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

Submitted via info@esb.org.au

Dear Dr Schott

RE: Draft Integrated System Plan (ISP) Rules – Converting the ISP into Action

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Energy Security Board's (ESB's) consultation on Draft ISP Rules as part of the Converting the ISP into Action process.

About ERM Power

ERM Power (ERM) is a subsidiary of Shell Energy Australia Pty Ltd (Shell Energy). ERM is one of Australia's leading commercial and industrial electricity retailers, providing large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fuelled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load¹. ERM also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

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General comments

It is widely appreciated that the National Electricity Market (NEM) is in a state of rapid transition. It is forecast that renewable generation output will continue to increase at geographically distributed locations across the NEM, as conventional generation is displaced. New transmission network projects must be planned and built to meet the new requirements of the power system. To accelerate this development, the Council of Australian Governments (COAG) has requested the Energy Security Board (ESB) develop draft rules to support the plan to make the Australian Energy Market Operator's (AEMO) ISP actionable.

The draft rules outline the framework for the development of the ISP. The process for determining which transmission network projects should be assessed for development must include rigorous consultation and

¹ Based on ERM Power analysis of latest published information.



engagement with stakeholders, as well as transparent modelling and benefits testing to ensure that consumers best interests are met. The effectiveness of the ISP for providing an actionable planning framework is underpinned by input assumptions and modelling approaches. As such, the development of the ISP should allow for transparent and effective consultation with stakeholders at all stages of the development process.

The objective of the ISP is to present the preferred options for delivering the future grid that is required for the delivery of safe and reliable energy to consumers. We believe there are improvements to the proposed framework which could be made to ensure that consumers do not bear excessive risks from the plan. We recommend that:

- Consideration of all modelling inputs and development options should occur at the initial stages of ISP development, with stakeholder consultation. It is preferable to assess all inputs and options at the initial development stages, rather than introducing new variables at different stages of the ISP development.
- The proposal to allow AEMO a flexible approach to selecting final input assumptions be reconsidered, particularly in relation to project selection.
- The ESB should reconsider whether it is appropriate that an optimal development path may be selected for development if it has not achieved the highest net benefit of modelled development paths under consideration. There is risk that this approach will not deliver the optimum consumer benefit.
- Caution be exercised when pursuing an expedited approach to project development. Although the NEM is currently in a state of rapid transition, and action is required to manage this shift, we are concerned that pursuing an expedited approach will compromise the rigor of the current regulatory investment process.

We provide further comments below.

Modelling assumptions, options and feedback

The ISP is planned to provide the critical planning framework for developing a future transmission grid which can accommodate increasing numbers of connections. Considering the scale of the current energy market transition, it is important to ensure the ISP is developed through comprehensive stakeholder consultation and engagement to assess a range of planning outcomes at all stages of the ISP development process. We support the decision to publish the ISP every two years, to allow appropriate time for stakeholder feedback on assumptions and model development.

Under the current proposed arrangements, network development options are defined by AEMO and Network Service Providers (NSPs). To ensure the ISP assesses a comprehensive range of options, we argue that a full range of input assumptions and network projects should be considered. The draft rules have also indicated that selected options, such as project alternatives and non-network options, will be considered at the Draft Report stage of the ISP development process. We believe that there should be increased opportunity for market participants and stakeholders to provide feedback during the early development stages of the ISP, and that all options are considered during the initial discussion and consultation stage. Non-network options should not be excluded from assessment at the initial stages of the ISP development process.

Market benefits testing

The objective of transmission asset development is the delivery of secure and reliable energy for the benefit of consumers. The existing regulatory investment test for transmission (RIT-T) is designed to ensure that any network or non-network development delivers benefits in the long-term interests of consumers. It is intended that the ISP interact with the existing RIT-T processes to accelerate development of ISP projects. ERM Power supports this outcome where possible, however we urge all market bodies and the COAG Energy Council to consider that the



long-term interests of consumers must continue to be the primary objective of any transmission development, including actioning the ISP.

