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Dear Dr Schott,

Energy Security Board 2019, Converting the Integrated System Plan into action, Consultation Paper

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

EnergyAustralia continues to support regulatory reform that will facilitate a smooth transition of the electricity market to one with a lower carbon emissions intensity. An integral aspect of this transition is the continued efficient investment in both generation and transmission assets. The Energy Security Board (ESB) proposed an approach in its 2018 paper *Integrated System Plan – Action Plan,* to make AEMO's Integrated System Plan (ISP) more 'actionable' by strengthening its role in guiding this investment in the National Electricity Market (NEM). The *Converting the Integrated System Plan into Action* (the Consultation Paper) seeks feedback from stakeholders on how to implement these recommendations through changes to the National Electricity Law (NEL) and National Electricity Rules (NER).

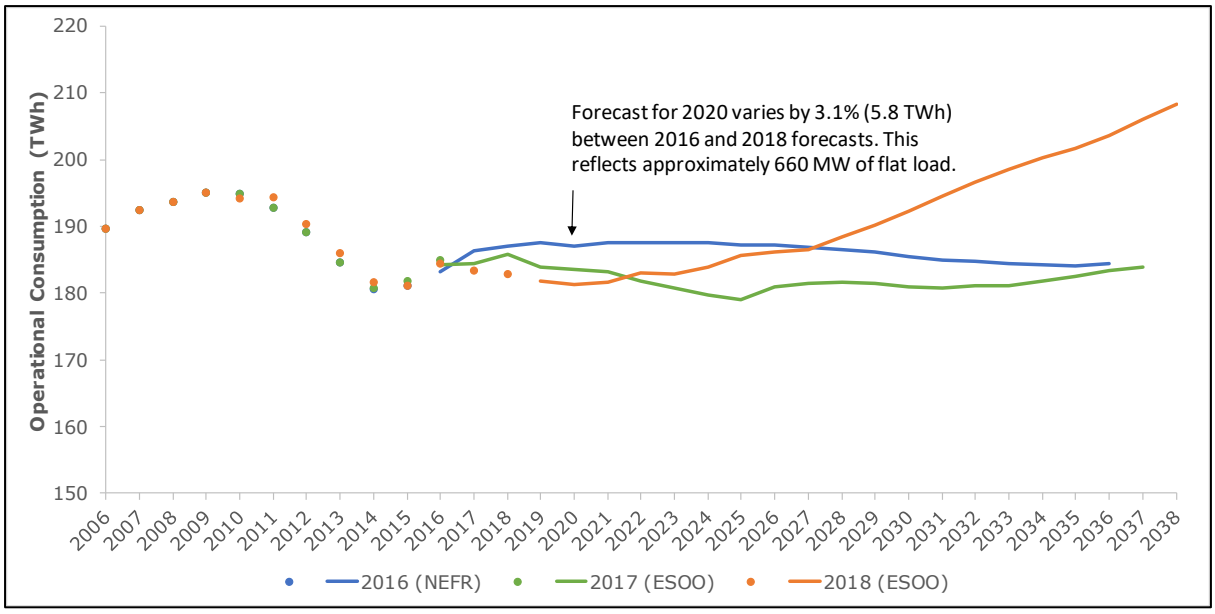
A key element of these reforms is to allow the ISP to replace the first stage of the RIT-T process, the Project Specification Consultation Report (PSCR). This change will reduce the time taken to complete a RIT-T process and allow the ability to leverage extensive system modelling conducted by AEMO to identify system-wide benefits. EnergyAustralia recognises these benefits, however, we heed caution over the extent to which the ISP modelling is used to make investment decisions. Specifically, we do not think it is appropriate for a RIT-T assessment to include future speculative investments, that are suggested in the ISP, as a base case scenario. Further, if the ISP is to become part of the RIT-T process, it should be subject to the same levels of rigour. The RIT-T is an important element of customer protections by ensuring that customers do not bear unnecessary financial risks. As the energy industry manages changes to the market, the RIT-T becomes critical part of ensuring customers to do not experience unwarranted increases in costs.

Our submission to the Consultation Paper responds to some of the questions raised by the ESB and provides some additional comments, or requests for clarity, on the proposed ISP process.

Making the ISP 'actionable'

At a high level, EnergyAustralia support the ESB's objective of making the RIT-T process more efficient and capable of effectively capturing potential system benefits. However, we do not support the use of the ISP's development path of future projects being utilised within a base case RIT-T assessment. These projects may be highly speculative and dependent on specific future market changes.

