

Response to AEMC Scoping Paper

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1. Purpose

The AEMC published a scoping paper on 3 August describing the issues relevant to the scope and conduct of its review into the development of a detailed implementation plan for the enhanced national transmission planning function announced by the Council of Australian Governments (COAG).

The review considers three principal tasks:

- Development of an implementation plan for the national transmission planning function;
- Consideration of the case for simultaneous reviews and determinations of TNSP revenues;
- Development of a revised network planning and consultation process to replace the regulatory test.

Section 2 of this paper records the main issues identified by the AEMC in the scoping paper and provides NEMMCO's response to each issue. Specific issues raised by the commission appear in bold italics followed by NEMMCO's response.

2. Issues for consultation

The Commission is seeking general comments on the issues identified by COAG, the approach to assessing the enhanced arrangements for network planning against the NEM objective, and the basis for identifying and selecting between options for the implementation of those enhanced arrangements.

NEMMCO's response to this issue:

NEMMCO agrees that meeting the NEM objective must be the cornerstone criteria in determining enhanced arrangements for national transmission planning.

However, NEMMCO suggests that the AEMC's commentary under Section 5 of their report could be interpreted too strictly in the terms of what may or may not be acceptable in any new, enhanced arrangements. For example:

- The scope of the review should recognise that the national transmission planning arrangements may need to accommodate consolidating functions of some existing TNSPs and JPBs within AEMO¹ should the relevant Jurisdictions desire this outcome;
- The statements "There is to be no change to TNSP accountability for transmission investment operation and performance" and "...while the AER may have regard to the NTNDP...it will not be bound,... when making is revenue determination," are too limiting. There may well be enhanced arrangements which streamline the AER's revenue determination processes and the TNSPs investment approval processes by recognising the consultation and assessment already performed in developing the National Transmission Network Development Plan (NTNDP). The scope of the review should consider

¹ Referred to as NEMO in the COAG communiqué.

alternative arrangements which are consistent with the objectives announced by COAG.

2.1 Development National Transmission Planning Function

The scoping paper identifies five issues regarding the development of the implementation plan for the national transmission planning function. Each is considered in turn to develop suggested feedback.

The Commission is seeking respondents' views on the appropriate governance, consultation and communication arrangements for the new National Transmission Planner.

NEMMCO's response to this issue:

It is difficult to comment effectively on this question without first having a clear idea of the scope and contents of the National Transmission Network Development Plan (NTNDP) and the end-to-end national transmission planning process. There would be value in developing one or more detailed process descriptions to enable consideration of the appropriate consultation, communication and governance arrangements.

The accompanying paper "National Transmission Planner – Issues Paper" prepared by NEMMCO is based on its NEM transmission planning experience and provides worthwhile background and insight into this question.

Specifically the NEMMCO paper presents:

- a description of the workings of the existing NEM transmission processes (including governance, consultation and communications processes);
- NEMMCO's views on the pros and cons of the existing processes and identifies potential opportunities for improvement; and
- a potential national transmission planning process (including governance, consultation and communications processes).

This potential option can be used as a starting point to compare the relative merits of other options which may emerge from the AEMC's processes.

Any governance arrangements for the National Transmission Planner (NTP) must be able to coexist with the governance arrangements for the AEMO. Developing appropriate governance arrangements for the various planning activities requires clarity with respect to the scope of the activity, its purpose and the role of parties in delivering the activity.

Consultation requirements surrounding the preparation of the NTNDP need to strike a balance between allowing an appropriate opportunity for input and allowing sufficient time for the analysis required to develop the annual NTNDP.

The Commission is interested in views on the appropriate scope of the review with respect to planning arrangements within jurisdictions, and their interaction with national planning arrangements.

NEMMCO's response to this issue:

The scoping paper suggests that the national transmission planning role should be interpreted as a fairly limited information provision role. The COAG communiqué does allow a broader role for the NTP. By considering variations to the role of the NTP and scope of the NTNDP it is possible to develop planning arrangements that meet all of the COAG objectives including:

- informing the AER with respect to revenue requirements; and
- guiding network investment decisions and providing signals for efficient generation investment; while
- maintaining TNSP accountability for jurisdictional transmission planning, operation and performance,

The scope of the review should include consideration of the extent to which the NTNDP could assist the AER by establishing the expected capability of the transmission network and reporting its actual capability.

