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17 January 2020

Dr Kerry Schott AO
Energy Security Board
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Lodged electronically: info@esb.org.au

Dear Dr Schott

Energy Security Board — Converting the Integrated System Plan into action: Draft ISP Rules — November 2019

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts across eastern Australia. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

We appreciate the further opportunity to comment on the Energy Security Board's (ESB) draft rules on making the Integrated System Plan (ISP) actionable.

EnergyAustralia supports the concept of an actionable ISP in facilitating the transition to a cheaper, reliable and cleaner energy system. We expect it to streamline consultation on transmission planning and investment by harmonising some elements of the ISP and Regulatory Investment Tests for transmission (RIT-T), and by removing the need to conduct Project Specification Consultation Reports (PACR) for ISP projects. These improvements can and should be done without loss of rigour in transmission investment assessments and in the pursuit of least cost prudent investment over the longer term.

New obligations to conduct RIT-Ts on the basis of the development paths, inputs and scenarios in the ISP form part of centralising and expediting transmission investment decisions. The ISP will be renewed at least biennially to accommodate changing expectations of market and economic conditions over the planning horizon. As the subject of such change, the ISP should only be taken as a guide at any point in time, and a particular optimal development path should not become self-fulfilling or inappropriately entrenched across ISPs or RIT-Ts. We consider the draft rules give effect to these outcomes but the ESB should be mindful of the ISP's role and limitations in making its final rule. While the ISP will place further emphasis on AEMO's planning

functions, assessing the prudence and efficiency of particular transmission investments ultimately rests with transmission network service providers (TNSPs) and the AER.

It is paramount that ISP processes be protected from political interference. We expect government interventions in the market, including via direct investment. We are concerned, however, at recent statements from some jurisdictional governments that appear to pre-empt RIT-T outcomes and AER assessments. AEMO's independence should be protected against what we sense is a growing bias in favour of transmission investment to correct for sub-optimal generation investment, which may be a result of fragmented jurisdictional climate and energy policies. Instituting an actionable ISP should work against any such shortcomings rather than embed them.

Dispute provisions

The draft rules restrict the ability of stakeholders to dispute the ISP and RITs in order to streamline the planning process. Our view is that they are potentially too restrictive in limiting the grounds for dispute and in establishing who may raise disputes.

Draft rule 5.23 defines 'prescribed ISP processes' that are prerequisites to disputes. In general terms, a dispute may only be raised where AEMO does not follow such a process. Our view is that AEMO should be bound to consider stakeholder submissions in each of these prescribed processes, which only appears to be the case for the ISP Methodology and ISP Inputs Reports under 5.22.5(k). The drafting appears to explicitly prevent disputes over the ISP depending on whether AEMO considered and responded to issues raised by stakeholders. We appreciate the policy intent to restrict disputes over matters of technical detail, which might include whether AEMO adequately considered matters set out in draft rule 5.22.8(a)(5), for example. However, there should be a ground of dispute where AEMO does not appropriately consider and respond to stakeholder submissions in preparing its final ISP e.g. as envisaged under 5.22.11(c)(2).

Amongst other requirements, a disputing party must establish under draft rule 5.23.1(b) that they "made a submission" in a prescribed ISP process. We presume this refers to written submissions, which may be unduly restrictive as stakeholders will have various legitimate means to access AEMO and its staff. For example, we expect some stakeholders will be limited to raising issues verbally at public fora.

The ESB may also wish to consider extending the current 30 day limitation in 5.16B(c) to allow adequate time to for stakeholders to digest PACR conclusions, reasoning and data. Allowing more time for parties to interact and potentially share more information supporting each PACR may actually reduce the prospect of disputes.[1]

Determining the optimal development path

The draft rules require the AER in its Cost Benefit Analysis (CBA) Guidelines to describe the framework used to select optimal development paths in ISPs. The rules only require the ISP optimal development to generate positive net economic benefit. Rule 5.15A.1 (unaffected by the current proposed amendments) require RIT-T decisions to be based on maximising net benefits.

