



Wednesday, 19 June 2019

Dr Kerry Schott AO
Chair
Energy Security Board
GPO Box 520
Melbourne Vic 3001

Dear Dr Schott

Converting the Integrated System Plan into Action Consultation Paper

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Energy Security Board's (ESB's) Consultation Paper (the Paper) on Converting the Australian Energy Market Operator's (AEMO's) Integrated System Plan (ISP) into Action issued 17 May 2019.

About ERM Power

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹, with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland.

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General comments

The National Electricity Market (NEM) is in a state of transition, with forecasts for increasing penetration of intermittent output generation, replacing fully schedulable generators which also supply power system security services. Due to their weather dependency, this new intermittent generation is at best only able to be semi-scheduled² by the market operator. In response to concerns regarding the reliability of supply and increasing costs to consumers during this state of transition, the Council of Australian Governments (COAG) has requested the Energy Security Board (ESB) to consider and report on a plan to make AEMO's ISP an actionable plan.

The ISP is prepared by AEMO in its central planner role. It is based on AEMO's current views of how the NEM may develop into the future, taking into account factors such as AEMO's forecasts of consumer demand, the uptake of distributed energy resources and the range of potential locations where new supply side resources may seek to connect, noting that there is no obligation that these new supply side resources actually connect at these forecast locations. As such, the ISP primarily forms a potential transmission network development plan based on AEMO's current assumptions of future supply changes with the potential to add billions of dollars of expenditure in long-lived transmission network development, the costs of which will be ultimately borne by consumers for an extensive time period.

¹ Based on ERM Power analysis of latest published financial information.

² AEMO may only impose an output cap on Semi-Scheduled generation to manage secure operation of the power system.



Therefore, it is critical that any plan to action the ISP takes into account these long-lived costs to consumers and provides sufficient checks and balances to ensure that additional expenditure on behalf of consumers only occurs where it is clearly demonstrated as warranted.

Regulatory governance framework

ERM Power is supportive of the ESB's views as set out in section 2 of the Paper. In particular we agree that development of the ISP and recommendations for network expansion in the ISP should be subject to guidelines as developed by the Australian Energy Regulator (AER) in consultation with Stakeholders in the areas of:

- Forecasting best practice;
- Cost benefit analysis application; and
- Planning best practice.

We believe that the planning best practice guideline should be developed as a standalone guideline. Forecasts of consumer demand, distributed energy resources, potential location of new energy supply sources, etc. may form the input assumptions to be used in the modelling of a future NEM, while the planning of potential network investment arising from this modelling represents the central planner's current view of potential options that may be required to meet the future NEM. In our view, it is also worth considering that these potential options may vary over time as input assumptions and technology changes. Further, it should be noted that the Forecasting Best Practice Guideline is also used to govern the development of the Electricity Statement of Opportunities (ESOO) and its included Reliability Forecast which have different requirements to the network planning requirements of the ISP. As such, a standalone guideline would be more suitable to provide the required focus for planning requirements, given the distinct applicable processes inherent to planning and the importance of capturing all variables that may yield potential options.

Currently, AEMO develops potential network development options in consultation with transmission network service providers only, absent input from stakeholders. It is only once the Project Specification Consultation Report (PSCR) under the Regulatory Investment Test for Transmission (RIT-T) is released that stakeholders may have input into the proposed network development plan. Given that it is currently intended that the ISP replace the PSCR, it is imperative that stakeholders have the ability to provide input into the selection of network development options in the early stages of AEMO's development of the ISP, and that this be subject to a rigorous consultation process similar to that being developed by the AER for the Forecasting Best Practice Guideline. These reasons further support our view that consumers and participants would be better served by separate best practice planning and best practice forecasting guidelines.

We also draw the ESB's attention to submissions to the PSCRs for the 2018 ISP priority 1 projects for the Victoria to New South Wales and Queensland to NSW interconnectors where stakeholder submissions raised a number of reasonable concerns regarding the proposed options and in some areas a lack of details provided in these reports. This further highlights the need for external stakeholder input in the early stages of the ISP's potential development options.

The ESB has proposed that AEMO be allowed greater flexibility in preparing the cost benefit analysis proposed for the ISP than that currently allowed under the RIT-T. Whilst ERM Power does not object to this in principle, we believe this increased 'flexibility' must only be introduced in conjunction with a more robust governance framework, a higher level of scrutiny and the requirement for AEMO to more fully justify its choices in greater detail than is currently the case. This additional oversight should include a disputes mechanism whereby stakeholders may challenge AEMO decisions in formulating the ISP's network development options as set out by AEMO following consultation on the draft ISP via an AER regulated disputes process.