The Commission is interested in respondents' views on whether the principles for identifying the national transmission system have been resolved and correctly applied, or whether there is further work to be done to identify the appropriate area of focus within the transmission network for the National Transmission Planner.

NEMMCO's response to this issue:

NEMMCO believes that the detail of the existing national transmission planning processes may not be widely understood by NEM participants and interested parties, particularly as they relate to different transmission asset classes. In section 2 of NEMMCO's accompanying paper the various existing transmission network planning activities are identified. Figure 2, in particular, identifies a category "Main Grid Planning (including supporting sub-networks)" which may be the focus of any future national transmission planning activities.

It should be noted that this category may not strictly align with the existing National Transmission Flow Paths (NTFP) used in the Annual National Transmission Statement (ANTS). NTFPs are used in the ANTS as a necessary simplification for reporting purposes.

The ANTS relies on electricity market simulations to investigate the potential market benefits of relieving congestion. The ANTS considers all system normal network limits irrespective of whether the limiting element is a part of the high voltage transmission network or the supporting sub-transmission network. This approach is necessary to ensure the key limitations are identified and projects to address these limitations developed. For example the rating of sub-transmission network elements in northern New South Wales can limit inter-regional transfers between New South Wales and Queensland. Failure to consider these limits in the NTNDP would give a false indication of inter-regional transfer capability and the market benefits available through network augmentations.

The issues associated with the scope of transmission assets to be included in a NTNDP are further examined in section 3 of the NEMMCO issues paper.

The Commission is interested in comments on the appropriate institutional arrangements for the last resort planning power, and the implications for the functions of the National Transmission Planner.

NEMMCO's response to this issue:

NEMMCO believes that the revised national transmission planning processes such as the option presented in its accompanying issues paper can deliver a more optimal outcome than the present arrangements. The AEMC should consider arrangements that deliver the mandated obligations of the JPB/TNSPs while allowing the opportunities for transmission investments to be optimised (in terms of timing or scope) from an overall national perspective.

The review should consider whether there is a continuing need for the Last Resort Planning Power (LRPP) in light of the new national transmission planning arrangements. If the LRPP is to be retained the review should also consider the appropriate role for the NTP. The NTP may be the appropriate body to take over the advisory role currently assigned to the IRPC.

The Commission is interested in respondents' views on how best to ensure effective interaction between TNSPs and the National Transmission Planner, while also ensuring that the National Transmission Planner adds value through a stronger focus on the national network.

NEMMCO's response to this issue:

NEMMCO believes this question can only be answered in the context of the examination of the detail of an end to end national transmission planning process. NEMMCO's accompanying paper provides a potential planning process, illustrating the level of detail required to define the end-to-end process. Defining the required national transmission planning process in sufficient detail will help identify the necessary relationship between the TNSPs and the NTP.

Consideration should be given to designing the national transmission planning process such that TNSPs benefit from working with the NTP to produce the NTNDP. As discussed in the attached paper this may require consideration of the extent to which the justification process for transmission projects should recognise the consultation and assessment already performed in developing the NTNDP. Appropriate recognition of this previous work may yield a more streamlined project justification process.

The scoping paper states that currently, NEMMCO develops 'conceptual augmentations' in consultation with jurisdictional planning bodies. NEMMCO's role in developing the conceptual augmentations studied in the ANTS is more limited than suggested by the scoping paper.

The process currently followed for the ANTS relies on the jurisdictional planning bodies defining the projects considered in the ANTS. For each project they define the scope of the augmentation, its costs, lead time and the change in network capability delivered by the project. NEMMCO's role is limited to providing information from the ANTS simulations regarding those network limitations, which if relieved may deliver market benefits.

This approach delivers projects which are derived separately for each jurisdiction and may not form an optimal package of projects when combined with the augmentations being progressed to deliver mandated obligations within each jurisdiction. As discussed in the issues paper there may well be benefits in the NTP having a greater role in the development of augmentation proposals, particularly those developed to deliver market benefits.

The review should specifically consider whether when developing the NTNDP the NTP should:

- be limited to considering only TNSP developed augmentation proposals; or
- be required to also consider augmentation proposals developed internally and other options developed through consultation.

2.2 Aligning review of TNSP revenues

The scoping paper identifies the following three issues regarding the alignment of NSP revenue determinations:

Determining the appropriate approach to alignment will entail consideration of both the costs and benefits of alignment. Respondents' views are sought on the costs and benefits which should be considered within the review.

