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17 January 2020

Submitted via email to: info@esb.org.au

Consultation on the Draft Integrated System Plan Rules

Delta Electricity welcomes the opportunity to contribute to the consultation on draft rules for making the Integrated System Plan (ISP) actionable. Delta owns and operates the 1,320MW Vales Point power station in NSW and has a retail licence to sell electricity to large customers. Delta has operated coal and gas fired generating plant in the National Electricity Market (NEM) since its start in 1998 and is an active participant in both the electricity and gas trading markets.

AEMO's New Role Necessitates Higher Governance Standards

Under the Energy Security Board's (ESB) draft rules AEMO has a significantly expanded role as national electricity market transmission network planner and the gatekeeper for many large-scale transmission network investments. This role will have a major impact on consumers because any new transmission determined to be needed by AEMO must be paid for by consumers over subsequent decades irrespective of future power market outcomes. It will also have a major impact on generation investors as any new transmission project will compete with generation projects or provide benefits to generators in some locations while detracting from the economics of generation projects in others. The rules should therefore require a very high level of transparency and accountability around AEMO decision making.

The draft ISP rules provide for some increased transparency and accountability, including a requirement on AEMO to establish, maintain, and publish an ISP database. They also provide for a dispute resolution framework, albeit this primarily provides the opportunity to raise disputes on procedural matters. The information asymmetry between the market operator (AEMO) and the regulator (AER) makes it difficult to challenge other matters.

To further bolster confidence in the process, transparency is required around AEMO's decision making process. Therefore, in addition to the above requirements the rules should require AEMO to:

- set out in the ISP the reasons for its inclusion of any public policy and describe how this decision satisfies proposed rule 5.22.3(b); and
- publish a public response to submissions so that all stakeholders can understand how AEMO has addressed stakeholder comments.

This will help inform ongoing deliberations around the future direction of the NEM and provide all stakeholders with information on AEMO's rationale for decisions regarding its approach to the ISP.

These requirements would be consistent with similar existing regulatory requirements, notably:

- the requirement on the AEMC to explain how it has incorporated policy principles in final rules (see National Electricity Law s102); and
- the requirement on RIT-T proponents to set out in the PACR the response to submissions (see National Electricity Rule 5.16.4 (v)). In the existing rules, the PSCR and PACR can be prepared by the same proponent and experience shows that they generally have been prepared by the



same proponent. However, the draft ISP rules propose that each step be undertaken by different parties. Increased transparency will be important to understand decision making at each step and to inform development of the next step.

Minimising Costs and Increasing Transparency around Preparatory Works

In the 2020 draft ISP there are some projects, notably QNI Medium and Marinus Link, where it is uncertain as to what the final capacity and timing will be for the project and indeed if the project will be required to proceed. The final direction of these projects may not become clear until the next ISP in 2022 or in future ISPs. The new ISP framework proposed by the ESB in its draft rules does not appear to provide clarity around the treatment of projects where there is not a clear 'green light' in AEMO's ISP to them proceeding to investment stage.

While there is uncertainty around the scope, timing, or need for these projects AEMO has decided that preparatory works need to progress now 'in case' they are required by the proposed date identified in the 2020 draft ISP. This is due to the lead times required to prepare for individual state planning approval processes and the Australian Energy Regulator economic regulatory approval of these projects.

In these circumstances, various stages of the transmission network investment process are being run in parallel due to the need to manage the risk of early coal fired power station retirements ahead of having a final ISP decision around whether a project should be 'actionable' in terms of investment. For example, AEMO is indicating that works need to commence for Marinus Link to be shovel ready even though an investment decision does not yet need to be made. Similarly, the extent of the investment need for QNI Medium is not known and AEMO is currently seeking advice from the market on non-network solutions. Therefore, where risks to the national electricity grid need to be minimised through preparatory works, to provide the best outcomes for consumers (i.e. minimise both risks and costs), TNSPs should be required to:

- minimise the costs of preparatory works that can be passed on to consumers; and
- include stakeholder input and consultation on the preparatory works.

