

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Dr ~~Tamblyn~~^{John},

**MCE rule change requests - National Transmission Statement and Regulatory
Investment Test for Transmission**

I refer to the letter from the Hon Martin Ferguson AM MP, Chair of the Ministerial Council on Energy (MCE) of 5 November 2008 outlining the MCE's response to recommendations of the Australian Energy Market Commission (AEMC) in its Final Report on the National Transmission Planning Arrangements Review (Final Report). The MCE endorsed the recommendations of the AEMC in the Regulatory Investment Test for Transmission (RIT-T) contained within the Final Report.

The transitional rules contained in the Final Report would be used as the basis to transition to the new arrangements in implementing Australian Energy Market Operators (AEMO's) national transmission function. The Final Report recommends that, if practicable, the first NTNDP be published by December 2009.

The MCE considers that a transitional document, referred to as a National Transmission Statement, be published for 2009 with the first NTNDP to be published in December 2010.

Please find attached information in support of the Rule change requests for the National Transmission Statement and the RIT-T.

Should you have any further enquiries, please contact Ms Kimberley Pattinson, Manager MCE Secretariat, on (02) 6213 7789.

Yours sincerely



Drew Clarke
Chair, MCE Standing Committee of Officials

16 February 2008

Regulatory Investment Test for Transmission

Rule Change Proposal

Implementation of the Rule Change Recommendations of the Regulatory Investment Test for Transmission as part of the National Transmission Planning Arrangements Review undertaken by the Australian Energy Market Commission

December 2008

Background and context

The Australian Energy Market Commission (AEMC) published its Final Report on the National Transmission Planning Arrangements in June 2008 (Final Report). The Final Report recommended Rule changes to implement the Regulatory Investment Test for Transmission (RIT-T) which displaces the current Regulatory Test. The recommendations are based on consultations on the National Transmission Planning Arrangements Review and Exposure Draft Report and Drafts of the recommended Rule changes.

The following information is provided in support of this Rule Change Request.

Rule Change Request

1. Proponent of the Rule change request:

The Ministerial Council on Energy
MCE Secretariat
GPO Box 9839
CANBERRA ACT 2601

2. Description of the Rules:

The Final Report recommended Rule changes to implement the RIT-T which would displace the current Regulatory Test for transmission planning. The Ministerial Council on Energy (MCE) requests that the AEMC make the proposed Rule changes for RIT-T.

The details of the draft Rules are as contained in Appendix D of the Final Report.

3. Description of the Rules:

As part of the National Transmission Planning Arrangements Review, the Commission proposed Rules to implement the RIT-T test which would displace the current Regulatory Test. In developing the proposed RIT-T rules the Commission identified the need to:

- amalgamate reliability and market benefits;
- provide greater prescription of national market benefits; and
- include an additional market benefit category of option value (i.e. accounting for benefits that the proposed project may have for future investments and costs)

The proposed Rules to implement the RIT-T would provide a single framework to apply to all transmission investment and remove the current distinction between reliability-driven projects and projects motivated by the delivery of market benefits. The purpose of the RIT-T would be to identify the transmission investment option which maximises the net economic benefits and, where applicable, meets deterministic reliability standards. The RIT-T framework would require consultation on the range of credible options for any given transmission issue, and consultation on a comparative analysis of costs and benefits using a standardized list of classes of costs and benefits. The proposed RIT-T Rules would provide greater transparency, predictability and certainty around the formulation and development of transmission planning.

Together with the proposed Rules for the RIT-T, the Final Report included a series of transitional rules to transition from the current Regulatory Test process to the new arrangements. Specifically, the AEMC proposed the following transitional arrangements:

- The current Regulatory Test would continue to apply to any project assessment analysis which commenced prior to the promulgation of the RIT-T.
- The AER would be allowed 12 months to develop the new project assessment test and associated guidelines.

The MCE considers that the transitional rules contained in the Final Report should be used as the basis to transition from the current Regulatory Test framework to the new arrangements.