The Commission is interested in respondents views whether simultaneous revenue resets would assist the AER in forming views on efficient investment requirements from a national perspective. If so, what approaches to the conduct of the review would best realise that benefit?

The Commission is seeking views on where the greatest synergies may arise, and whether these are likely to be material enough to justify modification to the timetable for reviews. The Commission also seeks views on what disadvantages may arise from aligning the timetables.

NEMMCO's response to these issues:

NEMMCO believes the investigation of these matters can and should be separated from the implementation of the NTP. As the NTNDP is updated annually it can support a variety of different approaches regarding the timing of revenue determinations. The NSPs and the AER are best placed to comment on the specific issues raised in the scoping paper.

2.3 Revised network planning and consultation process

The scoping paper identifies three issues regarding the revised network planning and consultation process which will replace the regulatory test. Each is considered in turn to develop suggested feedback.

Amalgamating reliability and market benefits

The Commission is seeking views on options it should consider in order to implement the new planning and consultation process agreed by

COAG. The Commission is interested in views on the decision criteria to apply under this process, the alternatives to be considered and the processes for applying these planning and consultation criteria. Respondents may also want to propose broader issues that will require consideration.

NEMMCO's response to this issue:

The scoping paper identifies the following three potential approaches for the new planning assessment framework:

- a cost-benefit approach requiring explicit valuation of all benefits including meeting mandated obligations, with projects required to have a positive net present value;
- a least cost approach in which a two stage process is followed with the required network capability defined in stage 1 and then projects justified in stage 2 if they deliver the required capability at least cost; and
- a combined approach in which the least cost assessment is used to select projects needed to meet mandated obligations with further cost benefit analysis conducted to identify whether the selected project should be altered to maximise net market benefits.

The combined approach appears to allow integration of the reliability and market benefits limbs with less disruption to existing processes. This approach should allow the market benefits available from modifying the timing or scope of reliability augmentations to be considered.

The first two approaches would require significant changes to the existing assessment process.

The least cost approach requires a two stage process. NEMMCO believes that this approach may prove to be inefficient and unworkable. Under the two stage process it appears that the NTNDP specifies network capability targets and in the second stage the NSPs identify projects that deliver the target capability at least cost.

The approach appears to be based on a premise that the target or required capability for the transmission network can be identified in isolation from an assessment of whether the benefits of delivering that capability justify the costs involved. NEMMCO believes this premise is flawed as the required capability is that which can be justified and no more. This suggests the determination of the required capability should be integrated with the project justification process. As discussed in the attached issues paper, alternatives to the two stage process should be considered as they may well produce a more effective planning process with less duplication than the two stage process.

NEMMCO supports the review considering the consultation framework surrounding the test and examining the question of which party applies the test and at what stage of the national transmission planning process it is applied.

Broadening the definition of market benefits

The Commission is seeking respondents' views on the problems with the definition of market benefits, or the application of that definition, which lead to a failure to consider broader market benefits. The Commission is also seeking views on the responses that should be considered.

NEMMCO's response to this issue:

The market benefits that are allowed under the existing test are relatively well understood. Definitions of the market benefits allowed are provided in the documentation of the test with the ANTS and other publicly available documents providing examples of how the market benefits (excluding competition benefits) can be calculated. Robust approaches for calculating competition benefits are yet to be demonstrated.

Some benefits that may be in the national interest but are excluded from the current test include benefits that may arise from strategic transmission developments to support future loads or generation. With the current test it is difficult to justify building transmission ahead of committed plans by loads or generation. Given the lead-times involved in major transmission works this can mean that market benefits are lost as a result of the delayed start to the transmission justification process.

Institutional Arrangements

The Commission is interested in views on how the review should address the interaction between the new National Transmission Plan, the institutional arrangements for the transmission last resort planning power, and the institutional arrangements for the new network planning and consultation process.

NEMMCO's response to this issue:

Various aspects of this issue have been addressed under other issues.

2.4 Role of the Inter Regional Planning Committee

The new national transmission planning arrangements are intended to replace the current Inter Regional Planning Committee. To inform interested parties on the role of the IRPC, the current terms of reference is attached. The terms of reference demonstrates that the IRPC provides a technical advisory role.

NEMMCO convenes a range of industry working groups to provide technical advice on various operational activities. Many of these groups are managed effectively without specific Rules governing their composition or operation. A similar approach could be adopted by transferring the IRPC's responsibilities to the NTP within AEMO and allowing AEMO to convene industry working groups as required.