



17 January 2020

Dr Kerry Schott
Chair
Energy Security Board

Submitted via email: info@esb.org.au

Dear Dr Schott,

ESB: CONVERTING THE INTEGRATED SYSTEM PLAN (ISP) INTO ACTION – CONSULTATION ON DRAFT ISP RULES

Origin Energy Limited (Origin) welcomes the opportunity to provide feedback on the ESB's draft ISP rules.

Origin understands the importance of a flexible transmission investment framework in adapting to the changes occurring in the energy sector. However, this additional flexibility needs to be balanced against a robust and evidence-based framework, in order to minimise risk for consumers.

We consider that more transparency, clarity and robustness is needed in order to instil greater confidence in the actioned ISP and subsequent regulatory investment tests for transmission (RIT-Ts). Better transparency and robustness help to guard against the risks of stranded transmission assets through over-investment, or stranded generation assets through under-investment.

We provide several suggestions and comments aimed at improving transparency and robustness of the draft rules, including:

- **ISP projects:** We would welcome better clarity on which projects are meant to be included in the ISP, and more prescription around what actionable and recommended ISP projects are.
- **Public policy needs:** The inclusion of public policy needs should be as transparent as possible to promote accountability and confidence. We suggest that only legislated policies should be included. We also suggest options for enhanced transparency around implementation, such as through sensitivity analysis to understand the cost impact of including these policies.
- **Transparency:** We suggest that the full models used in the ISP and RIT-Ts should be made available to promote transparency and to help participants provide more useful feedback on draft outcomes. This would also help non-network proponents put forward alternatives.
- **Non-network options:** We suggest that an overarching principle should be to level the playing field between network and non-network options by calling for non-network options earlier in the ISP process. Following publication of the ISP, we consider that RIT-T proponents should continue to call for and consider non-network options throughout the RIT-T process.
- **Optimal development path and cost-benefit analysis (CBA) guidelines:** We consider that the requirements for the CBA guidelines should mirror the existing RIT-T application guidelines, with deviations limited to addressing the different circumstances of the ISP. If additional flexibility is given regarding the modelling approach and choice of the optimal development path, then AEMO should be required to consult, with the AER conducting a final check.

We consider that our suggested changes would improve transparency of the ISP and subsequent RIT-Ts, enhance the rigour and independence of the cost-benefit analysis to be applied to potential

projects and ensure better accountability without increasing administrative burden. This would lead to more efficient investment decisions in transmission infrastructure and minimise costs for consumers.

Our views on these issues and other issues are set out in greater detail below.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely

A handwritten signature in blue ink, consisting of a stylized 'S' followed by a vertical line and a small flourish.

Steve Reid
Group Manager, Regulatory Policy

Table 1: Origin comments on key aspects of the draft ISP rules

Key aspect of the draft ISP rules	Origin comments
Scope of ISP	<ul style="list-style-type: none"> • Origin understands that the draft rules do not define ‘actionable ISP projects’. As a result, it is not clear if the projects to be assessed are only meant to be ‘strategic’-type projects or all potential network augmentations. • Given that transmission network service providers (TNSPs) can still carry out regulatory investment tests for transmission (RIT-Ts) outside of the ISP, a clearer delineation of ISP and non-ISP projects may be warranted to avoid overlap and provide clarity. • For example, it is not clear if a TNSP may start the RIT-T for a non-actionable ISP project or any other type of strategic transmission project that is not in the ISP, and the impact this would have on the ISP. • More prescription around the types of projects the ISP identifies may improve transparency. The draft 2020 ISP, which we understand was published based on the draft ISP rules, included ‘actionable ISP projects’ and a ‘recommended’ project. The draft rules do not mention “recommended” projects or actions. The ESB should consider providing more prescription around these terms for clarity.
ISP purpose - Public policy needs	<ul style="list-style-type: none"> • The inclusion of public policy needs runs the risk of over-investment in transmission, especially given the historical lack of coordination of generation and transmission investment, and the recent fickleness of public policies, even when legislated. As a result, it is important for the inclusion of such policies to be transparent. • Prescribing the qualifying criteria for inclusion as proposed in the draft rules provides transparency and promotes confidence that only certain public policy needs will be included. • We agree with the ESB that if public policy needs are to be included, then only those where a current policy commitment has been made with a clear articulation of when or how it affects the power system should be included in the ISP. • However, we consider that transparency could be further improved and make several suggestions below. <p><u>Robustness of inclusion criteria</u></p> <ul style="list-style-type: none"> • Our understanding of clause 5.22.3(b) suggests that unlegislated (but sufficiently developed) policies could be included in the ISP. • We consider that the rules should require that only legislated policies can be included in order to avoid unnecessary costs. This would also improve transparency since it would be clearer that only finalised policies are to be included. <p><u>Transparency of inclusion</u></p> <ul style="list-style-type: none"> • We suggest that the rules should require AEMO and TNSPs (where relevant) to: <ul style="list-style-type: none"> ○ Be explicit about which public policies they are considering in the input, assumptions and scenarios report as well as in the draft ISP and project assessment draft reports (PADRs) so that these policies can be consulted on. AEMO and TNSPs should also be required to explain how they intend to incorporate these policies into their modelling.