[1] See AER, *Decision - South Australian Energy Transformation Determination on dispute - application of the regulatory investment test for transmission*, June 2019, section 3.2.4.

Draft rule 5.22.5(e)(2) requires the AER to provide AEMO the flexibility in selecting the optimal development path. We support this for the following reasons:

- The choice between least regrets or benefits maximisation approaches, or other decision rules, may depend on the degree of confidence in making subsidiary decisions such as defining scenarios and assigning probabilities to each. Views on these matters may change over time and should not be codified.

- There may be advantages in having different decision rules behind the ISP's optimal development path and the maximisation of net benefits in RIT-Ts e.g. as a type of cross-check.

- The ISP is intended to guide rather than prescribe investment. Requiring it to be based on benefits maximisation may overstate the significance of the optimal development path at any point in time.

Where AEMO pursues a least regrets or other approach that does not maximise net benefits, further obligations should be placed on AEMO to describe the extent of any 'inefficiency' in its optimal development path, with related guidelines or thresholds dealing with tolerance for this.

Inconsistencies between approaches in the ISP and RIT-T may give rise to problems during the 'feedback' loop. This feedback loop requires AEMO to consider the outcomes of the RIT-T rather than the TNSP's approach. There may be some flexibility for AEMO to reconcile different methodological approaches and outcomes where the TNSP's alternative preferred option still addresses the identified need and forms part of the ISP's optimal development path (see draft rule 5.16A.5(2)).

A related matter arises in maintaining the integrity of the optimal development path where TNSPs must determine how to treat other actionable ISP projects in its modelling of credible options. This is currently being examined in the AER's guidelines consultation and is potentially contentious. In the event the ESB is moved to prescribe such matters in the rules, our view is that actionable ISP projects that are yet to pass RIT-T assessment should be excluded from RIT-T base case modelling. We note the ESB's view is that the COAG terms of reference in making the ISP "actionable" implies that ISP modelling should be able to flow through into the RIT-T assessment. We support this to an extent and have indeed questioned TNSPs in the past where they have departed from AEMO's inputs and scenarios. In terms of "action", our view is that it is sufficient for the ISP to bind TNSPs in triggering RIT-T assessments on identified investment needs. Modelling the entirety of the optimal development path's actionable transmission investments in the RIT-T base case risks skewing individual investment decisions. Our separate submission to the AER contains further considerations on this matter.

The role of policy and jurisdictional requests

The draft rules provide an ability of the Ministerial Council on Energy (MCE) to request AEMO to model public policy as a "power system need" under 5.22.3(b). This states that AEMO "may" consider such a policy. It is not clear what governance arrangements support this on the MCE side, for example, whether the MCE must unanimously agree to such a request or only some jurisdictional governments. Note as a "power system need" this is a fundamental aspect of the modelling and can significantly affect the ISP optimal development path, including the triggering of RIT-T assessments.

Draft rule 5.22.6(b)(3) allows individual jurisdictions to request policies to be modelled as a sensitivity. We support the explicit recognition that such modelling would not form part of any development path and is in effect presented for informational purposes only. Given this intention, it is not clear why this modelling would be published and consulted on in the ISP. Our concern is that AEMO would already independently identify and assess credible policies under other provisions. Having AEMO prepare analysis of other policies would at best draw resources away from important modelling tasks, and at worst be used by jurisdictional governments or other stakeholders for their own political agendas. We note that the draft rule states that the ISP "may" include such sensitivities, and that AEMO would have ultimate discretion to accept or ignore government requests.

The ESB may also consider requiring that any government requests under draft rule 5.22.6(b)(3) only be made during AEMO's consultation on inputs and methods. Requests made later in the ISP consultation process could cause resourcing issues for AEMO and limit opportunity for stakeholder input.

If you would like to discuss this submission, please contact me on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

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