



OFFICE OF THE CHIEF EXECUTIVE

Objective Ref: A3082943

21 February 2019

Suzanne Falvi  
Executive General Manager, Security and Reliability  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Attention: Elizabeth Bowron

Dear Suzanne

#### **REFERENCE – ERC0258**

#### **National Electricity Amendment (Early Implementation of ISP Priority Projects) Rule 2019**

Powerlink Queensland (Powerlink) welcomes the opportunity to respond to the AEMC's Consultation Paper on the Early Implementation of Integrated System Plan (ISP) Priority Projects Rule change proposal from the Energy Security Board (ESB). AEMO has identified these projects for immediate action as they are expected to deliver market benefits and are time critical.

#### **Summary**

Powerlink supports the Energy Security Board's (ESB's) proposed Rule change which seeks to streamline regulatory processes for two priority projects (upgrades to the Queensland New South Wales interconnector and Victoria New South Wales interconnector) identified by Australian Energy Market Operator (AEMO) in the 2018 ISP. However, Powerlink requests further clarification from the AEMC in relation to: the definition of an ISP project, activation of the QNI contingent project, the recovery of early works expenditure and the timing of the revenue recovery application to the AER. These are explained further below.

In addition, Powerlink considers the Australian Energy Market Commission's (AEMC's) intention to consider the Rule change under its expedited arrangements is appropriate given AEMO's timing for corrective action.

#### **Purpose of Rule Change**

The ESB's Rule change proposal seeks to run three existing Australian Energy Regulatory (AER) regulatory processes concurrently rather than sequentially to meet as far as reasonably practical the anticipated retirement of the Liddell generator in NSW. These include:

- resolution of any dispute raised on application of the Regulatory Investment Test for Transmission (RIT-T) to address the identified need;
- a determination that the preferred option identified through the RIT-T satisfies the test; and
- amendment of relevant TNSP revenue determinations for a contingent project.

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Importantly, the ESB does not propose any changes to the RIT-T process itself. Given that customers will ultimately pay for any investment that may result from the RIT-T, the process will continue to ensure that any potential investments are subject to a thorough and transparent assessment that clearly demonstrates the investment will provide market benefits, that customers have the opportunity to provide input throughout the process and that appropriate safeguards remain in place. This includes the opportunity to raise a dispute if there are concerns about how the RIT-T has been applied.

### Powerlink Queries

Notwithstanding its support for the ESB's proposed Rule change, Powerlink has a number of queries about how any associated QNI works would be given practical effect under the regulatory arrangements. Within this context, Powerlink requests that the AEMC clarify its position in relation to the following queries on this matter:

- *ISP Project Definition* - whether Powerlink's contingent project for QNI allowed in its 2017 Transmission Determination for the 2018-22 regulatory period should also be referenced under the definition of an ISP priority project under the Rule. This is to make it clear that works may also be required to be undertaken in Queensland and not just by TransGrid in New South Wales;
- *Activation of QNI Contingent Project* - that a relevant contingent project allowed in a regulatory determination can only be activated *once* under the Rules even if necessary upgrade works are carried out in stages, as would potentially be the case for QNI. If this is the case, Powerlink will need to work with the AER to determine an appropriate way forward;
- *Recovery of Early Works Expenditure* - that prudent early works (such as the procurement of major plant items) associated with the QNI contingent project to meet the required timeframe can be recovered under the regulatory framework. It is noted that the ESB intends to explore setting up a fund that could be used to underwrite expenditures on Group 1 ISP projects that are time critical, such as a potential QNI upgrade. However, while the ESB is expected to provide a report to the COAG Energy Council by mid-2019, these changes may not be implemented in time for the potential QNI upgrades; and
- *Timing of Revenue Recovery Application to AER* – whether the requirement to lodge contingent project applications to the AER within 90-business days before the end of a regulatory period is required. Powerlink understands that this requirement was originally put in the Rules to allow the AER to consider the application and to provide TNSPs sufficient time to factor the costs of contingent project works into prescribed transmission prices for the following financial year. As the AEMC is aware, the Rules were amended in 2014 to require TNSPs to publish their prices for the next financial year by 15 March each year. As a result, this restriction is no longer relevant.

In addition, the timing for publication of the two remaining reports under the RIT-T for the QNI potential upgrade assessment (Expanding NSW-QLD Transmission Transfer Capacity) may not precisely align to enable TransGrid and/or Powerlink to lodge contingent project applications with the AER outside the 90-business day timeframe.

Powerlink also understands that any additional capital or operating expenditure associated with an approved contingent project will be taken into account in the AER's capital expenditure efficiency scheme (CESS) and efficiency benefit sharing scheme for operating expenditure (EBSS). In other words, the capex and opex targets will be adjusted accordingly. However, it appears that any costs incurred that relate to the contingent project that do not meet the relevant capital expenditure threshold under the Rules (ie. \$30 million or 5% of the maximum allowed revenue in the first year of the regulatory period) would not be excluded from the incentive schemes. This may well be the

case where Powerlink incurs additional costs (capex or opex) to perform contingent project works in Queensland. In effect, Powerlink could potentially be penalised initially through incurring additional capex and opex not allowed for in the AER's 2017 regulatory determination, but again under the incentive schemes. Powerlink has also raised this matter with the AER.

Powerlink also considers that many of the queries raised above may apply to other TNSPs in the context of their upcoming RIT-Ts and regulatory approvals associated with other priority projects identified in the ISP.

### **Regulatory Investment Test for Transmission**

The RIT-T is an important cost benefit analysis process under the Rules which is designed to support the planning and investment making decisions of TNSPs.

TransGrid and Powerlink commenced the RIT-T process in November 2018 with publication of the first stage document, the Project Specification Consultation Report (PSCR). The PSCR investigates and compares a range of options to expend transfer capacity on QNI including projects already identified in the 2018 ISP. It also sets out the requirements for any non-network solutions to address the need and calls for parties who may be able to provide these services to come forward with potential options. TransGrid and held a webinar on 7 February 2019 to provide further information on the PSCR options and to seek input and feedback.

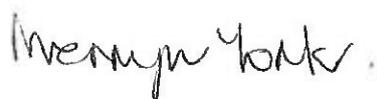
TransGrid and Powerlink have also published an accompanying input and methodology Consultation Paper and assumptions workbook which provides more detail on the modelling approach and parameters to be adopted in the quantitative RIT-T analysis. Feedback has also been sought on the proposed quantitative modelling.

The timeframe for the close of submissions on the PSCR and input and methodology paper is 22 February. This feedback will inform the analysis and preparations which underpin the second stage of the RIT-T process, the Project Assessment Draft Report (PADR).

Powerlink will continue to work with TransGrid (in the case of QNI), AEMO, its customers and other relevant stakeholders to play its part in the delivery of network infrastructure to meet whole of system requirements and to support economic growth that is safe, cost-effective, reliable and at the lowest long-run cost to customers.

If you have any questions in relation to this submission, please contact Jennifer Harris.

Yours sincerely



Merryn York  
**CHIEF EXECUTIVE**

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