	<ul style="list-style-type: none"> ○ Be explicit and transparent about the impact of including public policy needs. The rules should require AEMO and TNSPs to include sensitivities showing the impacts of included public policies on cost and benefits outcomes. This should be an unconditional requirement, and not just when requested to do so by a jurisdiction (as per clause 5.22.6(b)(3) of the draft rules. The requirement should apply to TNSPs where relevant. ○ The rules should also require the AER to provide guidance to AEMO and TNSPs around ensuring public policy needs are transparently and robustly implemented, in the cost-benefit analysis guidelines. ● We also suggest that should a public policy need that has a significant bearing on the outcomes of the ISP be repealed, then this should constitute a trigger for updating the ISP. Including sensitivities in the ISP should help assess whether an update is required.
ISP purpose – other	<ul style="list-style-type: none"> ● To the extent transmission and generation are substitutes, investment in transmission (which is progressed through a centrally-planned regulatory framework) can crowd out private generation investment, which could ultimately require even further transmission expenditure, which may not result in least cost market outcomes. ● The rules should require the ISP and related RIT-Ts to explicitly consider and comment on the trade-off between transmission and generation, and the optimal level of investment in both.
Consultation process / transparency	<ul style="list-style-type: none"> ● If AEMO is given flexibility to choose its modelling approaches, then the rules should require it to consult on them. ● AEMO should consult not just on the ISP input assumptions but also the modelling outputs to provide a sanity check of the results and instil greater confidence in the ISP. ● The models used in the ISP should be made available to participants, consistent with the electricity statement of opportunities (ESOO) – AEMO publishes its ESoo model for the ESoo every year. ● While the inputs and assumptions provided by AEMO are useful, we consider that having access to the full ISP models (including e.g. the model used to determine net benefits) would promote transparency and enable interested parties to replicate the results and test the assumptions more accurately than without the models. ● The full ISP models would also provide for better analysis of all the drivers behind the inputs and assumptions. ● We consider that the full models should be made available alongside the draft ISP to enable stakeholders to provide more informed and useful feedback. ● Similarly, TNSPs should also consult on outputs and provide the models they use in the RIT-Ts, for the same reasons. ● For the suggestions above, our preference would be for them to be rules requirements. Alternatively, they could be requirements in the AER's forecasting best practice guidelines.
Credible options Consideration of non-network options	<ul style="list-style-type: none"> ● We consider that a guiding principle should be that non-network options are treated the same as network options. It is important that once a need is identified, that AEMO calls for network and non-network options at the same time. ● To level the playing field, we recommend that the rules should require AEMO to issue an expression of interest (EOI) for non-network options – along with the identified need – during the first stage of the ISP, at the same time as AEMO is discussing network options with TNSPs.