This disputes resolution mechanism would be able to be triggered following the release by AEMO of the list of network development options to be included in the finalisation of the ISP and allow for the AER to consider submissions by stakeholders and refer alternative options for network development to AEMO for inclusion in the final ISP report.

In addition to the above, we believe that where the ISP may identify the potential for beneficial network development over the longer term, the RIT-T process for a specified network development should only commence on the basis of the projected timing of the forecast future need identified in the ISP. Commencement of the RIT-T process should not commence earlier than that required to facilitate an identified future need as set out in the current ISP, but should be required to wait until a date, potentially set by the AER, to ensure that the most up to date information, including what may be the publication of a subsequent ISP(s) is available for inclusion in the RIT-T process.

Key issues for consultation

Extent to which ISP deadlines are prescribed in the Rules

ERM Power believes that the ISP process should be clearly defined in the Rules to provide clarity for AEMO with regards to AEMO's obligations and for stakeholders to more clearly understand the process to be undertaken by AEMO in the preparation of the ISP. We agree with the ESB's view that the ISP will form part of the integrated planning process, as such, it is critical that the scope and purpose of the ISP be clearly defined within the Rules. Where it is determined that a degree of flexibility is afforded to AEMO in complying with the provisions of the Rules with regards to the ISP, this ability must be matched with suitable transparency provisions to ensure that AEMO's decision making in this area conforms to the Rules and guidelines.

We support the ESB's proposal that the ISP be published with a frequency of every two years. We believe a requirement to publish the ISP more frequently would result in ineffective consultation with stakeholders regarding input assumptions and potential network development options. To allow the potential network development as set out in the TNSP's Annual Planning Reports to be considered and incorporated, we submit that the ISP should be published by the end of January with a date of January 2021 set as the publication date for the next ISP under this rule change process, this will allow sufficient time for effective consultation with stakeholders in the development of the next ISP.

Governance of ISP

The ISP has the potential to trigger significant work at considerable cost to TNSPs in the form of initiating a RIT-T process, the cost of which will ultimately be passed through to consumers. In addition, the ISP may result in high costs from over investment and long-lived network augmentations, again the costs of which are ultimately borne by consumers, all of which will be based on a central planner's view of potential future development paths in the NEM. Accordingly, we believe that implementation of the ISP must include a strong governance framework developed, maintained and monitored by the AER.

As set out above in our submission, in preparing the ISP, AEMO should be required to comply with the following guidelines as developed and maintained by the AER in accordance with the Rules consultation process:

- Forecasting best practice
- Cost benefit analysis application
- Planning best practice

Scope for further subordinate documents

We support the ESB's proposal that requires AEMO to prepare an ISP preparation methodology document which details the framework of how AEMO will comply with the Rules and Guidelines in the development of the ISP.



AER revenue approval

Clause 5.16.6 - Determination that preferred option satisfies the regulatory investment test for transmission, currently provides a critical step in the RIT-T process where the AER formally considers that the proponent has correctly applied the RIT-T process, that the preferred option satisfies the RIT-T and that consumer interests are best served by the construction of the proposed network assets. Removing this step from the current process will not be in the long-term interest of consumers and therefore ERM Power does not support the removal of clause 5.16.6 from the Rules.

We believe the AER as the regulatory approval body rather than AEMO as a market operator is best placed to perform the final review that the proposed network augmentation satisfies the regulatory test.

Dispute resolution

We support the ESB's proposal that a formal disputes resolution process be established as part of the ISP process and have set out our views earlier in this submission as to the form this should take in the Rules. This will allow stakeholders to raise concerns with any issues arising as part of the ISP process. Notwithstanding, as the ISP forms only a part of the RIT-T process we believe that *clause 5.16.5 - Disputes in relation to application of regulatory investment test for transmission*, should remain in the Rules in its current form. This provides an avenue for a dispute to be raised when an issue is identified with the later stages of the RIT-T process, noting that an issue may occur after stages associated with the ISP have been completed.

Safety net

ERM Power supports the retention of the AEMC's last resort planning power as set out in clause 5.22 of the Rules. Notwithstanding, currently subclause 5.22 (f) of the Rules only requires that the AEMC consider a limited list of specific trigger events in considering whether or not to exercise a last resort planning power. We believe that this current list is too narrow and should include for a participant or consumer representative body to refer a specific project to the AEMC for consideration based on an identified need. This will allow increased input on a last resort basis by informed stakeholders where it is demonstrated a gap in the planning process may have occurred.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

David Guiver

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