4. The proposed Rules will contribute to the achievement of the national electricity objective:

The National Electricity Objective (NEO) set out in section 7 of the National Electricity Law form the basis of the Rule making test:

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”

The proposed RIT-T Rules seek to identify options that maximise the present value of net economic benefits (or minimise the present value of net economic costs) subject to meeting deterministic reliability standards (where they apply). The current processes for mandatory reliability and discretionary market benefit investments differ not only in the decision making criteria but also in the required consultation and assessment processes, and the grounds for dispute. RIT-T would be capable of being applied consistently across all prospective investments, irrespective of whether the primary motivation for the investment is to meet reliability standards or not. This amalgamation of reliability and market benefits would optimise the decision making process in relation to transmission planning and also promote efficiency.

The proposed RIT-T Rules would provide a prescriptive framework for the inclusion of national market benefits by providing a list of classes of market benefits and costs that a TNSP must consider in undertaking the project assessment stage. This framework would encourage TNSP’s to broaden the scope of possible market benefits, rather than potentially focusing only on the impact of augmentations within a particular jurisdiction.

The proposed RIT-T Rules would facilitate earlier consultation in the planning process thereby enabling other potential viable non-network options to be identified and assessed appropriately.

Based on the reasons provided above the MCE believes the proposed RIT-T rules contribute to the achievement of the NEO.

5. Expected costs and benefits of the proposed change and the impact of the proposed change on those likely to be affected:

Costs

In specifying the RIT-T there is a risk of increasing the administrative burden on TNSPs – the costs of which are ultimately borne by customers – without delivering commensurate benefits. In the Final Report the Commission recommended that this risk could be appropriately managed by requiring the TNSP in each application of the RIT-T to identify and consult on which classes of benefits are likely to be materially relevant to the decision being made. The TNSPs would need to

apply judgment, supported by reasoning and analysis, to justify the specification of the RIT-T in any given case, and stakeholders will have the opportunity to comment.

The Final Report also recommended including a provision that enables the TNSPs to conduct a limited form of consultation for projects:

- that only meet localised reliability needs; and
- where no party has raised an alternative at the specification consultation stage that could deliver material market benefits.

This would ensure that projects which are justified solely on reliability grounds are delivered in an efficient and timely manner.

In addition, the Final Report proposes to add more clarity and specification to the dispute resolution process to minimise the possibility of the planning process being unnecessary delayed.

Benefits

The proposed RIT-T Rules would promote four significant benefits over the current Regulatory Test as it applies to transmission companies.

First, it would increase substantially, the amount of consultation on the options that are available to address any given transmission issue. This change is likely to optimise transmission planning decision making.

Secondly, it would apply more rigor and consistency to the analysis of costs and benefits before transmission investment is undertaken. This change is likely to promote greater consistency, transparency and predictability to transmission planning decision making.

Thirdly, it would bring within the scope of the RIT-T network reconfigurations and projects which combine replacement and augmentation. This requirement is likely to increase the efficiency and consistency of transmission planning decision making.

Last, it would facilitate earlier consultation in the planning process thereby enabling other potential viable non-network options to be identified and assessed appropriately. This change would enable market participants to identify possible national market benefits associated with the projects thereby ensuring that broader market benefits are recognised under the project assessment process.

6. Summary of consultations on the National Transmission Planning Arrangements Review and the Exposure Drafts of Rule changes:

As part of the National Transmission Planning Arrangements Review the proposed RIT-T Rule request has been exposed to the following consultation:

1. Scoping Paper released on 3 August 2007;
2. Issues Paper published on 9 November 2007;
3. Discussion Paper released on 28 March 2008;
4. Public Forum held in Melbourne on 2 April 2008; and
5. Draft Report published on 2 May 2008.

The Commission has also held a number of briefing sessions and bilateral meetings with stakeholders.

The matters raised by stakeholders in submissions on the Draft Report and the Exposure Drafts of the Rules have been noted, assessed, decided upon in the Commission's Report.

In developing its RIT-T policy recommendations, the Commission also sought advice from Frontier Economics.