

26 June 2020

Mr Mark Feather  
General Manager, Policy and Performance  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Via email: [ISPGuidelines@aer.gov.au](mailto:ISPGuidelines@aer.gov.au)

Dear Mr Feather

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

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Regulator (**AER**) on the draft guidelines to make the Australian Energy Market Operator's (**AEMO's**) Integrated System Plan (**ISP**) actionable, including a new cost benefit analysis (**CBA**) guideline, a new forecasting best practice guideline (**FBPG**) and updates to existing regulatory investment test for transmission (**RIT-T**) instrument and application guidelines.

TasNetworks is the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider (**DNSP**) and Jurisdictional Planner (**JP**) in Tasmania. TasNetworks is also the proponent for Marinus Link, a proposed new National Electricity Market (**NEM**) interconnector between Tasmania and Victoria. The focus in all of these roles is to deliver safe, secure and reliable electricity network services to Tasmanian and NEM customers at the lowest sustainable prices. TasNetworks is therefore appreciative of the AER's efforts to develop guidelines to support making the Integrated System Plan (**ISP**) actionable.

TasNetworks supports Energy Networks Australia's (**ENA's**) submission and wishes to add the following comments in the interest of adding further clarity to the guidelines.

TasNetworks acknowledges the work done by the AER in developing a pragmatic and workable approach to the difficult task of coordinating two cost benefit analyses, conducted firstly by AEMO in developing its ISP and, subsequently, by TNSPs through the application of the RIT-T. This work is important in ensuring customers can have confidence in the entire process that determines which major investments are made to provide beneficial outcomes to themselves. It is critical that customer interests are kept front and centre in the delivery of actionable ISP projects.

TasNetworks supports the AER's four design principles used to shape the CBA guideline. TasNetworks supports the view that transparency provides an essential counter-balance to the flexibility afforded to AEMO in developing the ISP, its scenarios and the optimal

development path. TasNetworks also supports the inclusion in the CBA guidelines of requirements for AEMO to consider non-network options before and after the publication of the draft ISP.

The importance placed on considering option value in AEMO's CBA is welcomed. There is one aspect which TasNetworks would like added, which is to include 'shovel ready' projects. While the Guideline focuses on the option value from staging projects to avoid asset stranding, there is also option value from projects being 'shovel ready'. A 'shovel ready' project may not necessarily need to be considered as a stage in a broader project (though it often is). A 'shovel ready' project has option value in its own right, which can be secured if market conditions change sufficiently to warrant other projects proceeding sooner than planned. Because of this, TasNetworks would like to see the CBA guideline confirm that 'shovel ready' projects should be considered by AEMO in assessing option values.

TasNetworks supports the transitional arrangements outlined in the draft CBA guideline.

TasNetworks supports the AER's decision to require AEMO to present information on key distributional effects from its selected optimal development path and that these distributional effects should not influence AEMO's choice of the optimal development path. TasNetworks supports the view that commercial and technical feasibility of a project should be considered prior to including it in the optimal development path. TasNetworks is of the view that AEMO should not look at distributional effects in determining the commercial feasibility of a project. TasNetworks recommends that actionable ISP projects that are regulated transmission projects should be assumed to be commercially feasible and AEMO would need only to verify this with the TNSP, which carries the regulatory investment risk. For all other actionable ISP projects, AEMO may apply some extra scrutiny to determining the commercial viability but should not be influenced by any distributional effects it may identify.

The draft CBA guidelines provide AEMO with flexibility in selecting an optimal development path. Under the framework, AEMO can use any decision making approach to select an optimal development path. In doing so, it must explain and justify its approach to risk. TasNetworks is strongly supportive of the approach taken by the AER in requiring AEMO to select an optimal development path that reflects its view of customers' level of risk aversion, as they ultimately bear the risk and cost of transmission investment.

The proposed arrangements to align the optimal development path with the application of the RIT-T are unavoidably complex. TasNetworks would support worked examples being included in the CBA guideline to assist understanding of the expectations. Although complex, the arrangements proposed appear reasonable, but will no doubt expose some issues in their initial application. TasNetworks strongly supports the ENA recommendation that the AER's guidance for non-ISP RIT-Ts be revised to require ISP scenarios to be used only where wholesale market outcomes are material to the outcome of the RIT-T, and where undertaking market modelling is appropriate.

It will be important for all parties to work collaboratively in order to give effect to the AER's intent to align the ISP and RIT-T.

TasNetworks has no comments to make on the forecasting best practice guidelines.

Should you have any questions or wish to gain further details on the issues raised in this submission, please contact Tim Astley, via email ([tim.astley@tasnetworks.com.au](mailto:tim.astley@tasnetworks.com.au)) or by phone on (03) 6271 6151.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chantal Hopwood'. The signature is written in a cursive style with a large, prominent loop at the end of the last name.

Chantal Hopwood

Leader Regulation