The ISP's primary purpose should be to guide competitive and efficient investments, not to lock in a specific development path at a point in time. There are high levels uncertainty regarding future technology costs, regulatory frameworks and generation investment decisions. For example, AEMO's forecasts for operational consumption in the NEM have changed significantly between annual reports, illustrating the vulnerability of planning conclusions to the volatility of changes in forecasts.



It is therefore risky to commit customers to a development path that relies on the completion of possible transmission projects by including these future projects in the base case for an earlier project's RIT-T assessment. Future projects have not yet been subjected a rigorous cost benefit analysis and may never be economic. However, an earlier project may have assumed their existence to demonstrate a benefits case. There is immense risk that the future projects are significantly delayed or never built. In this case, the benefits case for the earlier projects, that relied on subsequent investments, may never materialise, subjecting customers to investment costs that are never recovered.

Instead, the ISP development path should be considered one of several scenarios against which a RIT-T project is assessed. It may be appropriate to weight this scenario more highly than others, given its status as the base case in the ISP, but a RIT-T project should demonstrate that it delivers net benefits under a range of scenarios, rather than

one prescribed scenario. This resilience will provide customers with confidence that the investment is, on balance, likely to provide benefits under the majority of probable futures. If a project's benefits case is predicated on the existence of future projects, these projects should be considered under a joint RIT-T process.

Further, the ISP does not fully consider the impact of the development path on ancillary service requirements and the subsequent costs imposed on customers. This is a critical component of assessing future developments as provision of these services could be expensive for customers. System strength requirements are likely to play a greater role in the future and managing these services will become increasingly complex. Therefore, if the ISP is to be used as a proxy central planning document, there should be more explicit consideration of other market services that will be required and their estimated costs when determining the development plan.

Response to questions raised in the Consultation Paper

Should the timing deadlines associated with the ISP process be specified in the rules?

The publication timeframe needs to balance having sufficient time to complete a thorough analysis against the relevance of assumptions and conclusions at the time of publication.

Given the extensive modelling AEMO must undertake to develop the ISP, it appears appropriate that AEMO should have up to 2 years to develop a report. However, this should be the maximum length of time. 2 years is a significant period of time over which assumptions and market conditions could have changed significantly.

It is important that significant unforeseen changes, such as new volumes or closures of load or generation, should trigger an update to the most recent ISP. AEMO should actively track its key assumptions against actuals and publish a forecasting response plan if actuals have materially deviated from the forecast.

If an update is triggered, the market should be notified as soon as possible after AEMO becomes aware of the need to issue an update. This is critical as project investment decisions may be imminent and may made using the previous ISP, without awareness that AEMO intends to release an updated report.

Are the draft guidelines reasonable and adequate?

The ESB have suggested guidelines the AER could ratify as part of the implementation of these rules. We suggest that the AER should have the ability to further develop these guidelines, in consultation with stakeholders, to ensure they are consistent with the AER's objectives and intentions.

- Cost-Benefit Analysis (CBA) Guidelines

As drafted, it is not clear if these are the intended final guidelines, or directions to the AER about what should be included in the guidelines:

- The purpose appears to be the purpose of the ISP rather than the purpose of the guidelines.

- It's not clear how the guidelines relate to the RIT-T Application guidelines. Are the CBA guidelines an extension to the RIT-T Application guidelines, or stand-alone guidelines? It should be clear in the guidelines that the ISP is subject to the same level of rigour as the RIT-T.

- It is unclear whether the guidelines will focus on technical requirements of performing a CBA in *addition to* (rather than)*, **or** instead of* (also), setting out the administrative process required.

- The draft guidelines provide high level principles only, and limited technical guidance on how the CBA will be conducted. Details are not provided on how AEMO will develop scenarios, categories of benefits considered, discount rates or the application of the Value of Customer Reliability.

- It is not clear what will be considered in the benefits case of the CBA. Will non-market benefits be included?

These guidelines should include explicit references to the consideration of non-network solutions when assessing technically and economically feasible investment.

- Forecasting Best Practice Guidelines

There are a number of key forecasting assumptions and methodologies that should be addressed in the guidelines.

- Under demand side considerations, large load closures or connections should be explicitly included as these could have significant impact on energy market investment requirements.

- There should be explicit consideration of impact on the contract market in AEMO's modelling as this is a key driver of generation investment decisions. While this has not been addressed by AEMO in the past, future ISP work should seek to develop an agreed methodology for capturing this element of the market. The ISP is currently primarily an engineering optimisation that doesn't consider the whole system, including the contract market. As such, it should not be used as the definitive guide for efficient economic investment.

