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**C**onsumer  
**C**hallenge  
**P**anel

CCP Sub-Panel No. 20

19/10/2018

Australian Energy Markets Commission  
Lodged online  
Australian Energy Regulator:  
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Dear AEMC,

**Re: Coordination of generation and transmission investment – options paper**

Please find attached our submission in relation to the options paper

Kind Regards,

Bev Hughson  
**Sub-panel Chairperson**

Mike Swanston

Dr Andrew Nance

**Submission to AEMC**

**Coordination of Generation and Transmission Investment (COGATI)  
Options Paper**

**Consumer Challenge Panel Sub-Panel 20**

**CCP20**

**Bev Hughson**

**Andrew Nance**

**Mike Swanston**

**19/10/2018**

## Background

The AEMC's Coordination of Generation and Transmission Investment (COGATI) Options Paper and accompanying Energy Security Board Paper "Converting the Integrated System Plan into Action" were released in September 2018. The issue at hand is that billions of dollars in network investment will be required to support the NEMs transforming generator fleet. Current arrangements seek to ensure network investment is prudent and efficient through a cost benefit test known as the Regulatory Investment Test for Transmission (RIT-T). Investments that pass the test can be built and expenditure enters the regulatory asset base (RAB) of the relevant Transmission Network Service Provider.

As stated in the AEMC Options Paper (Summary, para 3):

*The transforming generator fleet has implications for how to coordinate investment in transmission infrastructure with that of generators so that reliable, secure outcomes that are in the long-term interests of consumers are delivered by the National Electricity Market (NEM). Transmission assets can be very expensive, running into the billions of dollars. Once they are built, consumers pay for them for decades. The process for managing the risk that consumers pay for underutilised or inefficient investments must therefore be rigorous and transparent.*

The objective of the Consumer Challenge Panel (CCP) is to:

- advise the AER on whether the network businesses' proposals are in the long-term interests of consumers; and,
- advise the AER on the effectiveness of network businesses' engagement activities with their customers and how this is reflected in the development of their proposals.

CCP sub-panel 20 (CCP20) was convened in response to the AER's review of the Regulatory Investment Test Guidelines<sup>1</sup>. Our submissions to that project are also relevant to this review.

## Summary Discussion

CCP20 has consulted consumers and their representatives and participated in related forums in order to develop this and other, related submissions to the AER's RIT Guidelines Review. We are strongly of the view that the current RIT process is not broken and that the AER's current review of the RIT will further enhance the RIT process. In particular, opportunities for consumers and other stakeholders to engage and provide robust critique must be preserved and even enhanced.

Attached to this submission is a response to the RIT questions (Options Paper Chapter 5) in the AEMC stakeholder feedback template.

In the context of ISP projects, CCP20 is of the view that future iterations of the ISP could and should provide the evidence base to advance these projects through the existing RIT-T process. This maturing of the ISP (refined scenarios, greater sensitivity testing, greater

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<sup>1</sup> [www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-the-application-guidelines-for-the-regulatory-investment-tests-for-transmission-and-distribution](http://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-the-application-guidelines-for-the-regulatory-investment-tests-for-transmission-and-distribution)

stakeholder engagement etc) has, in our view, the greatest potential to reduce the time currently dedicated to developing scenarios and modelling options and, therefore, most likely to accelerate the cost-benefit testing of individual projects.

The recent *Review of the Regulatory Investment Test for Transmission (RIT-T)* by COAG Energy Council<sup>2</sup> found that the RIT-T remained the appropriate mechanism to ensure that new transmission infrastructure is built in the long term interests of consumers. However, the review identified a number of potential areas for improvement including in relation to the use of *option value*<sup>3</sup> in the assessment of alternatives. The review also recommended the further exploration of the merits of increasing the AER's level of oversight for the RIT-T process.

We are also of the view that the AER's role during the RIT-T process should be enhanced for, at least, ISP projects.

Based on our interaction with consumers and their representatives, a key set of unanswered questions exist around *who pays*. For example, cost allocation between regions for interconnector projects has been raised with us as a key issue. Further, the allocation of direct costs between stakeholders (not just consumers) has been raised with us repeatedly.

