



Early implementation of ISP priority projects

Final determination and rule published

The Australian Energy Market Commission (AEMC) has made a final rule to streamline post regulatory investment test for transmission (RIT-T) regulatory processes for three projects identified by the Australian Energy Market Operator (AEMO) in its inaugural Integrated System Plan (ISP): upgrades to QNI and VNI, and the proposed interconnector between South Australia and New South Wales – Project EnergyConnect.

ISP projects

The inaugural ISP, published in July 2018, forecasts where and when network investment needs to happen to support the large amount of new generation connecting to the grid in the coming years. The priority projects detailed in the ISP are those that AEMO considers should be progressed as soon as possible because they provide immediate benefits to the national electricity market (group 1 projects). The group 2 investment projects are of a larger scale and cost than those in group 1. The ISP states that they require longer lead times to design and develop, but provide larger benefits if they have timely implementation. The final rule impacts the post RIT-T regulatory process for the following ISP projects:

- A minor upgrade to the transfer capacity of the QLD-NSW interconnector (QNI) - ISP group 1 project
- A minor upgrade to the transfer capacity of the VIC-NSW interconnector (VNI) - ISP group 1 project
- A proposed new interconnector (known as “Project EnergyConnect”) between South Australia and New South Wales - ISP group 2 project

The final rule

After a transmission network service provider(s) (TNSP) has completed a RIT-T, but before the relevant network business is entitled to earn revenue that reflects the efficient cost of the investment, the National Electricity Rules (NER) provide for three processes to occur:

1. a dispute resolution process
2. a preferred option assessment process, and
3. where the RIT-T project is a contingent project, a contingent project assessment process to determine the revenue adjustment required to reflect the efficient costs associated with the contingent project.

The final rule made by the Commission may reduce the time taken to complete these regulatory processes for each of the three ISP projects listed above. The final rule applies to specific contingent projects identified in the relevant TNSPs’ revenue determinations – the rule does not apply to specific ISP projects nor to credible options being considered in the RIT-Ts. The rule will come into effect on 11 April 2019.

For the relevant RIT-Ts covering the VNI and QNI upgrade projects -

The final rule allows the relevant TNSPs to submit a request for a RIT-T preferred option assessment while the 30 day dispute notification period is still running. The AER cannot make a determination on a preferred option if a dispute is raised and has not been resolved.

In order for the relevant TNSPs to be able to submit the preferred option assessment

request early, the RIT-T preferred option needs to fall within the definition of the QNI and VNI contingent projects identified in the relevant TNSPs' revenue determinations.

For the relevant contingent projects covering the VNI and QNI upgrades and Project EnergyConnect -

The final rule allows the relevant TNSPs to submit an application for a contingent project revenue adjustment before the AER has made a RIT-T preferred option determination. The AER cannot make its revenue decision before the preferred option determination is made.

In order for the relevant TNSPs to be able to submit the contingent project application early, the application needs to cover the QNI, VNI and South Australia-New South Wales interconnector contingent projects identified in the relevant TNSPs' revenue determinations.

The contingent projects that would cover minor upgrades to QNI and VNI allow for larger upgrades than what AEMO described as group 1 projects in the ISP, and as such the final rule could result in the regulatory streamlining described above applying to larger upgrades depending on what is found to be most efficient through the relevant RIT-Ts.

The final rule does not allow the AER to complete a step before the previous step has also been completed. It only allows a step to be commenced before the previous step has been completed. The final rule does not remove or change any of the regulatory steps for these projects other than to allow them to run concurrently.

Background

The rule change request

On 21 December 2018, the AEMC received a rule change request from Dr Kerry Schott AO, Chair of the Energy Security Board, that sought to streamline three post RIT-T regulatory processes for minor upgrades to QNI and VNI, identified as group 1 projects in the ISP (*Early implementation of ISP priority projects* rule change request). On 7 February 2019, the AEMC received an additional rule change request from Dr Kerry Schott AO that sought to streamline two post RIT-T regulatory processes for Project EnergyConnect, identified as a group 2 project in the ISP (*ISP priority projects – SA Energy Transformation* rule change request).

The Commission consolidated these two rule change requests because they both sought to enable processes that are undertaken after a RIT-T has been completed to be done concurrently, rather than one after the other.

Energy Security Board's December 2018 report to the COAG Energy Council

At the COAG Energy Council meeting on 10 August 2018, the Energy Security Board was requested to report in December 2018 on:

- how the group 1 projects in the ISP could be delivered as soon as practicable
- how group 2 and 3 projects should be progressed
- how the ISP would be converted into an actionable strategic plan

On 19 December 2018, the Energy Security Board provided a report to the COAG Energy Council outlining how the points listed above should be addressed. Responding to the report, the COAG Energy Council agreed to a recommendation made by the Energy Security Board that a rule change request be progressed to allow the AER to undertake post RIT-T regulatory processes concurrently for the QNI and VNI minor upgrades identified as group 1 projects in the ISP, reducing the time it would take to implement them.

Also at the COAG Energy Council meeting on 19 December 2018, Ministers tasked the Energy Security Board to consider how these reforms could be applied to other priority projects such as Project EnergyConnect.

The final rule is made in the context of the COAG Energy Council's broader work program to convert the ISP into an actionable strategic plan, which is being progressed by the Energy Security Board.

Coordination of generation and transmission investment

The final rule completes stage one (implement reforms that are necessary to advance ISP group 1 projects) of the reforms to the transmission framework that the Commission recommended in the final report published as part of the *Coordination of generation and transmission investment* review. The Commission has commenced work to progress the other recommendations it made in the final report to better coordinate investment in transmission infrastructure and new generation through the *Coordination of generation and transmission investment implementation - access and charging* review. This work is focused on examining how the risk of transmission investment can be more appropriately placed with market participants, rather than consumers, through reforms to current transmission access and charging arrangements in the national electricity market.

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