

21/02/2019

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Lodged online via: www.aemc.gov.au

Dear John,

Early implementation of Integrated System Plan priority projects rule change request

TransGrid welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) consultation paper on the early implementation of Integrated System Plan (ISP) priority projects rule change request submitted by Dr Kerry Schott AO, Chair of the Energy Security Board.

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, 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.

TransGrid understands that this rule change request seeks to streamline regulatory processes that occur after a regulatory investment test for transmission (RIT-T) has been undertaken for two priority projects identified in the Australian Energy Market Operator's (AEMO's) 2018 ISP, the projects being: to increase capacity between NSW and Queensland (minor upgrade to QNI); and to increase capacity between NSW and Victoria (minor upgrade to VNI).¹

We note that the Energy Security Board considers it is important that the QNI and VNI projects are able to be commissioned well before the likely retirement of the Liddell power station in NSW in 2022. In order to meet this timeframe, the Energy Security Board has proposed in this rule change request to allow the three post RIT-T processes to be run concurrently rather than sequentially as would normally be the case.

We also note that the Energy Security Board has recently submitted a similar rule change request to streamline the regulatory processes (that occur after a RIT-T) for a new interconnector between South Australia and NSW as proposed in AEMO's 2018 ISP.

¹ The regulatory processes that occur after a RIT-T that the rule change request seeks to streamline are: the period for notification of disputes in relation to the RIT-T, the AER's process for determining whether the preferred option satisfies the RIT-T, and the application by a TNSP of an amendment to its revenue determination in relation to a contingent project.

TransGrid supports the intent of the proposed rule change

TransGrid supports the the rule change request as we consider it would:

- provide the potential for a reduction in the overall timeframe for regulatory approval processes that occur after RIT-Ts for the VNI and QNI minor upgrade projects, and
- provide certainty to the market about the status of these projects sooner.

However, we note that the time taken for these regulatory processes may be longer if a dispute were to be raised to the current RIT-T processes.

We also note that policy and regulatory certainty is an important factor in the consideration of investment by shareholders. Therefore, TransGrid urges policymakers and regulators to consider the broader context of their decisions, including the cumulative effect of policy and regulatory interventions (such as the removal of merits review, lowering the rate of return and potential for stranded asset risk) on transmission investment. Such interventions have the potential to undermine efficient transmission investment and the benefits it brings to consumers.

The following sections set out some more specific issues.

The AEMC should remove NER clause 6A.8.2(b)(1) for contingent projects

We understand that the AEMC has recently received another rule change request from Dr Kerry Schott AO relating to the application period for contingent project revenue. This rule change request seeks to remove NER clause 6A.8.2(b)(1) (the requirement that a Transmission Network Service Provider cannot submit a contingent project application during 90 business days ahead of the end of the regulatory year), as well as the equivalent clause in distribution. We are supportive of this proposed rule change as it would help reduce the potential for any unnecessary delay to the commencement of a revenue determination process for contingent projects, including for the QNI and VNI projects.

A regulatory issue could delay the second QNI upgrade project identified in AEMO's 2018 ISP

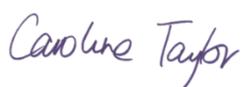
TransGrid notes that there are two QNI upgrade projects in AEMO's 2018 ISP but only one contingent project for upgrading QNI in TransGrid's current revenue determination. The contingent project in TransGrid's revenue determination is broad enough to cover both QNI upgrade projects in the ISP. However, it would be beneficial to have clarity that TransGrid could apply for an amended revenue determination for the second project even if it has applied to the AER for an amended revenue determination for the first project. If not addressed, this could delay the assessment and delivery of the second QNI project should it arise. We understand that the Australian Energy Regulator (AER) is aware of this issue and is looking at ways to address this issue for the QNI upgrade and other contingent projects should it arise.

TransGrid will work with the AER to clarify how any incentive schemes that apply to it may need to be adjusted in an amendment to a revenue determination for a contingent project

In making an amendment to a revenue determination for a contingent project, consideration may need to be given to how any incentive schemes that apply to TransGrid may need to be adjusted. We understand that the AER is aware of this issue and TransGrid will endeavour to work with the AER to resolve this issue should it arise.

We appreciate the opportunity to comment on the early implementation of ISP priority projects rule change request. If you would like to discuss our submission, please contact Neil Howes, Acting Head of Public Policy on 02 9284 3748.

Yours faithfully



Caroline Taylor
Acting Executive Manager, Policy and Corporate Affairs