



**EnergyAustralia**

LIGHT THE WAY

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Dear Commissioners,

### **EPR0052 - Coordination of Generation and Transmission Investment – Options Paper**

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We welcome the opportunity to comment on the AEMC's consultation paper on the *Coordination of Generation and Transmission Investment Options Paper*.

#### **Making the ISP 'actionable'**

The AEMC has outlined the steps taken during a transmission network investment decision making process and presented five options on which to base a regulatory framework. Each option is distinguished by the degree of oversight AEMO has, relative to the transmission network service provider (TNSP), in undertaking each stage.

Any regulatory framework needs to be able to find the balance between ensuring customers are not paying more than they need to in the short-term and ensuring sustainable investment in infrastructure to deliver a reliable and secure electricity supply. EnergyAustralia encourages the AEMC in its advice to the Energy Security Board (ESB) that in assessing if a new regulatory framework is required, and determining which parties should take responsibility, to consider the following key principles:

- It is imperative to consider what will deliver the best outcomes for customers; customers should not underwrite investments that have high risk for capital recovery.
- Investment risk should be allocated to those best able to manage it.

- Alternative approaches to network investment, for example demand response or generation, should be thoroughly considered.
- The framework should include a robust cost benefit analysis of proposed investment that is reviewed by the AER.
- Market participants that have invested in good faith and have limited flexibility in the operation of their assets should not be penalised by any future changes to the investment framework.

We note that under the current regulatory framework, the ISP is already actionable. The regulatory investment test for transmission (RIT-T) allows network businesses to undertake a cost benefit analysis of any investment suggested in the ISP.

### **RIT-T process**

A core component of the regulatory framework is the net present value (NPV) analysis currently conducted under the RIT-T process.

This is a rigorous process that assesses the NPV of various investment options against the range of plausible scenarios. Projects found to maximise the present value of net economic benefits under the majority, or most likely, scenarios are considered preferred options and may proceed to development. This process is critical in reducing the likelihood that customers pay for unnecessary investment by creating confidence that the investment is likely to have a net positive economic benefit for customers.

There is rarely a singular 'best option' for network development. It is therefore imperative to follow a rigorous process of assessing the multiple options, under a range of scenarios, to select an option that offers the highest net economic benefit. All the stages in the current RIT-T process are required, as found by the recent COAG review of the RIT-T, and while processes could be streamlined, stages should not be removed or compromised. Transmission investments are significant that are paid over decades, based on current market conditions and expectations. Investment decisions should not be taken lightly.

The AEMC has outlined several issues that have been raised by stakeholders with the current RIT-T process. Our response to these is provided below.

1. *The RIT-T does not consider all market benefits*

The AEMC has identified that the AER has the powers to approve the inclusion of other benefits that are identified by the proponent. Further, it is anticipated that under the AER's revised RIT-T Application Guidelines<sup>1</sup>, it will be possible to seek external funding to cover the cost of achieving benefits that are not attributable to electricity customers, such as government policy objectives. Therefore, we consider that there is currently scope within the RIT-T process to consider wider benefits.

2. *Vexatious disputes can serve to delay the RIT-T process*

We suggest that a more transparent consultation process could be effective at

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

mitigating such disputes. We support the draft RIT-T Application Guidelines which will require network businesses to provide greater transparency by publishing stakeholder submissions and providing a response to the issues that are raised by stakeholders.

3. *The RIT-T process takes too long*

It should be clear that long lead times for investment decisions are not inherently an undesirable outcome. Transmission investment is significant and robust analysis is required to ensure investment decisions are reasonable and in the best interests of customers. We would caution the AEMC from recommending any changes to the regulatory framework to 'fast track' the cost benefit analysis which would reduce the rigour of the analysis. For example, reducing the number of scenarios which are foundational to the credibility of the analysis. Instead we suggest the AEMC identify how to streamline the processes.

We consider there is some merit to a shortened consultation requirement, if network businesses could adopt the ISP assumptions and incorporate this into their market analysis. This could minimise the re-work done by network businesses and create consistency in the analysis of different projects and reduce total consultation time. However, this approach would only be appropriate if greater industry consultation was conducted on the ISP.

## **ISP consultation**

Regardless of which regulatory framework option is progressed for further analysis, and possibly implementation, it is imperative that broader consultation is conducted on the ISP.

We recognise that there was a short timeframe to produce the 2018 ISP, but we would expect that for future iterations AEMO would conduct more comprehensive consultation with stakeholders. This should include consultation on inputs, assumptions, methodology, scenarios and draft results, with oversight by the AER.

If the ISP is to be considered more explicitly within the RIT-T process, greater transparency will be required to ensure analysis is robust and acceptable to consumers.

At a minimum, AEMO should consult on and publish:

- Forecast regional wholesale prices, large-scale generation certificate prices, gas prices and duration curves. These are particularly critical inputs in the modelling processes and should be transparent.
- Estimated marginal loss factors and impacts of investments on notable inter-regional losses for the forecast period.
- Reliability indices showing the impact on reliability standards for customers under different generation and transmission investment scenarios.
- Publish impacts of the TNSP Network Capability Incentive Parameter Action Plan investment programs.

- Clearly articulate and consult on calculations and use of long-run marginal costs for plants and assumed generator closure dates.

Further, in utilising the forecast projections of generation in the ISP, AEMO or the TNSP should consider the commercial realities of generators. Currently, the approach does not sufficiently capture the economic operation of a generator under the outlined base case scenario. For example, the current modelling approach does not account for the significant reduction in load factors that a dispatchable plant could face. It in fact assumes that thermal generation will remain in the market until its technical life is reached, regardless of the commercial outcomes.

Additionally, the ISP should consider the potential reduction in available hedging products made available by generators as dispatchable plant is displaced. While new interconnectors would provide greater access to lower priced generation from other states, interconnectors do not create any additional firm generation capacity. By only considering spot market prices and a centralised planning approach to the generation portfolio, the ISP outlines a base case scenario for the development of the NEM that may not be realistic and sensible for use as the basis of making transmission investment decisions.

Given the shortened consultation on the 2018 Integrated System Plan (ISP), it should not be considered as indicative of the roadmap for the future. Rather, we see it as a starting point for discussion and analysis. For the ISP to be considered an 'actionable' report from which to base investment decisions, greater transparency and engagement with stakeholders will be required. This will ensure economically efficient decisions are made and that customers will not pay more than need to.

## **Conclusion**

As outlined above, it is critical that any changes to the framework governing regulated network investment retains a rigorous scenario based net present value economic analysis. Any efforts to shorten the timeframes for consultation must ensure that the integrity of assessing large investment projects is retained to protect customers from bearing the costs of speculative or unnecessary investment. As the changes to the regulatory framework could be significant, we would expect to have opportunities for further consultation with the ESB and AEMC throughout the design process.

If you would like to discuss this submission, please contact Georgina Snelling on 03 8628 1126 or [Georgina.Snelling@energyaustralia.com.au](mailto:Georgina.Snelling@energyaustralia.com.au).

Regards

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