As a way of achieving these objectives, Delta proposes that the ESB consider the following:

- limiting preparatory work costs that can be placed on consumers to activities that are required to reach the development application submission and/or completion of the RIT-T. No capital costs should be incurred by consumers until the project has been through the complete ISP process i.e. the PACR stage of the RIT-T;
- require the AER to review revenue requirements for preparatory activities. A simplified process could require agreement on the scope of the activities and a cap on costs; and
- require TNSPs to consult on route selection, as this is important for both directly impacted landholders as well as generating companies seeking transmission connections.

Transparency Throughout the Consultation Process

Delta supports the ESBs principle of ensuring transparency throughout the ISP process. To further enhance transparency and credibility in the eyes of stakeholders the ESB should specify in the rules that materials from all public forums and any materials provided to a subset of stakeholders will be made available publicly in a timely manner. One stage in the ISP formation process has the potential to be opaque to most stakeholders and this is the options development stage where AEMO consults only with TNSPs to develop transmission options. It is highly desirable that all technical and cost



information provided by TNSPs and AEMO during the options development process be made available to all stakeholders.

The timing of the release of information is also important and Delta believes the rules should specify a maximum allowable timeframe for AEMO to release materials relating to the ISP development process. A delay of not more than one week would allow ample time to process and communicate electronic materials to all stakeholders.

Delta also supports the ESBs efforts to ensure that there is the broadest possible representation from all stakeholder groups. The proposed stakeholder panel potentially restricts this broad participation and could create information asymmetry between market participants. If the ISP panel is formed as a representative panel by technology or stakeholder type there may need to be additional obligations on panel members to consult with and report back to their peers to ensure full transparency of all issues and to ensure that AEMO captures all input in a timely manner. Irrespective of the panel membership, all consultation materials should be made available to all market participants so that information asymmetry is minimised.

Selecting the Optimal Development Path

The optimal transmission development path will provide market benefits across the broadest range of future scenarios. The ESBs outlined approach to selecting the preferred development path selects a potentially arbitrary future scenario as the most likely. While this selection is informed by consultation, the selection of a most-likely scenario and accompanying development path increases the risk to consumers if the selected future scenario fails to eventuate.

As the ESB notes, a probability-weighted approach could obscure the risks of not being prepared for a particular future but it does minimise the risk of preparing for just one future that does not eventuate. A probability weighted approach is preferable for limiting the risk of stranded assets and unnecessarily increasing consumer costs. To ensure that this approach does not obscure the risks of not being prepared for individual scenarios the ESB could require in the rules that AEMO explicitly identify the potential risks under each scenario and seek and describe potential non-network solutions that could mitigate the risk should the scenario eventuate. This would enable stakeholders to gauge the magnitude of the risks under each scenario with respect to the optimal development path.

Process for Non-network Options

The Integrated System Plan process as proposed places TNSPs and transmission solutions well ahead other solutions. One of the earliest stages in the process is to identify transmission options available to meet identified needs. Once the draft ISP is published, non-network options can be provided by stakeholders through a consultation process and these must be assessed by the TNSP when carrying out its RIT-T. This requirement to consider non-network options is a positive development.

However, it would be preferable for non-network options to be considered on an equal footing with network options. For this to occur non-network options should be identified and considered in parallel with network options. This would require non TNSP stakeholders to be involved in the process of identifying options to address identified needs. Delta suggests that, as well as providing a 12-week period following the release of the draft ISP for proponents to suggest non-network options, stakeholders wishing to propose non-network options should be included in the joint planning process.



Last Resort Planning Power

The process to replace the existing last resort planning power appears incomplete as proposed in the consultation document. Pursuing the matter outside the rules is an unsatisfactory provision if the TNSP declines to invest. If this scenario eventuates it indicates a failure of the ISP process because the development path presented by the ISP is not feasible and therefore is not the optimal development path. Alternatively, the assumptions taken into consideration in the ISP about project costs or financing requirements could be incorrect. A more satisfactory outcome may be that the ISP is re-run assuming that the declined investment does not proceed or reflecting the same assumptions made by the TNSP in its business case for the declined project.

To discuss any questions arising from this submission, my contact details are m:0409008161 and email peter.wormald@de.com.au .

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