The draft rules have proposed some changes to the regulatory investment test framework. Under the current proposal, for an identified need and preferred project contained in the ISP, the subsequent RIT-T is not required to consider all technically viable network options. It is only required to assess AEMO's preferred option as defined in the ISP. In our view, it is unclear that this approach provides assurance that the preferred option, particularly for significant cost network augmentations, will ensure consumers best interests are being achieved. We believe that for projects exceeding a specified cost threshold, independent modelling and validation of AEMO's preferred option is a proactive approach to ensuring the ISP delivers the most appropriate investment. This should be independently undertaken by the AER and subject to stakeholder consultation. We also note that the draft rules do not require the separate modelling of costs associated with public policies included within the ISP framework. We believe that this should be required. We suggest that any plan which is considered for actioning should be costed to ensure the appropriate cost-benefit assessments (CBAs) are undertaken.

The underlying principle of current RIT-Ts is that preferred project selection should be based on the highest net market benefit. The ESB have proposed that the ISP draft rules should dictate that the optimal development path identified through the ISP should be required to have a positive net benefit under the most likely scenario. However, it is not required that the optimal development path have the highest net benefit under this scenario. It is proposed that AEMO be allowed flexibility regarding the selection of the preferred network development option. ERM Power do not support this proposal, and do not believe that any optimal development path should be considered for implementation if it does not present the highest net benefit of assessed options. If it is recommended that a project alternative to the highest net benefit project should be adopted, we recommend that the lower benefit project should be subject to review by the Consumer Challenge Panel and approval by the AER.

The ESB has proposed that all projects within the ISP should be classified as committed when undertaking the CBAs for individual projects in the subsequent RIT-Ts. We believe that this will risk double or multiple counting of the same market benefit during each subsequent RIT-T process for each individual project. Where the realisation of benefits associated with a network development option relies on the development of other network options, we believe the CBA must be based on the total cost of all projects required to realise the benefit, rather than only the cost of the individual project under RIT-T assessment. When assessing the individual project, an additional assessment should be undertaken without the inclusion of other non-committed or approved projects. This would include any nominated ISP projects still awaiting completion of their RIT-T assessment.

Uncommitted generation or storage projects can contribute to the total costs accrued to achieve benefits. We believe that the assessed costs should include the costs of uncommitted energy generation or storage, where the assessed benefit is dependent on these resources being committed and located as per the supporting modelling. Without these resources, the assessed benefit may not be realised.

Finally, the draft rules clearly indicate the objective to develop projects as a matter of urgency. Although the rate of the current energy market transition arguably supports the need for rapid investment, we caution against rushing the development of projects prior to ensuring the best interests of consumers are assured. As stated earlier, the key objective of transmission network investment is to serve the best interests of consumers, and this objective should not be overlooked in the drive to develop projects rapidly.

Provision of a flexible approach



The proposed ISP framework is intended to provide a planned approach to delivery of critical energy infrastructure, underpinned by robust modelling and analysis. As such, it is important to ensure that objective and comprehensive modelling and assessment procedures are adhered to for the development of an appropriate plan for the NEM.

The ESB has proposed to provide AEMO with flexibility in its approach to scenarios, modelling and choice of optimal network development paths. ERM Power are concerned that the draft ISP rules allow for a discretionary approach to be employed to model and assess optimal development paths. Although AEMO is required to consult on many input assumptions associated with each development path, the selection of development paths themselves is not required to occur through consultation. We suggest that allowing this flexibility in the approach to scenario modelling and project selection does not provide consumers with the same protections that are currently provided through the RIT-T process.

A possible solution could be that where a level of flexibility in the modelling approach and selection of input assumptions is provided, alternative projects with stakeholder support should be required to also be considered, modelled and reported on through the ISP development process.

Project selection risk

A key input assumption to the ISP that will influence planning outcomes is which generation, storage and non-ISP network projects are selected for inclusion in the ISP model. Although it is not possible to predict the locations of project commitments with complete accuracy, we believe there are risks in the proposed flexible approach to assessing which projects should be considered for inclusion. Allowing for flexibility in defining which projects should be included in the modelling could risk unnecessary costs to consumers if these projects do not get developed, particularly if these projects have also been included in the subsequent RIT-T process. As the risk of inappropriate project selection is currently borne by the consumer, it is important to mitigate this risk. This risk may be reduced through effective consultation conducted in accordance with the IAP2 Participation Spectrum framework and certified by the AER.