- There should be a defined approach specified in the guidelines for assessing closure economics. It is not appropriate to assume that plants will close at the end of their technical life. It should be best practice for AEMO to consider the financial viability of generation assets within the ISP modelling. AEMO should also be required to utilise, and verify with owners, the notified year of closure provided under the recent *Generator three year notice of closure (Rule 2018 No. 12)* rule change.

- Asset operators should be actively consulted by AEMO to discuss asset operation and fuel supply assumptions. As outlined in our submission to AEMO's Forecasting Consultation, fuel supply assumptions can drastically change the operational outlook for generation assets. AEMO should therefore be required to consult with plant operators to ensure that forecast generation profiles are reflective of operational constraints.

Some of these issues may be better captured within separate Planning Best Practice Guidelines.

The guidelines should provide clearer guidance on the construction and purpose of scenarios. ISP projects need to be resilient to a range of scenarios and market outcomes, not predicated on a single possible path that is identified at a point in time. It is unclear how AEMO will be guided to construct its scenarios. Will the base case be developed as a weighted average of probable scenario outcomes, or a 'best guess' development path?

Scenarios should be used to test the impact of different assumptions, not to suggest a likely future outcome. The inherent danger in presenting a middle, BAU or 'neutral' scenario is that it is likely to be interpreted as having a high level of certainty. EnergyAustralia believes that decision making should be tested across scenarios for robustness and is unclear why a single case is required. If there is justification for a single 'best estimate' then one possible approach could be a weighted average of credible outcomes, rather than a single best guess of the future path.

- AEMO Methodology report

The rules should require AEMO to publish and ISP methodology, in conjunction, or prior to, the release of the final ISP. This will enable stakeholders to understand and assess the ISP conclusions.

Governance Framework

If the ISP is to be used as a component of a RIT-T, the ISP methodology should be consistent with the RIT-T process. This should be specified in the rules.

Dispute resolution framework

As suggested by the ESB, there should be an avenue for stakeholders to raise any concerns about AEMO's assumptions and processes early. Concerns that assumptions are misguided and could have a material impact on forecast outcomes should be formally raised with the AER for investigation. This allows a check and balance process by a third party to improve the integrity and confidence on the report outcomes. There should be clear timeframes for raising a concern and the AER should outline the materiality threshold for disputes.

Further comments on the proposed ISP process

- Consideration of non-network options

The plan outlined by the ESB indicates that non-network solutions will be considered at two separate stages. First by AEMO at stage 3 when identifying credible options, and second by TNSPs in stage 5 when assessing the costs and benefits of credible options. It is clear that non-network options will be considered by TNSPs, but it is less clear how AEMO will solicit suggestions for non-network solutions. These options will play an increasingly important role in the NEM and should be identified and considered as early as possible. As part of the rigorous consultation process, AEMO should publish

information regarding the identified needs and seek feedback from third parties as to possible non-network solutions.

- Clarification on a design details in the ISP process set out in the Consultation paper

    - At which stage will AEMO produce a draft ISP? Will the draft be published at stage 2 (detailing only the system wide needs identified by AEMO), at stage 3 (detailing the credible options identified by AEMO), or at stage 4 (detailing the outcome of the whole of system optimisation outcomes)?

    - Will AEMO's process to identify credible options be iterative? It appears that AEMO will first identify possible credible options in Stage 3, based on initial modelling conducted in Stage 2, and that it will then identify further options in system-wide modelling in Stage 4?

    - Will RIT-Ts commence for all ISP-identified projects immediately after publication. It would not make sense for a project identified beyond the next few years to commence a RIT-T immediately. We suggest it is more prudent for AEMO to identify when the RIT-T process for each identified project should commence.

Conclusion

EnergyAustralia supports measures that will improve the regulatory framework for investment by streamlining processes and enhancing system-wide modelling in determining the benefits case for transmission projects.

However, we have concerns about the economic efficiency of prescribing a development path for transmission that is centrally planned. Investment benefits cases should not be predicated on speculative future investment build as this creates substantial financial risks for customers if these future projects are never delivered.

AEMO and Transmission businesses need to prove, beyond doubt, that projects are in the best interests of customers and that market benefits are robust across a wide range of sensitivities and scenarios.

If you would like to discuss this submission, please contact Georgina Snelling on 03 9976 8482 or Georgina.Snelling@energyaustralia.com.au.

Regards

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