There is general acceptance that consumers should pay for well-utilised interconnectors and other transmission assets that deliver long-term benefits to consumers. However, the risk of inefficient network investments (in terms of either scale or timing) currently rests solely with consumers. The efficiency of these investments can be dependent on Government Policy as well as the final investment decisions of Generators. In our view, to advance the National Electricity Objective (NEO), this situation must be reformed before the impending wave of generation and network investment. Without the right incentives in place there is a strong chance of inefficient investment in terms of both scale and timing of network investment.

A final point is in relation to effective consumer and stakeholder engagement. CCP20 supported the use of existing AER Guidance for NSPs on Consumer Engagement rather than develop specific guidance for RIT processes. We are strongly of the view that this should extend to AEMO' engagement on the ISP. We can accept the limitations of the timeframes to develop the 2018 ISP but we see robust stakeholder engagement as fundamental to maturing the ISP over the coming years.

We would welcome the opportunity to discuss the issues raised in more detail.

## To conclude

Given the growing importance of inter-regional decisions under the ISP framework, including but not only interconnectors, our view is that the AEMC's Options 3 or 4 (or some blend of these two) represents an appropriate allocation of responsibilities between AEMO and the regional transmission companies.

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<sup>2</sup> 6 February 2017 at [www.coagenergycouncil.gov.au/publications/review-regulatory-investment-test-transmission-rit-t](http://www.coagenergycouncil.gov.au/publications/review-regulatory-investment-test-transmission-rit-t)

<sup>3</sup> AER Final RIT-T Guidelines – 29 June 2010 available from [www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/regulatory-investment-test-for-transmission-rit-t-and-application-guidelines-2010](http://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/regulatory-investment-test-for-transmission-rit-t-and-application-guidelines-2010) p36: "*Option value* refers to a benefit that results from retaining flexibility in a context in which certain actions are irreversible (sunk), and new information may arise in the future as to the payoff from taking a certain action."

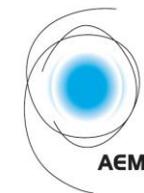
However, our response to the AEMC's paper is less focussed on selecting a preferred option and more focussed on the process elements of ensuring a transparent and robust cost-benefit analysis is undertaken for all projects identified within the ISP framework. This transparent and robust process also requires a more proactive, broadly based and open approach to consumer engagement than has been undertaken in many instances by AEMO and transmission companies to date.

### **Recommendations**

- a) A robust cost-benefit assessment of all ISP projects must be considered 'non-negotiable' in the options considered. In our view, the existing RIT-T can provide this.
- b) Evolve and mature the ISP through robust stakeholder engagement in order for it to become the evidence base used to assess individual projects through the existing RIT processes.
- c) Enhance the capacity for consumer engagement in these processes.

### **enclosure:**

Coordination of generation and transmission investment – options paper: stakeholder feedback template



## Coordination of generation and transmission investment – options paper: stakeholder feedback template

The template below has been developed to assist stakeholders in providing their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the options paper.

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 Contact name: Dr Andrew Nance  
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Questions		Feedback
<b>Chapter 4 – Making the ISP an actionable strategic plan</b>		
<b>Question 1: Questions arising from the ISP</b> - The paper considers a number of questions about the role and regulatory implications of the ISP, including the links between the ISP and transmission investment decisions.		
A)	Are there any questions about the role and regulatory implications of the ISP that are not set out in the options paper?	Will depend on the Option selected. It will be important that the regulatory obligations align with the relevant options and associated accountabilities and risks.
B)	Is our approach to making the ISP actionable (i.e. strengthening the link between the ISP and investment decisions) appropriate?	It is appropriate to limit the focus of the ISP to “strategic, national investments” (ie the interconnected national electricity system), with other investments within jurisdictions (e.g. Powering Sydney Future, Eyre Peninsula) planned under existing TNSP RIT-T regulatory arrangements. In particular, the current (and revised) RIT-T regulatory arrangements, require the TNSP proponent to consider the NEM wide implications of their proposal although these NEM wide implications may be secondary to the primary purpose of the jurisdictional project.

