

17/01/2020

Dr Kerry Schott AO
Chair
Energy Security Board

Lodged by email: info@esb.org.au

Dear Kerry

Submission to consultation on draft rules to action the Integrated System Plan

We welcome the opportunity to respond to the Energy Security Board's (**ESB**) draft rules to action the Integrated System Plan (**ISP**).

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. Our network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

We commend the ESB for the work it has undertaken in consultation with stakeholders to date on the actioning of the ISP following the endorsement of the ISP's Action Plan by the COAG Energy Council in December 2018. The effective actioning of the ISP is critical to the NEM as it has the potential to facilitate the efficient and timely development of nationally strategic transmission infrastructure, resulting in significant market benefits and lower price outcomes for consumers.

The rules framework developed by the ESB for actioning the ISP will assist in achieving this outcome by:

- > supporting modelling that reflects the full value that transmission projects can provide to the market, and
- > by streamlining regulatory processes for ISP projects.

We support the draft rules, subject to a number of recommended refinements outlined in our attached submission. We also contributed to the Energy Networks Australia submission to this consultation, which includes comments on more detailed aspects of the draft ISP rules, and support the views expressed in that submission.

We urge the ESB and other policymakers to work together to consider all the changes to the regulatory framework and its application that are required for the effective actioning of the ISP.

We appreciate the opportunity to comment on the ESB's consultation on the draft ISP rules and look forward to engaging with the ESB and other stakeholders further on this topic. If you would like to discuss this submission, please contact Catriona Webster, Head of Public Policy on 02 9284 3147 or Neil Howes, Regulatory Affairs Manager, on 02 9284 3748.

Yours faithfully



Jason Conroy
Chief Financial Officer

Converting the Integrated System Plan into action



Submission to Energy Security Board consultation on draft ISP rules – January 2020

1. Summary

We welcome the opportunity to respond to the Energy Security Board's (ESB) consultation on draft rules to convert the Integrated System Plan (ISP) into action (**draft ISP rules** or **draft rules**).

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

Australia is in the midst of an energy transformation. This is primarily driven by changing community expectations and choices, advances in renewable energy technologies, retirement of existing generation, and the adjustments required in Australia's economy to meet our international climate change commitments. These changes raise complex issues in relation to the design of the National Electricity Market (NEM) which must adapt to these changes and provide the basis for low emissions, reliable supply at the lowest cost to consumers over the long run.

The rules framework developed by the ESB for actioning the ISP will assist in achieving this outcome by supporting modelling that reflects the full value transmission projects can provide to the market and by streamlining regulatory processes for projects identified in the ISP— therefore, **we support the draft rules, subject to a number of recommended refinements outlined in this submission.**

We have also contributed to the Energy Networks Australia submission to this consultation, which includes comments on more detailed aspects of the draft ISP rules, and **we support the views expressed in that submission.**

The following table provides a summary of our views on the ISP draft rules. These view are also set out in more detail in the main body of this submission.

Table: Summary of TransGrid's views on the ISP draft rules

<i>Issue</i>	<i>Our view</i>
The rules framework developed by the ESB for actioning the ISP overall.	We support the ISP draft rules subject to some recommended refinements. The draft rules will support modelling that reflects the full value transmission projects can provide to the market and streamline regulatory processes.
Scope of the ISP	The NER should explicitly allow for TNSPs to plan for transmission investments which are not identified in the ISP, in particular intra-regional transmission investments.
AEMO feedback loop	The requirement for AEMO to approve that the preferred option in the RIT-T is consistent with AEMO's optimal development path should be removed. At most, the NER should require AEMO to confirm that the identified need is met by the RIT-T preferred option. Linking project costs published in the ISP to the costs included in the RIT-T Project Assessment Conclusion Report (PACR) should be removed from the contingent project trigger in draft rule 5.16A.5(a)(1).
Joint planning	The ISP rules should provide a more balanced approach to joint planning by placing more specific obligations on AEMO to coordinate with TNSPs in the

