



ERM Power Limited
Level 3, 90 Collins Street
Melbourne VIC 3000
ABN 28 122 259 223

+61 3 9214 9333
ermpower.com.au

Thursday, 21 February 2019

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Bowron

RE: National Electricity Amendment (Early Implementation of ISP Priority Projects) Rule 2019

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the National Electricity Amendment (Early Implementation of ISP Priority Projects) Rule 2019. This Rule seeks, for the Queensland-New South Wales interconnector (QNI) and the Victoria-New South Wales interconnector (VNI) minor upgrade projects, to conduct certain regulatory processes concurrently, after the completion of the relevant regulatory investment tests for transmission (RIT-T).

About ERM Power

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹, with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland.

www.ermpower.com.au

General comments

The National Electricity Market (NEM) is in a state of rapid transition. The speed at which asynchronous generators entering the market can obtain planning approvals, complete construction and commence commissioning is creating new requirements for the planning and operation of the NEM. In 2018, the Australian Energy Market Operator (AEMO) released its strategic infrastructure development plan, the Integrated System Plan (ISP), to manage and accommodate the changing generation profile in the NEM. While still in a stage of development, the ISP intends to deliver reliable and cost-effective energy to consumers through immediate, mid- and long-term strategic investments. In the immediate term, it proposes to address the issue of reduced network transfer capacity across the Queensland-New South Wales and Victoria-New South Wales interconnectors as soon as practicable.

ERM Power supports this rule change to expedite specified regulatory processes after the completion of the VNI and QNI RIT-Ts on the basis that:

- the rule change only applies to the QNI and VNI minor upgrade projects as currently specified in the relevant Project Specification Consultation Report (PSCR)s

¹ Based on ERM Power analysis of latest published financial information.



- efforts to accelerate RIT-T and associated processes do not outweigh the need for a carefully considered approach to coordinated investment in transmission
- the integrity, robustness and rigour of the current RIT-T framework is not compromised in future

VNI and QNI Project Specification Consultation Report (PSCR)s

ERM Power supports the strategic implementation of the minor Priority 1 VNI and QNI projects identified in the 2018 ISP, demonstrated through our active engagement with transmission network service providers (TNSPs) through the QNI and VNI transmission transfer capacity consultation projects. We emphasise that initiatives to accelerate the deliberation of group 1 recommendations of the 2018 ISP, namely the near-term construction of transmission assets to maximise economic use of existing resources, should be explored. However, our support is qualified on the condition that this rule change firstly, applies only to the minor augmentation works as detailed in the QNI and VNI PSCRs, and secondly, on the basis that these projects are successful in passing a detailed RIT-T assessment. Current processes must be maintained to ensure the need for coordinated investment in generation and transmission does not overextend to impact the rigour and due process of current regulatory processes.

Maintenance of RIT-T processes

The current RIT-T process ensures that the regulated investment in transmission only occurs when there is a demonstrated net market benefit, and ensures that allocation of costs for the regulated investment is efficient and fair. ERM Power believes that in general, the RIT-T process has performed well to ensure the best interests of the NEM are maintained. Nonetheless, the RIT-T process should be improved by addressing the current RIT-T process whereby proponents of the network augmentations are undertaking the benefit modelling analysis. We believe use of modelling services independent of the proponents and coordinated by the Australian Energy Regulator would be a beneficial change to the RIT-T.

ERM Power recommends that although this rule change does not alter or impact the RIT-T framework, any subsequent changes to the National Electricity Rules (NER) or regulation must not compromise the integrity or rigour of the current RIT-T process. This is essential for ensuring that cost allocation associated with investment risk for new transmission infrastructure does not burden consumers.

Coordinated investment in generation and transmission

This rule change is part of a broader strategic effort to improve coordination of generation and transmission investment. The Australian Energy Market Commission (AEMC)'s Coordination of Generation and Transmission Investment Review final report supports actioning the ISP and proposes amendments to AEMO's ISP to improve its transparency and consultation processes to make the ISP an actionable report. Once implemented, these changes should improve the ISP and assist with the efficient progression of associated changes to the NER.

We welcome acceleration of existing regulatory processes so long as the integrity of the process remains. ERM Power reiterates that the provision of and improvement to the accuracy and transparency of information to the market regarding connection capability and connection impacts on network congestion² remains the key issue to be addressed and will enable efficient transmission investment. It is important that the drive for accelerated investment does not lead to outcomes that fail to consider the broader need for improvements to current connection frameworks.

² As detailed in ERM Power's submission to the Coordination of Generation and Transmission Investment review



Conclusion

Although this is a simple rule change focused on streamlining processes after a TNSP has completed a RIT-T with a demonstrated net market benefit, it represents a broader industry focus on the efficacy of frameworks for transmission infrastructure investment. ERM Power is supportive of this rule change to accelerate regulatory processes after the completion of the RIT-Ts for the VNI and QNI projects, on the qualification that it does not impact the efficacy of the established RIT-T process and framework.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

Emma White

Policy Adviser

(03) 9214 9347 – ewhite@ermpower.com.au