

17 January 2020

Mark Feather  
General Manager, Policy & Performance  
Australian Energy Regulator

Submitted via email: [ISPguidelines@aer.gov.au](mailto:ISPguidelines@aer.gov.au)

Dear Mr Feather,

**AER: GUIDELINES TO MAKE THE INTEGRATED SYSTEM PLAN (ISP) ACTIONABLE –  
CONSULTATION ON ISSUES PAPER**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments to the AER on the issues paper for the Guidelines to make the ISP actionable.

It is also important that both guidelines provide enough rigour and evidence-based guidance to ensure that the cost-benefit analysis and underlying assumptions, inputs and modelling provide the least cost solution for consumers.

To achieve this, we consider that the cost-benefit analysis guidelines should:

- mirror the relevant parts of the existing regulatory investment test for transmission (RIT-T) application guidelines.
- require AEMO and TNSPs to use a probability weighted modelling approach, consistent with the existing RIT-T application guidelines.
- provide additional guidance on how AEMO and TNSPs are to incorporate public policy needs in the modelling.
- ensure that inputs, assumptions, scenarios and modelling are transparent and consistently applied across the ISP and RIT-Ts.

In developing the cost-benefit analysis guidelines, it would be helpful if the AER provides the rationale where it chooses to deviate from the existing RIT-T application guidelines. At this point, the case for deviation, especially with respect to modelling approaches, is unclear.

We understand that the AER may have limited ability to address some of the issues raised above unless the draft ISP rules are changed. However, given that the guidelines are being developed alongside the rules, we consider that it is appropriate to comment on overlapping issues in this submission as well as in our submission to the ESB.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at [Sarah-Jane.Derby@originenergy.com.au](mailto:Sarah-Jane.Derby@originenergy.com.au) or by phone, on (02) 8345 5101.

Yours sincerely



Steve Reid Group Manager,  
Regulatory Policy

**Table 1: Origin comments on key aspects of the proposed ISP guidelines**

Key aspect	Origin comments
Objective of ISP guidelines	<ul style="list-style-type: none"> <li>• We agree that the purpose of the forecasting best practice and cost-benefit analysis (CBA) guidelines should be to provide certainty and transparency and accountability for AEMO.</li> <li>• It is also important that both guidelines provide enough rigour and evidence-based guidance to ensure that the cost-benefit analysis and underlying assumptions, inputs and modelling provide the least cost solution for consumers.</li> <li>• As a result, we consider that the guidelines should provide guidance that aims to maximise net economic benefits, consistent with the current regulatory investment test for transmission (RIT-T) application guidelines.</li> </ul>
Cost-benefit analysis guidelines	<ul style="list-style-type: none"> <li>• The AER should make it clear throughout this consultation process where the CBA guidelines differ from the RIT-T application guidelines, and why.</li> <li>• We consider that the CBA and RIT-T application guidelines should be consistent and should only differ to address the different frameworks that underpin the ISP-related RIT-Ts and other RIT-Ts, e.g. the replacement of the project specification consultation report (PSCR) with the ISP.</li> <li>• It is important that any additional flexibility/subjectivity does not undermine the robustness and transparency of the process by creating inconsistent frameworks for assessing transmission projects.</li> </ul>
Public policy needs	<ul style="list-style-type: none"> <li>• As noted in our submission to the ESB on the draft ISP rules, the AER should provide guidance that will help to ensure public policy needs are incorporated as transparently and efficiently as possible.</li> <li>• For example, this could include a requirement under the CBA guidelines for AEMO and TNSPs to explicitly model a scenario that excludes the public policy in question, so as to discern its impact as it relates to key factors such as cost.</li> </ul>
Inputs and assumptions	<ul style="list-style-type: none"> <li>• Origin supports the proposed principles and the AER providing more specific guidance on economic inputs and assumptions, including on matters such as underlying gross domestic product (GDP) growth forecasts, the appropriate discount rates and the value of customer reliability (VCR).</li> <li>• Origin will provide further commentary once more detail on the level of guidance is provided by the AER. Generally, we consider that these are complex issues and prescription would be appropriate to guard against over-investment.</li> <li>• For example, there are a variety of VCR numbers that can be used – guidance should be provided on the most appropriate one for the task at hand.</li> <li>• Similarly, it may be worth the AER providing more guidance on which discount rates to use, to maintain consistency across the ISP and RIT-Ts.</li> </ul>
Scenario analysis, modelling approaches and optimal development path	<ul style="list-style-type: none"> <li>• Generally, we consider that the guidance provided around scenario analysis, modelling and the optimal development path should be consistent with the RIT-T application guidelines.</li> </ul> <p><u>Scenario analysis</u></p>