	planning and investment framework. In particular in relation to RIT-Ts and jurisdictional planning work that TNSPs are required to undertake.
AEMOs planning costs	AEMO's NEM-wide transmission planning costs should not be paid for by TNSPs. If they are, then a new revenue recovery mechanism should be introduced to allow TNSPs to recover these costs on a cost pass through basis with provision for a true up for the under or over recovery of costs.
Preparatory activities	A revenue recovery mechanism should be introduced to allow TNSPs to recover costs for preparatory activities
Mechanism for determining revenue allowance for ISP projects.	The NER should provide flexibility such that a revenue allowance for an actionable ISP project could be included as a part of a TNSPs revenue determination.
Transitional arrangements	<p>We:</p> <ul style="list-style-type: none"> > Support the ESB's views on which RIT-T process rules should apply to actionable ISP projects where a PADR or PACR has been published but consider that the TNSP should have an election to use the old RIT-T process rules where a PSCR but no PADR has been published. > Support TNSPs being able to submit an application for contingent project revenue based on meeting either the new actionable ISP contingent project trigger or the existing contingent project triggers under TNSPs' revenue determinations (excluding any requirement for a preferred option assessment under clause 5.16.6 of the NER) where: <ul style="list-style-type: none"> – at the commencement date a PSCR for an “existing actionable ISP project” has been published – the identified need in the PSCR is the same as that identified in the ISP, and – the TNSP has not yet sought a decision from the AER on the preferred option assessment under existing NER clause 5.16.6.

The remainder of this submission is structured as follows:

- > Chapter 2 sets out our view on the scope of the ISP as set out in the draft ISP rules.
- > Chapter 3 discusses our views on AEMO's approval of preferred options for transmission investment as part of the process to action the ISP under the draft ISP rules.
- > Chapter 4 sets out our views on a TNSPs ability to receive revenue to cover the costs of complying with new obligations imposed on TNSPs under the draft ISP rules.
- > Chapter 5 provides our views on the proposed arrangements to transition to the new actionable ISP process in the draft ISP rules.

2. Scope of the Integrated System Plan

2.1 The ESB's view

The Energy Security Board considers that the scope of the ISP would reflect AEMO's National Transmission Planner functions in the National Electricity Law.¹

Following on from this, the objective of the ISP in the draft ISP rules, is to identify the optimal development path, which is the suite of projects that efficiently meets a defined set of power system needs, those needs being:

- > The market reliability standard.
- > Power system security.
- > Relevant standards including system standards and transmission reliability standards.
- > Public policy needs (where these impact the power system).²

2.2 Our view

We note that the scope of the ISP under the draft rules is very broad and could effectively enable AEMO to develop a whole of system plan for transmission to meet all power system needs, including needs that can only be met with intra-regional investments. We understand why this is necessary given the ability of intra-regional investments to have a broader, interregional, impact. The broad scope of the ISP, as set out in the draft rules, would also allow AEMO to identify significant intra-regional transmission investment projects in the ISP, such as transmission links for energy zones, which could provide a more effective pathway for the delivery of this investment than would be the case if the scope of the ISP was defined more narrowly.

Having said that, we are concerned that the broad scope of the ISP as set out in the draft rules could, in effect, make it difficult for TNSPs to justify new transmission investment that is not identified in the ISP but which is identified through local TNSP planning as necessary to address system needs. Given the more detailed nature of the TNSPs local planning role it is critical for the efficient planning and investment in transmission networks in the NEM that TNSPs are able to identify such investments. For this reason, we submit that **the NER should explicitly allow for TNSPs to plan for transmission investments which are not identified in the ISP, in particular intra-regional transmission investments.**

At a more detailed level, noting that the ISP is to identify a suite of projects to efficiently meet power system security needs, we consider the actioning of the ISP could be a useful complement to the system strength and inertia framework in the NER.

3. AEMO approval of preferred option in the RIT-T

3.1 The ESB's view

Prior to submitting a contingent project application, the TNSP must obtain written advice from AEMO which confirms that:

- > The RIT-T proponent's preferred option is the same as the candidate option in the ISP, and its expected cost is less than or equal to that assumed in the ISP.

¹ Energy Security Board consultation on draft ISP rules, p. 8.

² Ibid.

