

21 June 2019

info@esb.org.au

Dear ESB,

Converting the Integrated System Plan into action

Hydro Tasmania welcomes the opportunity to provide a response to the *Converting the Integrated System Plan into action, Consultation Paper*. We support the development and application of the Integrated System Plan (ISP) and believe it forms an important component of transitioning Australia's electricity sector at least cost for consumers.

As noted in the ESB paper:

"This consultation paper seeks stakeholder input on governance of the ISP process, the AER's revenue approval process, dispute resolution procedures and how the ISP and (RIT-T) interface with and fit together with the rest of the planning and economic regulatory framework".

Many of the issues covered in the consultation paper relate most directly to TNSPs and the impacts of the regulatory framework on development of future transmission opportunities. As a result, Hydro Tasmania's submission concentrates on the aspects that are most likely to impact on our business as well as comments on the broader context in which the ISP operates. This submission is structured as follows: the December 2018 ESB Recommendations; the Operational Context and Importance of the ISP; the paper's draft proposed Cost Benefit Application Guidelines; draft proposed AER Forecasting Best Practice Guidelines; and the ESB's forthcoming paper on financing of transmission assets.

1. ESB Recommendations, December 2018

Hydro Tasmania broadly supports the 12 recommendations made by the ESB in the ISP Action Plan (December 2018) and looks forward to further progress on these. Relevant to this paper:

- Recommendation 8: That the ISP be developed every 2 years with updates in between if there is a defined material event.
- Recommendation 9: The ESB should work with AEMO to ensure that refinements to the inaugural ISP suggested in the ISP Action Plan are included in future ISPs.
- Recommendation 10: That the ISP can replace the Project Specification Consultation Report in the RIT-T.

While not covered explicitly in this paper, Hydro Tasmania supports ESB Recommendations 3 and 11: To explore setting up a Fund that could be used to ‘underwrite’ expenditures on Group 1 and 2 projects that are time critical; and, a fund to extend transmission assets to connect Renewable Energy Zones. We look forward to further consultation on these issues.

2. Operational Context and Importance of the ISP

We believe that it is important to continue to progress the Group 2 and 3 projects identified in the ISP. The scale of the transition facing the sector as well as key uncertainties around asset closures creates a requirement for these developments to be progressed and available as the sector needs. Falling behind in the development of these projects runs the risk of shortages in available capacity and the potential for future price spikes for consumers.

A NEM-wide approach is needed in order to plan for the retirement of ageing emissions intensive assets and the growth of variable renewable energy generation. It is important that Australia optimises the use of existing hydropower assets as these assets represent the largest current source of renewable energy generation as well as offering TWhs of energy storage.

There is significant additional hydropower and wind potential in Tasmania. Further development of Tasmanian resources is contingent on additional Bass Strait Interconnection and effective system planning to ensure this energy is efficiently delivered to where it will have the highest value in a timely manner. As with other potential developments across the NEM, individual assessment of these opportunities will likely underestimate the value that could be delivered if they were to be co-optimised.

Current industry trends and the visible renewable energy development pipeline strongly suggest that the Australian electricity sector will shift towards zero and low emissions generation at a faster rate than had previously been assumed. This may cause the relative generation shares of technologies to change earlier than forecast and would increase the demand for, and value of, flexible dispatchable generation. As the 2018 Integrated System Plan confirmed, the timing of coal-fired station retirements is one of the most significant influences on the power system development needs over the next 20 years. There is a high

degree of uncertainty regarding the timing of station closures and the long lead times associated with the implementation of large scale transmission investments.

As a result of these uncertainties, Hydro Tasmania would support greater transparency over the inputs and assumptions used by AEMO to inform ISP modelling. While we recognise that AEMO has a difficult task narrowing down the scenarios and inputs used, additional consultation and visibility of this process is likely to be of benefit. The 2019 ISP and later iterations, must consider the potential for rapid rates of change and the potential for capacity to exit at a faster rate than had previously been assumed (both of which there is already some evidence of in the current market).

3. Cost Benefit Application Guidelines (to be further developed by the AER)

As recommended by the ESB, Hydro Tasmania supports the development of the Cost Benefit Analysis (CBA) Application Guidelines, which can enable the ISP analysis to be an input into a TNSP's investment test. As the paper states, *“the current basic approach to RIT-T tests has an individual project focus”* whereas the Cost Benefit Analysis Application Guidelines will allow recognition *“that the ISP is a system wide least cost optimisation”*. Hydro Tasmania believes this approach can ultimately lead to lower costs for energy consumers.

Given the uncertainty currently facing the sector, Hydro Tasmania considers it prudent that through the CBA Application Guidelines, AEMO be allowed additional flexibility when developing the ISP to *“have regard to the resilience of the power system (for instance if there is a high impact low probability event) in accordance with an agreed risk framework that considers the level of resilience that should be paid for by consumers”*. As the paper correctly states, this flexibility must be balanced against the need for transparency over how AEMO assesses and selects projects in the ISP. It is expected that this balance will be further considered and consulted on with key stakeholders.

4. AER Forecasting Best Practice Guidelines

Hydro Tasmania is engaging with the development of the Retailer Reliability Obligation Forecasting Guidelines. It is important where possible that forecasting approaches are harmonised and there are not duplicate or conflicting approaches between the ISP, RRO and any other AEMO publications or market needs. Any proposed differences between guidelines and the reasons for them would need to be clearly communicated by AEMO.

5. Forthcoming Paper and Parallel Processes

Hydro Tasmania looks forward to reviewing the ESB's forthcoming paper concerning *the financing of the connection of transmission assets to priority Renewable Energy Zones*. Discussion on financing and connecting assets links closely to other processes including the AEMC's Coordination of Generation and Transmission Investment (COGATI). It is important that these processes do not conflict and add further uncertainty for developers and investors. There is a clear need to invest in nationally significant, strategic assets such as further interconnection. However the risks of this investment risk will ultimately land with consumers or projects developers. A key challenge facing the sector is how to apportion this risk and how to ensure that it is the beneficiaries of the investments that can appropriately underwrite and support their timely development.

Please contact Colin Wain (colin.wain@hydro.com.au, or telephone: 03 8612 6443) should you require any further information on this submission.

Yours sincerely



Colin Wain
Policy Development Manager