Questions		Feedback
		We agree, however, that further assessment of what counts as a 'strategic' investment is required and whose responsibility it is to identify this.
<b>Question 2: Interaction between the ISP and government policies</b>		
)	he ISP will necessarily have to take into account government environmental and industry policies in modelling ISP scenarios. Do stakeholders consider it would be helpful for the COAG Energy Council to provide formal advice to AEMO as to what government policies or scenarios should be modelled in the ISP?	Yes, formal advice would add to the transparency of the project. The formal advice should include the contribution that the Government intends to make to the project that in turn feeds into the cost/benefit analysis. The Council should provide formal advice on relevant national and jurisdictional policies.
)	Are there other ways in which government policies that impact on the NEM could be incorporated as modelled scenarios in the ISP?	It is important to clarify at what point a government's policy should be regarded as relevant inputs to the assessment. For instance, is it relevant only when legislated or at the policy announcement point of view. The scenario analysis should ideally include a 'with' and a 'without' the government proposal (taking account of potential subsidies).
<b>Question 3: "Strategic, national" investments and regional investments</b>		
)	It is proposed that the ISP only focusses on "strategic, national" investments. Do stakeholders consider this is appropriate?	See 1.B above
)	So, how could this threshold be defined, or what criteria could be used to define it?	See 1.B above.
<b>Question 4: Risk allocation</b>		
A)	he paper canvasses a number of options for making the ISP actionable. How may the existing risk allocation for consumers, TNSPs and generators change under the proposed options?	
)	What other regulatory changes may be required in order to mitigate against changes in the risk allocation?	CP20 is of the view that the AER's role <u>during</u> the RIT-T process should be enhanced for, at least, ISP projects. The role of the ISP and RIT-T in the triggers for any TNSP contingent projects should also be clarified and standardised.

Questions		Feedback
<b>Question 5: Level of consultation required under each of the options for how the ISP could be made actionable</b>		
a)	What do stakeholders think about the level of consultation that would be required under each of the options considered for how to make the ISP an actionable strategic plan?	
b)	Should there be more consultation for options that fall to the right-hand side of the table?	
<b>Question 6: Role of the ISP, option 1 – Requirement for TNSPs to consider ISP- identified needs in their TAPRs</b>		
a)	What are stakeholder views on this option for how to make the ISP an actionable strategic plan?	
b)	Would the effective delivery of this option have an impact on the speed with which “strategic, national” investments are made?	
c)	Are there any regulatory or other implications that are not raised in the discussion of this option?	
<b>Question 7: Role of the ISP, option 2 – Requirement for TNSPs to conduct RIT-T on ISP- identified needs and options</b>		
a)	What are stakeholder views on this option for how to make the ISP an actionable strategic plan?	
b)	Would the effective delivery of this option have an impact on the speed with which “strategic, national” investments are made?	
c)	Are there any regulatory or other implications that are not raised in the discussion of this option?	
<b>Question 8: Role of the ISP, option 3 – AEMO determines “best” option</b>		
a)	What are stakeholder views on this option for how to make the ISP an actionable strategic plan?	
b)	Would the effective delivery of this option have an impact on the speed with which “strategic, national” investments are made?	
c)	Are there any regulatory or other implications that are not raised in the discussion of this option?	
<b>Question 9: Role of the ISP, option 4 – AEMO directs TNSP to proceed with the “best” option</b>		

Questions		Feedback
a)	What are stakeholder views on this option for how to make the ISP an actionable strategic plan?	
b)	Would the effective delivery of this option have an impact on the speed with which “strategic, national” investments are made?	
c)	Are there any regulatory or other implications that are not raised in the discussion of this option?	
<b>Question 10: Role of the ISP, option 5 – AEMO directs TNSP to implement the investment</b>		
a)	What are stakeholder views on this option for how to make the ISP an actionable strategic plan?	
B)	Would the effective delivery of this option have an impact on the speed with which “strategic, national” investments are made?	
C)	Are there any regulatory or other implications that are not raised in the discussion of this option?	
<b>Question 11: Other options and considerations</b>		
A)	Are there other options to strengthen the link between the ISP and individual TNSP investments that are not raised here?	
B)	Are there any other matters that should be taken into account when considering options to strengthen the link between the ISP and TNSPs’ individual investments?	
<b>Chapter 5 – the regulatory investment test for transmission</b>		
<b>Question 12: RIT-T benefits</b>		
A)	Are there any additional benefit categories that should be considered in the RIT-T?	CCP20 has heard a number of stakeholders say that the RIT-T fails to recognise all the benefits of more interconnection. However, we have not identified any practical examples. In our view, the challenge is not the identification and estimation of greater benefits but reducing the cost of expanding transmission networks.
B)	Why have no network businesses sought approval from the AER for additional benefits to be considered in RIT-T assessments as allowed for under the current	

