Ref: A1140019

29 September 2011

Mr Warwick Anderson
General Manager
Network Regulation North Branch
Australian Energy Regulator
PO Box 3131
CANBERRA ACT 2601

Dear Mr Anderson

RESPONSE TO THE AUSTRALIAN ENERGY MARKET OPERATOR'S SUBMISSION ON POWERLINK'S 2013-17 REVENUE PROPOSAL

The Australian Energy Market Operator (AEMO) has made a submission in response to the AER's consultation on Powerlink's Revenue Proposal for the 2012/13 – 2016/17 regulatory period. AEMO has made the submission in its role as the National Transmission Planner (NTP).

The Powerlink Revenue Proposal 2013 – 2017 is the first transmission revenue determination process since AEMO commenced the NTP role. Powerlink considers it critically important that AEMO and TNSPs work together to ensure alignment between long-term strategic planning and shorter term investment planning. This is facilitated by the annual planning processes undertaken by TNSPs (Annual Planning Reports) and AEMO (National Transmission Network Development Plan), which are designed to inform each other.

Powerlink has reviewed AEMO's submission and is pleased to note that AEMO has identified a strong degree of alignment between the Revenue Proposal and the 2010 NTNDP. This outcome reflects the ongoing high degree of co-operation between Powerlink and AEMO planning staff. This is particularly pleasing as the 2010 NTNDP was the first such comprehensive national plan to be produced.

In reviewing AEMO's submission, Powerlink identified the following matters that require clarification / correction:

- AEMO's alternative Queensland demand and energy forecast, published in the 2011 Electricity Statement of Opportunities (ESOO);
- Augmentation projects triggered by one or a small number of customers;
- Augmentation projects triggered by generators; and
- NEMLink and QNI Upgrade triggers.

Load forecasting

AEMO's submission discusses that Powerlink's Revenue Proposal quotes AEMO as the source in respect of load forecasting[1] and notes that AEMO does not independently produce forecasts for Queensland. Powerlink quoted the AEMO ESOO as simply the publicly available source of data from the various NEM regional forecasts. Powerlink acknowledges that AEMO does not independently produce forecasts for Queensland, nor for that matter for NSW or Tasmania.

[1] 2013 – 2017 Powerlink Queensland Revenue Proposal, p.7.

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AEMO's submission also discusses the use of 10% PoE forecasts and states that the methodology used by Powerlink "is based on determining the 10% PoE temperature conditions, and then adjusting historical demand and forecasting future demand to these conditions." Powerlink confirms that it corrects historical demands to 50% PoE temperature conditions as the basis for forecasting future 50% PoE demands. Future 10% PoE demands (and 90% PoE demand) are then forecast from the observed temperature sensitivity[2].

AEMO's submission also highlights that the 2011 ESOO, published on 31 August, contains an alternative forecast for the Queensland region, developed by AEMO. Powerlink notes that the ESOO identifies the complex interaction between overall economic growth and resulting peak demands on the power system. AEMO discusses this point at page 19 of the ESOO Executive Summary:

> *The alternative projections for Queensland developed by AEMO delay the summer medium economic growth LRC point by one year (to 2014–15), and advance the summer low economic growth LRC point by one year (to 2013-14).*
>
> *The earlier low economic growth outcome is caused by competing economic influences on demand (for example, while low economic growth may reduce energy consumption, it also discourages consumer investment in energy efficiency technologies and household solar photovoltaics).*

That is, AEMO's alternative forecast identifies the trigger timing for additional generation investment to meet peak demand as being 2013/14 under low and high economic growth scenarios and 2014/15 for medium economic growth. The Powerlink provided forecast in the ESOO identifies a timing of 2013/14 under medium and high economic growth and 2014/15 for low economic growth.

AEMO's submission also notes that:

> *"The statewide forecast is, however, not the only matter to be considered. We note that augmentation programs are designed to meet connection point demand, not regional demand."*

Powerlink agrees that network augmentation is primarily required to meet local peak demand needs. In this regard, Appendix B of the ESOO presents AEMO's assessment of (the Powerlink) energy and demand projections. In assessing Powerlink's energy and demand forecasts AEMO concluded[3]:

> *These assessments provide evidence of:*
>
> • *projections that maintained a high level of local accuracy at major load centres within Queensland, and*
>
> • *recent increases in diversity between major load centres causing inaccuracy in the overall Queensland projections.*
>
> *As the projections are determined on the basis of historical diversity factors, a permanent change in diversity will initially lead to inaccurate projections, but will increasingly be more accurately reflected in the projections over time.*

Powerlink also notes that AEMO describes the alternative forecast in the ESOO as a draft forecast, which AEMO aims to finalise by the end of 2011[4]. Powerlink will continue to work with AEMO to better understand the forecasting methodology adopted by AEMO and to identify the underlying reasons for any differences between the forecasts.

