue for consumers regarding the implementation of the ISP. As noted above, the decisions of what is to be included (network augmentation and new generation) when assessing any option can have a major impact on the outturn preferred option. This is one reason why the MEU prefers less discretion and more prescription in the assumptions and inputs be included in the models. A second reason is that there is the risk of double counting of benefits and this is why the MEU recommends that options need to be tested both as a whole, as a whole less a project(s) and as separate projects.

Specifically, the MEU is concerned that a TNSP for a non-ISP project has made assessments of benefits where an ISP project has already incorporated these benefits in its assessment and vice versa. The guideline needs to state unequivocally that both AEMO as the ISP developer and all TNSPs (including AEMO as the Victorian TNSP) have to test whether their assessed benefits are not double counted.

The MEU notes the funding “road to nowhere” issue and agrees with the AER that this is a significant problem. As a solution, the MEU considers that the guideline should limit the number of REZs that the ISP can incorporate at any one time such that a “supported REZ” must reach a determined quota of generation capacity before there is a decision to consider incorporating the benefits of generation from another REZ in any future ISP project in the same region or adjacent region where the REZ is close to the border.

The MEU is aware that the AEMC is examining options under its CoGaTI review. The MEU has concerns that this review is facing considerable “push back” from some stakeholders with the goal of having consumers accept a greater share of the risk for connecting the REZs to the shared network and consumers paying for the necessary deep connection augmentations that are needed. The guideline needs to ensure that consumers do not incur costs that should rightly be borne by generators.

**16. What are stakeholders' views on the scenarios to be considered in RIT-Ts for actionable ISP projects? Would the 'feedback loop' help to overcome any misalignment between the ISP and RIT-T?**

The MEU is very concerned that the urgency inherent in streamlining the ISP process is over-riding the requirement that an augmentation of the transmission network goes through an appropriate process to minimise the risk that the investment is not efficient and consumers incur unnecessary costs over the next 40 years or more. Already there are too many under-utilised assets in the electricity networks and more are not needed.

The MEU therefore is of the view that minimising risk must over-ride urgency<sup>6</sup> so if ensuring that an augmentation is efficient takes a little longer then that should be the driver of the process, not urgency to implement what might be an inefficient augmentation.

The AER highlights an issue raised earlier in this submission – that the PADR issued for an ISP project can and is likely to include options that the ISP has not considered (or presumably has rejected) in favour of the preferred option. The MEU makes the point earlier that in this case, the TNSP must implement a form of the PSCR to allow stakeholders the opportunity to provide input into the identification of these other options.

The MEU notes the “feedback loop” process but points out that this does not include for any stakeholder consultation to provide input into the AEMO and TNSP considerations. This involvement is essential to ensure that stakeholders have confidence that the process has delivered the option that best provides for the need identified and delivers the maximum net benefit

**17. What areas of the ISP do stakeholders require further transparency and/or consultation to engage effectively in the process?**

The MEU considers that the most important element of the forecasting and CBA guidelines is a requirement for effective consultation where AEMO (and TNSPs) actually do take note of stakeholder input and implement the input provided by the stakeholders.

**18. What are stakeholders' views on our proposed guidance on dispute resolution in the RIT–T and ISP processes? What specific guidance on dispute resolution would stakeholders value?**

In its submission to the ISP draft rules, the MEU was quite critical of the restrictions placed on disputing the ISP, especially in the draft decision to limit disputes to “process”. While it is clear that the AER is not able to vary the rules on disputes, it can assist in providing clarity on the process for raising a dispute.

However, throughout this submission, the MEU has stressed that effective consultation will be at the core of the ISP process. As consultation is part of the process for developing the ISP and consultation sits at the heart of the inputs and assumptions that stakeholders consider must be included in the ISP development, we see there is a grey area that the AER must address – how is poor consultation to be managed.

In its response to the ISP draft rules, the MEU provided a view that a dispute (especially about the quality of consultation) should be able to be raised at any

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<sup>6</sup> The MEU points out that sometimes an augmentation is provided later than is optimal but the impact on consumers of this delay is usually much less than the impact of costs for an asset that is underutilised over its technical life.

time during the ISP development process so that delays are not incurred in the release of the final biennial ISP report. With this in mind, the MEU considers that the guidelines should reflect the ability of stakeholders to raise a dispute during the development of the ISP and that the quality of consultation should be an issue that can be disputed.

**19. Do stakeholders agree with our proposed approach to compliance and enforcement of the rules and binding guidelines?**

The MEU agrees with the AER approach and supports having the monitoring process continue throughout the ISP process. Appropriate monitoring by the AER should allow stakeholders to provide their views as to the process used by AEMO during the ISP development and allow the AER to raise these concerns with AEMO, with a view to their rectification.