	<ul style="list-style-type: none"> <li>• We disagree that AEMO should only consider the likelihood of each scenario occurring in a qualitative sense.</li> <li>• Inappropriately accounting for the likelihood of scenarios runs the risk of low-probability scenarios being given more weight than they should.</li> <li>• This would be a suboptimal outcome for the market – doing so would increase the risk of over-investment, leading to higher costs and higher risks of stranded assets.</li> <li>• AEMO should be required to consider the likelihood of each scenario quantitatively, i.e. it should weight each scenario appropriately.</li> </ul> <p><u>Modelling approaches and the optimal development path</u></p> <ul style="list-style-type: none"> <li>• The AER states that least cost modelling may not capture all relevant and material market benefits and that AEMO must take further steps in that respect.</li> <li>• We understand that this is a deviation from the RIT-T application guidelines, which currently recommend probability-weighted modelling of the costs and benefits, with the preferred option being the one with the highest expected net benefits.</li> <li>• We are not convinced that the case has been made to provide more flexibility, above and beyond least cost modelling, for ISP projects being analysed in the ISP. Doing so would lead to two frameworks for RIT-Ts.</li> <li>• Our primary concern is around the use of methodologies that may overestimate the need for investment. For example, the 2020 draft ISP uses least worst regret modelling in addition to cost-benefit analysis.</li> <li>• Least worst regret modelling is generally seen as being conservative and leading to over-investment.<sup>1</sup> In the UK, for example, this type of modelling has been criticised for being driven by the more extreme scenarios which could lead to inefficient investment planning for transmission.<sup>2</sup></li> <li>• As noted by the AER itself, the current RIT-T application guidelines use probability weighted average, which is the standard approach used in most public policy contexts. We would therefore argue that a probability weighted average approach represents regulatory and forecasting best practice.</li> </ul> <p><u>Ensuring good governance</u></p> <ul style="list-style-type: none"> <li>• If flexibility is provided to AEMO in terms of choosing the optimal development path (and modelling approaches), then we consider that the AER should be required to review the final approaches taken by AEMO in terms of modelling and how it will choose the optimal development path, as suggested in our submission to the ESB.</li> <li>• We also suggest that AEMO should consult on its modelling approaches.</li> </ul>
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<sup>1</sup> Brattle Group, High-Impact, Low-Probability Events and the Framework for Reliability in the National Electricity Market, p. 39 & FTI-CL Energy, Investment tests for transmission networks, p. 111.

<sup>2</sup> Ofgem, Network Options Assessment methodology review and related direction, [https://www.ofgem.gov.uk/system/files/docs/2016/10/final\\_letter\\_on\\_noa\\_methodology\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/10/final_letter_on_noa_methodology_0.pdf)

RIT-T scenarios	<ul style="list-style-type: none"> <li>• We consider that RIT-Ts for both actionable ISP and non-ISP projects should be required to model (and appropriately weight) multiple scenarios. We oppose requiring TNSPs to only use the most likely/central scenario only for ISP projects.</li> <li>• Requiring AEMO and TNSPs to model more than one scenario for ISP projects would maintain consistency with the existing RIT-T application guidelines.</li> <li>• This would also help reduce the potential for misalignment of outcomes if, for example, a TNSP only models the central scenario but AEMO, through the ISP, had modelled multiple scenarios.</li> </ul>
Applying ISP network/generation developments in RIT-Ts	<ul style="list-style-type: none"> <li>• We consider that, whichever option is chosen, the AER's guidelines should prescribe this aspect of the framework to maintain consistency across all RIT-Ts.</li> <li>• We also consider that if the AER proceeds with its preferred option, there should either be a third counterfactual which excludes other actionable projects and development opportunities, or the impact of including other actionable projects/development opportunities should be included as a sensitivity.</li> </ul>
Forecasting best practice guideline	<ul style="list-style-type: none"> <li>• We broadly support the AER's approach to using the existing forecasting best practice guideline as a base.</li> <li>• In terms of additional transparency, as noted in our submission to the ESB, we suggest that the full models used in the ISP and RIT-Ts should be made available to promote transparency and to help participants provide more useful feedback on draft outcomes.</li> <li>• We consider that the guidelines could guidance on this aspect by requiring AEMO and TNSPs to publish their models if the ESB chooses not to prescribe this as a rules' requirement.</li> </ul>