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[2] Powerlink Demand and Energy Forecasting Description and Methodology, p.10.
[3] ESOO 2011 Appendix B – Assessment of Energy and Demand Projections, p.B-6.
[4] ESOO 2011 Chapter 3, p.3-63.

Augmentation project triggers

AEMO's submission raises two issues regarding augmentation triggers:

- whether augmentations triggered by one large customer or a small number of customers should be classified as providing prescribed or negotiated services; and
- whether augmentations triggered by generators should be included in the ex-ante allowance at all.

Powerlink's Revenue Proposal has only proposed capital expenditure on those projects that are required to achieve the capital expenditure objectives set out in the Rules. That is, all projects are required for the provision of prescribed transmission services.

Where a single large customer or a small number of customers trigger the need to augment the upstream shared transmission network, the augmentation is required to maintain the quality, reliability and security of supply to all customers being served by that part of the network. That applies to existing as well as new customers. In these situations the augmentation of the upstream shared network is for the provision of prescribed transmission services

To be clear, the connection of a large new customer to the transmission network is not a prescribed transmission service. However, the provision of capability in the upstream shared network to support the total customer demand in the area is a prescribed transmission service as defined in the Rules[5].

AEMO has suggested that some of Powerlink's proposed augmentations are 'generation driven' and cites the Western Downs to Columboola 3rd 275kV circuit as an example. Powerlink can confirm that this project has been proposed as a contingent project and that the trigger event has been identified as "Commitment for net demand in the Surat area to exceed 850 MW, or net generation export from the Surat area to exceed 850 MW"[6]. In discussing the nature of the trigger Powerlink identified that the generation aspect of the trigger "occurs when the amount of generation that must be exported from the Surat area in order for Powerlink to meet their mandated supply obligations exceeds 850 MW." [7] (emphasis added).

AEMO also interprets the Western Downs to Halys 500kV DCST operating at 275kV as being 'generation driven'. Powerlink can confirm that this project is driven by demand growth in southern Queensland, assessed in the context of the generation planting scenarios developed by ROAM consulting. Powerlink has included this project in the proposed ex-ante capital expenditure allowance after applying the same planning criteria and assessment methodology as all other proposed augmentations to the shared transmission network.

Consistent with the Rules, Powerlink can confirm that no capital expenditure has been included in its Revenue Proposal for projects that are purely 'generation driven'. All network augmentation capital expenditure in the ex-ante allowance, including the Western Downs to Halys 500kV DCST, is required to meet the needs of growing customer demand.

NEMLink and QNI Upgrade triggers

Powerlink has proposed two contingent projects which relate to interconnections within the NEM – NEMLink and QNI Upgrade. In each case Powerlink has proposed that the trigger event be the successful application of the RIT-T leading to the recommendation of the interconnection works during the next regulatory period[8]. AEMO suggests that the trigger event could be redefined to be AEMO conducting the RIT-T assessment. AEMO states that "this will ensure that these augmentations can be considered impartially and from a national, rather than regional, perspective."

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[5] National Electricity Rules, Chapter 10.
[6] 2013 – 2017 Powerlink Queensland Revenue Proposal, Appendix N p.4.
[7] Ibid.
[8] Ibid., p.16, p.18

Powerlink notes that the Rules require that a TNSP who proposes to make a transmission investment, other than an investment exempt from the requirements of the RIT-T, must consult all Registered Participants, AEMO and interested parties on the proposed transmission investment in accordance with clause 5.6.6 of the Rules[9]. That is, if Powerlink is to invest in either NEMLink or QNI Upgrade then Powerlink needs to conduct the RIT-T assessment process. This is consistent with the Council of Australian Governments' response to the final report of the Energy Reform Implementation Group. The COAG response states[10]:

> *Accountability for transmission investment, operation and performance will remain with the transmission network service providers.*

Investments such as NEMLink or QNI Upgrade will require that the RIT-T assessment be conducted jointly with other TNSPs. Where applicable this joint assessment process would include AEMO, in its role as the jurisdictional planner for the Victorian jurisdiction. However the Rules and the National Electricity Law (NEL) do not provide for AEMO, in its role as the National Transmission Planner, to conduct RIT-T assessments for the purposes of investment decision-making[11].

It would also be a duplication of effort for AEMO to conduct a RIT-T assessment for the purposes of establishing a contingent project trigger. Powerlink would still be required to conduct its own RIT-T assessment in order to make the investment decision and demonstrate to the AER the required amendments to Powerlink's revenue.

If the AER requires further information or clarification on any of the points raised please contact Greg Hesse on (07) 3860 2632.

Yours sincerely

Greg Hesse
(Acting) MANAGER REVENUE RESET

[9] National Electricity Rules, Version 45, clause 5.6.6 (b)
[10] COAG National Reform Agenda, Competition Reform April 2007, p.4.
[11] National Electricity Law s.49(2). This is in contrast to AEMO's role in respect of 'declared networks' where it has an investment decision-making role (NEL, s.50C(1)).