Conclusion

The streamlining of regulatory processes for key projects identified in the ISP, although intending to retain a rigorous cost benefit assessment, must not compromise the comprehensiveness of the regulatory testing process designed to safeguard consumers against unnecessary costs. It is unclear to ERM Power that the currently proposed framework achieves this outcome. We recommend amendments to the approaches to consultation, modelling and project selection to provide opportunities for improvements to the proposed framework. This will protect consumers from bearing excessive risks and costs.

Please contact me or Ron Logan (rlogan@ermpower.com.au, 0427 002 956) if you would like to discuss this submission further.

Yours sincerely,

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Appendix 1. ERM Power’s position on the proposed amendments to the National Electricity Rules (NER)

Current rule/clause number	Current rule	ESB’s proposed amendment	ERM Power position
5.16.6	Determination that preferred options satisfies the regulatory investment test for transmission	Delete 5.16.6	<p>We strongly disagree with the removal of this clause and recommend that it remain included in the NER as per the current wording.</p> <p>We recommend that the obligation of the final determination to ensure that the RIT-T project satisfies the RIT-T remains with the AER. This final approval is undertaken on behalf of consumers to ensure the test has been met.</p> <p>We believe 5.16.6 is a critical safeguard to ensure consumer protections are maintained.</p>
5.16.5	Disputes in relation to application of regulatory investment test for transmission	<p>Amend to 5.15B Disputes in relation to application of regulatory investment tests for transmission</p> <p>Add 5.16B (b) A dispute under this rule 5.16B may not be raised in relation to any matters set out in the project assessment conclusions report which:</p> <p>(3) for an actionable ISP project, uses or relies on matters set out in the most recent Integrated System Plan or Inputs Assumptions and Scenarios Report, including the identified need, ISP parameters, credible options or classes of market benefits relevant to that actionable ISP project.</p>	<p>ERM does not agree with this amendment.</p> <p>We believe classifying an ISP input or assumption as exempt from challenge or review during the AER process does not represent best practice consultation principles.</p> <p>Independent challenge and review is a critical function of the RIT-T process to ensure consumers interests are met.</p>



Current rule/clause number	Current rule	ESB's proposed amendment	ERM Power position
5.16.5	Disputes in relation to application of regulatory investment test for transmission	<p>Amend to 5.15B Disputes in relation to application of regulatory investment tests for transmission</p> <p>Amend 5.16B (g) The AER may only make a determination under subparagraph (d)(3)(i) if it determines that” (3) the RIT-T proponent, for a RIT-T project that is not an actionable ISP project, has not correctly assessed whether the preferred option will have a material inter-network impact</p>	<p>ERM Power disagrees with the proposed clause “for a RIT-T project not an actionable ISP project”.</p> <p>We believe both actionable and not actionable ISP projects should be assessed consistently.</p>
		<p>Add 5.23 Disputes in relation to an ISP</p> <p>5.23.4 AER determination</p> <p>(d) The raising of a dispute under clause 5.23.1, or the making of a determination under subparagraph (a)(2)(i), does not affect the validity, or stay the operation, of the Integrated System Plan.</p>	<p>ERM Power does not agree with the addition of rule 5.23.4(d).</p> <p>We believe that if the AER makes a decision that errors have occurred in the selection of an ISP project as the preferred option, the ISP project should not continue to proceed, pending resolution of the issue.</p> <p>ISP projects for which no dispute has been lodged or for which a dispute has been rejected should remain unaffected. However, where a dispute has been upheld by the AER, any prior trigger event or RIT-T process should be suspended if the AER has required AEMO to issue an ISP update.</p>



Current rule/ clause number	Current rule	ESB's proposed amendment	ERM Power position
		<p>Add 5.23 Disputes in relation to an ISP</p> <p>5.23.4 AER determination</p> <p>(a) Where the AER accepts a dispute notice under clause 5.23.2(b), then subject to clause 5.23.3(c), within 40 business days of receipt of a dispute notice, the AER must either:</p> <p>(2) subject to paragraph (c), make and publish a determination:</p> <p>(i) directing AEMO to remedy the non-observance with the prescribed ISP process, which direction may include requiring AEMO to consider whether an ISP update is required</p>	<p>ERM Power recommend providing additional clarity on the updates to the ISP required of AEMO.</p> <p>We suggest amended the proposed rule to:</p> <p>(i) directing AEMO to remedy the non-observance with the prescribed ISP process, which direction may include requiring AEMO to issue an ISP update in the area covered by the determination</p>