Questions		Feedback
	NER?	
<b>Question 13: Potential concerns with the RIT-T process</b>		
A)	What are stakeholder views on current limitations with the RIT-T process?	<p>CCP20 wishes to emphasise that the existing process is NOT broken. A key limitation of performing any effective cost-benefit test in a complex system such as the NEM is dealing with uncertainty. The test necessarily requires significant analysis and reliance on modelling tools.</p> <p>Specifically, in the context of interconnection, CCP20 has heard repeated references to TNSPs having “to conduct their own mini-ISP” to characterise the modelling required. We consider this to be a highly inefficient arrangement that does not necessarily have to continue.</p> <p>In the context of ISP projects, CCP20 is of the view that future iterations of the ISP could and should provide the evidence base to advance these projects through the RIT-T process as it stands. This has the potential to reduce the time currently dedicated to developing scenarios and modelling options.</p> <p>CCP20 is also of the view that the AER’s role <u>during</u> the RIT-T process should be enhanced for, at least, ISP projects.</p>
B)	Setting aside the ISP and how to make it more “actionable,” what other issues warrant attention when considering the objective of the RIT-T?	<p>Based on our interaction with consumers and their representatives, a key set of unanswered questions exist around <i>who pays</i>.</p> <p>Cost allocation between regions for interconnector projects has been identified as a key issue.</p> <p>Further, the allocation of direct costs between stakeholders</p>

Questions		Feedback
		<p>(not just consumers) has been raised with us repeatedly.</p> <p>There is general acceptance that consumers should pay for well-utilised interconnectors and other transmission assets. However, the risk of inefficient network investments (in terms of either scale or timing) rests solely with consumers. The efficiency of these investments is dependent on Government Policy and the final investment decisions of Generators. In our view, to advance the National Electricity Objective (NEO), this situation must be reformed before the impending wave of generation and network investment. Without the right incentives in place there is a strong chance of inefficient investment in terms of both scale and timing.</p>
C)	What changes may make the existing RIT-T process “faster”?	<p>As mentioned above, the maturing of the ISP (refined scenarios, greater sensitivity testing, greater stakeholder engagement etc) is, in our view, what is most likely to accelerate the cost-benefit testing of individual projects.</p> <p>Moreover, we strongly caution against any proposals to shorten the RIT-T process that reduce the opportunity for effective customer consultation and a robust cost-benefit analyses of the specific proposals identified under the ISP (or elsewhere). In this context CCP20 also notes the comment by the AEMC and others that delays in the process are more often caused by obtaining local government and environmental approval processes. Effective customer consultation during the ISP/RIT-T process may mitigate these factors to some extent.</p> <p>See also comments to next question</p>
D)	What is the role of a dispute process in the RIT-T? How could spurious disputes be minimised?	<p>The dispute process provides the first and only formal opportunity for consumers to engage the AER on a RIT-T</p>

Questions		Feedback
		<p>project. As such, the process is quite different than the AER's current process for approval of the TNSP's regulated revenues. CCP20 is of the view that the AER's role <u>during</u> the RIT-T process should be enhanced for, at least, ISP projects along with opportunities for greater consumer engagement. Consideration should be given to adopting a more 'propose-respond' model as is the case for expenditure proposals from TNSP during the regular 5-year revenue reset process.</p> <p>Based on some of the options being canvassed, the 'propose-respond' counterparties will likely be AEMO and the AER.</p> <p>The reference to 'spurious' disputes is unfortunate. There have only been two disputes raised under the current regulatory investment tests and both related to Distribution projects. By far the greater risks for dispute arise during the local government and environmental approval processes and these may be more effectively addressed if appropriate consultation is undertaken during the ISP/RIT process (see above)</p> <p>In summary, CCP20 strongly supports a robust dispute process and advocates for genuine stakeholder engagement during the process in order to minimise the potential for disputes.</p>
<b>Chapter 6 – Renewable Energy Zones</b>		
<b>Question 14: REZ options – enhanced information provision</b>		
A)	Do stakeholders agree with our conclusions for how this model can occur under current regulatory arrangements?	
B)	Do stakeholders agree with our assessment of whether this REZ model is consistent with the options discussed for making the ISP actionable? What other considerations	