	<ul style="list-style-type: none"> • The EOIs would form the basis of further conversations between non-network option proponents and AEMO, like the discussions AEMO would be having with TNSPs. • The draft ISP would be required to include any potential non-network options, based on the initial EOI. The proposed process in the draft rule would then remain the same, with AEMO calling for further non-network options in response to the draft ISP. • This would allow AEMO to engage with potential non-network providers early in the process and allow stakeholders to comment on non-network options included in the draft ISP. • As currently proposed, the draft rules do not require this early engagement, meaning that stakeholders would not have an option to see and comment on non-network options as they would only be included in the final ISP, which would already recommend preferred options. • This would especially be the case if AEMO rules out a non-network option, as TNSPs would then not be obliged to include it in their PADR. • TNSPs should be required to further call for and incorporate non-network options in subsequent RIT-Ts, in order to capture any new non-network options that may have emerged since the publication of the ISP. It is not clear if the draft rules provide for this – we consider it should be a rules requirement. • Another potential option to level the playing field would be for the models used in the ISP and subsequent RIT-Ts to be made available, as suggested earlier. This would allow project proponents, and interested parties, to make use of the model to put forward non-network options.
<p>Selecting the optimal development path</p> <p>Cost-benefit analysis (CBA) principles and guidelines</p>	<p><u>Flexibility versus prescription</u></p> <ul style="list-style-type: none"> • Origin agrees that some flexibility is needed so that AEMO can adapt to changing power system needs without needing to go through a rule change process. We broadly agree that detailed cost-benefit and modelling approaches, including how AEMO is to select the optimal development path, need not to be prescribed in the rules. • Our preference is then for the AER to provide appropriate guidance on these aspects of the framework in the ISP guidelines. • We consider that the rules requirement for the cost-benefit analysis guidelines should mirror those of the RIT-T application guidelines, with deviations limited to addressing the different circumstances of the ISP. • Maintaining consistency across the guidelines will promote robustness of the RIT-T process for ISP projects and improve transparency. <p><u>Ensuring good governance</u></p> <ul style="list-style-type: none"> • If the final rules maintain the existing framework, which would allow for the cost-benefit analysis guidelines to diverge from the RIT-T application guidelines, then we consider that stronger governance arrangements should be in place. • It is unclear if the rules provide for AEMO to consult on its modelling approaches and methodology in choosing the optimal development path. We consider that appropriate consultation should be a rules requirement, as noted in the consultation process section. • We also consider that the AER should be required to review the final approaches taken by AEMO in terms of modelling and how it will choose the optimal development path. This would be a final check to ensure that AEMO has appropriately consulted on its approaches, and that its choices are consistent with the ISP guidelines.

<p>Conduct of RIT-Ts for actionable ISP projects</p>	<ul style="list-style-type: none"> • We agree that TNSPs should use the inputs, assumptions and identified need used by AEMO. This will ensure consistency and transparency and minimise the risk of arbitrary assumptions being made across different RIT-Ts. • It is not clear, however, whether the intent of the draft rules is for TNSPs to always use the same inputs and assumptions as AEMO used, i.e. the same set of numbers used in the ISP. • AEMO regularly updates its inputs and assumptions. By the time a TNSP is working on a PADR, AEMO is likely to have issued new forecasts. It would be appropriate for the TNSP to use the latest available forecasts published by AEMO. The rules should require TNSPs to do so. • We also understand that the ESB intends for TNSPs to only model the central/most likely scenario. This would reduce consistency between the RIT-T process and the ISP, especially if the TNSP identifies new credible options. • We consider that the scenarios and cost-benefit analyses should also be consistent across the ISP and the RIT-T.
<p>Assessment framework</p>	<ul style="list-style-type: none"> • We consider that the changes we suggest above would be more consistent with the National Electricity Objective (NEO) than the draft rules. • Since “public policy needs” are not part of the NEO (unlike reliability, security and efficiency), these needs should be incorporated transparently to ensure consistency with the NEO. • Our suggested changes with respect to the cost-benefit analysis guidelines would further minimise administrative burden as the guidelines should be very similar to existing RIT-T application guidelines. None of our suggested changes would increase the time taken to carry out a RIT-T or ISP. • We also consider that our proposed changes would improve the rigour and independence of the cost-benefit analysis framework, beyond what is currently allowed under the draft rules.