- > If the proposed option in the RIT- is different to the candidate option in the ISP, that the preferred option meets the identified need and is consistent with the ISP optimal development path.³

If the preferred option is not consistent with the ISP optimal development path, the ESB envisages that AEMO would have to issue an update to the ISP using the new information. The option identified by the TNSP would not be eligible for regulated funding as an actionable ISP project.⁴

3.2 Our view

As TNSPs are responsible for managing the transmission network and are liable for any reliability or safety issues that arise, it is appropriate that they have the final decision on the technical solution to address a network need identified in the ISP.

The proposed requirement for a TNSP to obtain AEMO's approval that the preferred RIT-T option is consistent with the ISP optimal development path before it can seek revenue approval for the project from the AER will not give a TNSP the discretion it needs to determine the optimal technical solution for actionable ISP projects. Under the draft rules, if AEMO does not approve the TNSPs preferred option then there will be a form of regulatory deadlock because:

- > the TNSP will not be able to seek revenue to proceed with its preferred option, and
- > the RIT-T will not support proceeding with the option considered preferable by AEMO.

We consider that **the requirement for AEMO to approve that the preferred option in the RIT-T is consistent with AEMO's optimal development path should be removed.** At most, we recommend that the NER require AEMO to confirm that the identified need is met by the RIT-T preferred option.

We consider **linking project costs published in the ISP to the costs included in the RIT-T Project Assessment Conclusion Report (PACR) should be removed from the contingent project trigger in draft rule 5.16A.5(a)(1).** The expected cost of a project can change significantly between these ISP and RIT-T stages as more detailed information about the specific project to be undertaken becomes available.

More generally, we consider it critical that AEMO and TNSPs work together at all stages of the ISP and RIT-T for the rules to work effectively in practice. In this regard, we note that there is a requirement in draft rule 5.14.4 for TNSPs and AEMO to take reasonable steps to cooperate and consult with each other to enable the preparation of the ISP. However, we do not consider this draft rule to be adequate noting that specific items subsequently identified in the draft rule would largely require TNSPs to assist AEMO. In addition, there is a general requirement in the draft rules for jurisdictional planning bodies to provide assistance AEMO reasonably requires in connection with the performance of its National Transmission Planner functions in the NEL (which includes preparation of the ISP).⁵

TransGrid considers **the ISP rules should provide a more balanced approach to joint planning by placing more specific obligations on AEMO to coordinate with TNSPs in the planning and investment framework. In particular, in relation to RIT-Ts and jurisdictional planning work that TNSPs are required to undertake.**

³ Ibid. p. 17.

⁴ Ibid.

⁵ Draft rule 5.22.14.

4. Revenue recovery

4.1 The ESB's view

The draft ISP rules place new obligations and costs on TNSPs. In particular, the draft rules require TNSPs to:

- > Commence preparatory activities for actionable ISP projects at least 24 months ahead of the due date for the Project Assessment Draft Report (PADR) for that ISP project, or 'as soon as practicable' if the due date is less than 24 months from the publication of the ISP.⁶
- > Meet AEMO's modelling and other ISP development costs. These costs are currently allocated to market customers (retailers) in the same way as other AEMO costs.⁷

Revenue for actionable ISP projects is to be recovered by TNSPs through the contingent project process. The ESB considers that costs incurred prior to the completion of a RIT-T should be recovered through the TNSPs revenue determination.⁸

4.2 Our view

4.2.1 AEMO planning costs

TNSP costs are unlikely to reduce and could even increase as a result of the new ISP rules, given:

- > the significant amount of joint planning that will be required, and
- > the administrative costs that will be incurred if TNSPs are required to pay for AEMO's transmission planning costs. We consider that requiring TNSPs to pay for these costs has no benefit to consumers – the costs should be passed through to consumers either way.

We consider that **AEMO's NEM-wide transmission planning costs should not be paid for by TNSPs.**

However, **if the Energy Security Board decides to place an obligation on TNSPs to pay for AEMO's ISP development costs in the final ISP rules, then a new revenue recovery mechanism should be introduced to allow TNSPs to recover these costs on a cost pass through basis with provision for a true up for the under or over recovery of costs.** This is appropriate given the lack of ability for TNSPs to control these costs.