Questions		Feedback
	should be taken into account?	
<b>Question 15: REZ options – generator coordination</b>		
A)	Do stakeholders agree with our conclusions for how this model can occur under current regulatory arrangements?	
B)	Do stakeholders agree with our assessment of whether this REZ model is consistent with the options discussed for making the ISP actionable? What other considerations should be taken into account?	
<b>Question 16: REZ options – TNSP speculative investment</b>		
A)	Do stakeholders agree with our conclusions for how this model can occur under current regulatory arrangements?	
B)	Do stakeholders agree with our assessment of whether this REZ model is consistent with the options discussed for making the ISP actionable? What other considerations should be taken into account?	
<b>Question 17: REZ options – TNSP prescribed services</b>		
A)	Do stakeholders agree with our conclusions for how this model can occur under current regulatory arrangements?	
B)	Do stakeholders agree with our assessment of whether this REZ model is consistent with the options discussed for making the ISP actionable? What other considerations should be taken into account?	
<b>Question 18: REZ options – clustering</b>		
A)	Do stakeholders agree with our conclusions for how this model can occur under current regulatory arrangements?	

Questions		Feedback
B)	Do stakeholders agree with our assessment of whether this REZ model is consistent with the options discussed for making the ISP actionable? What other considerations should be taken into account?	
<b>Question 19: REZs and access</b>		
	Do stakeholders agree with our conclusion about the types of REZ models that are feasible under the current transmission access framework?	
<b>Chapter 7 – Congestion and access</b>		
<b>Question 20: Conclusion on need to consider access issues</b>		
	Do stakeholders agree with the Commission's conclusion in this Chapter that access and congestion management issues are likely to need to be addressed in the near term, once the role of the ISP has been addressed?	<p>CCP20 is strongly of the view that the current 100% allocation to consumers of the risk of inefficient network investment is inconsistent with advancing the NEO. Economic efficiency could and should be enhanced by allocating some risk to Generators.</p> <p>The message we have received from consumers and their advocates is that congestion and access should be addressed as part of this review and not relegated to a later stage. The issues have been canvassed for a long time and progress needs to be made now, before the impending wave of investment.</p> <p>Further, we have heard from project developers that the risk of a declining Marginal Loss Factor (MLF) is a key concern for investors. We have also heard positive interest in a number of options that could allow Generators to manage this risk – to the benefit of consumers as well as the developers. Developers are obviously hopeful of regulated funding for as much of their network needs as possible but a clear framework that allows the developers to signal their</p>

Questions		Feedback
		<p>locational preferences and have some 'skin in the game' has to be preferable to proceeding based on 'hope'.</p> <p>In our view, this is relevant to the interconnector projects identified in the ISP as well as in advancing the REZs and therefore should not be delayed to a later stage of ISP implementation.</p>
<b>Chapter 8 – Treatment of storage</b>		
<b>Question 21: Storage and TUOS</b>		
	Do stakeholders agree with the way the Commission has framed the issue of whether or not storage should pay transmission use of system charges?	
<b>Question 22: Storage and TUOS - current arrangements</b>		
	Do stakeholders have any comments on the Commission's initial views on storage and transmission charges? Are there any other arguments that are not discussed?	
<b>Question 23: Storage and TUOS - considering changing existing arrangements</b>		
	Are there any matters the Commission hasn't discussed that should be addressed if a change to the existing arrangements for transmission charging for storage is considered?	
<b>Question 24: Storage and TUOS - additional considerations</b>		
	When considering the approach to the recovery of transmission charges, are there any additional factors worthy of consideration that the Commission has not listed?	