4.2.2 Preparatory works costs

We understand that the ESB's rationale for requiring TNSPs to undertake preparatory activities is to get actionable ISP projects moving sooner. However, it is not clear to us whether the ESB's intent is to:

- > Require TNSPs to undertake work that is required in order to prepare a RIT-T; *or*
- > Require TNSPs to commence early works for a particular project *as if* a preferred option has been identified through a RIT-T and the TNSP had certainty of recovering revenue for undertaking that project. In our view, the definition of preparatory works in the draft rules envisages activities that are normally only undertaken once a TNSP has revenue recovery certainty.

If the latter is intended by the ESB, then we consider that **a revenue recovery mechanism should be introduced to allow TNSPs to recover costs for preparatory activities.** The timely funding of these costs, which could be significant, will allow for the total project timeframe to be reduced. Without the assurance of timely revenue recovery, the imposition of this new obligation does not appear reasonable as it will impact TNSP cash flows and, ultimately, the costs incurred may not be recovered by a TNSP if the project does not

⁶ Draft rule 5.16A.4. Preparatory activities are defined in the draft ISP rules as detailed engineering design, route selection and easement assessment work, cost estimation based on route selection and engineering design, preliminary assessment of environmental and planning approvals and council and stakeholder engagement. However, TransGrid notes that these activities would generally not be undertaken until after the completion of a RIT-T, not before.

⁷ ESB consultation on draft ISP rules, p. 15.

⁸ ESB, Response to submissions on consultation paper, p.17.

proceed. For example, if there is a material change in circumstances and the project is no longer required in an update to the ISP.

4.2.3 Recognition that allowance for actionable ISP project may be in revenue determination

More generally, we consider that there is an assumption in the draft rules that ISP actionable projects will always follow a contingent project process for revenue recovery. While it is likely that the contingent project process will be appropriate in most instances, we consider **the NER should provide flexibility such that a revenue allowance for an actionable ISP project could be included as a part of a TNSPs revenue determination.**

5. Transitional arrangements

5.1 The ESB's view

TransGrid understands that, the following arrangements are intended to apply to transition to the new actionable ISP arrangements:

- > Where after the commencement date of the new rules (**commencement date**) an actionable ISP project is identified in an ISP (including AEMO's 2020 ISP) and a TNSP has not published a Project Specification Consultation Report (PSCR) for the project, the new RIT-T process rules and contingent project trigger rules for actionable ISP projects will apply to the project.
- > Where at the commencement date a TNSP has published a PSCR but not a PADR for an "existing actionable ISP project"⁹ and the identified need in the PSCR is the same as that in the 2020 ISP, the new RIT-T process rules and contingent project trigger rules for actionable ISP projects will apply to the project.
- > Where at the commencement date a TNSP has published a PADR or PACR for an "existing actionable ISP project" but the TNSP has not requested the AER to make a decision under existing clause 5.16.6 of the NER (i.e. preferred option assessment), then the existing RIT-T process rules will apply to the project but the TNSP may use either the existing contingent project trigger rules or the new contingent project trigger rules for actionable ISP projects.
- > Where at the commencement date a TNSP has made an application under NER 5.16.6 for a preferred option assessment by the AER for an existing actionable ISP project, the old RIT-T process rules and contingent project trigger rules will apply to the project.

5.2 Our view

We:

- > support the ESB's views on which RIT-T process rules should apply to actionable ISP projects where a PADR or PACR has been published but consider that the TNSP should have an election to use the old RIT-T process rules where a PSCR but no PADR has been published, and
- > support TNSPs being able to submit an application for contingent project revenue based on meeting either the new actionable ISP contingent project trigger or the existing contingent project triggers under TNSPs' revenue determinations (excluding any requirement for a preferred option assessment under clause 5.16.6 of the NER) where:
 - at the commencement date a PSCR for an "existing actionable ISP project" has been published
 - the identified need in the PSCR is the same as that identified in the ISP, and

⁹ Existing actionable ISP projects are specified in the draft rules.

- the TNSP has not yet sought a decision from the AER on the preferred option assessment under existing NER clause 5.16.6.

TransGrid considers the ESB's intent may not be completely reflected in the proposed rule drafting.