



Energy Retailers Association
of Australia Incorporated

30 May 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

submissions@aemc.gov.au

Dear Sir/Madam,

The Energy Retailers Association of Australia (ERAA) is pleased to have the opportunity to comment on the National Transmission Planner (NTP) Draft Report released for comment by the Australian Energy Market Commission (AEMC) in May 2008.

The ERAA is an independent association representing twelve retailers of electricity and gas throughout the National Electricity Market (NEM) and the jurisdictional gas markets. ERAA members collectively provide electricity to 11 million customers in the NEM and are the first point of contact for end use customers for both gas and electricity. As such we are critically interested in a transmission planning regime that delivers an efficient and effective transmission system.

GENERAL COMMENTS

In our previous submission - to the NTP Issues Paper - we stressed the importance of ensuring that the NTP was expert, independent, dedicated and influential. There would be no value in establishing the NTP if it did not influence TNSP investment behaviour and it would only have this influence if it had general credibility as an expert transmission planner.

We believe that the main thrust of policy recommendations in the draft report will support and promote this overall objective and we commend the AEMC in this regard. In particular, the recommendations appear to give the NTP discretion to decide the breadth and depth of analysis in the NTNDP, in accordance with broadly established policy objectives and guidelines.

We say “appear”, because the NTP’s actual degree of discretion will depend upon the specific drafting of the relevant Rules. It is possible that the Rules may, deliberately or inadvertently, place prescriptive and arbitrary constraints on the NTP’s work. As we noted in our previous submission, such constraints are often the source of existing planning inefficiencies and should not be part of the solution to addressing such inefficiencies.

We acknowledge that the AEMC has provided a set of draft Rules to implement its policy recommendations, but we have not commented on these in this submission, given that they are liable to further change by the MCE. Although it is strictly outside the jurisdiction of the AEMC, we would urge the AEMC to do what it can to ensure that there is further extensive consultation before these Rules are finalised.

THE NTNDP

Scope

We were concerned in the Issues Paper that the AEMC appeared to be leaning towards a false dichotomy between “national” and “local” transmission planning, with the NTNDP restricted to the former and prescriptive Rules established to delineate the two. We believed that this was not what the MCE, or ERIG, had envisaged.

We are pleased, therefore, to see the recommendation in the draft report that the NTNDP should cover all parts of the transmission network that “materially affect NTFP capacity” and that, as we understand it, the NTP decides, in consultation with stakeholders, where the NTFPs are and what is “material”. We support this approach.

Level of Detail

Our previous submission argued that the NTP should model and evaluate a full range of augmentation options, not just those identified by TNSPs. The NTP should be a “complete” planner, identifying future issues, developing solution options and then evaluating these on technical and economic grounds. In short, it should be a planner in its own right, not simply a supervisor of, or input into, TNSP planning.

We are unclear as to whether the AEMC policy recommendations achieve this. They talk of “development strategies” to be established for each NTFP and for a number of different market scenarios. Certainly, strategizing and scenario analysis is part of the planning process. However, the end-product of the planning

process, at least for the near-term (eg up to 5 years out) must be a specific, preferred development path, containing a single, planned sequence of fully-specified augmentation projects.

The weakness of providing alternative “strategies” is that a TNSP is then able to cherry-pick its preferred strategy, not necessarily because it supports the corresponding scenario but because it best aligns with its own objectives or preferences (which, it is generally accepted, do not necessarily align with the promotion of national efficiency).

The draft report also refers to the NTP planning analysis being “high-level”. This would be appropriate for longer-term planning, where market projections are highly uncertain. However, for near-term planning, analysis should be more detailed; indeed, it should be comparable to the analysis required in undertaking the RIT. Otherwise, a TNSP has the opportunity to depart from the NTNDP, by finding that detailed analysis reveals the putative inferiority of the NTNDP projects.

Content

We are pleased to see the recommendation that the NTNDP contains an analysis of the “deviations” between the NTNDP and TNSPs’ annual planning reports (APRs), a feature that we argued for in our previous submission. However, for this analysis to be meaningful, the NTNDP and APRs must be derived on a similar basis, using common assumptions and methodologies and comparable analytical detail. Hence our comments above.

The AEMC suggests that the NTNDP could also contain analysis of congestion prices (“generator mispricing”). The role of the NTP is to promote efficient transmission planning. Pricing information, on the other hand, whilst important, would seem to relate more to the promotion of efficient generation planning, and so may be more suitable content for the Statement of Opportunities. Our concern here is to ensure that the NTP is focused on its main objective and not diverted into unrelated or tangential work areas.

Relationship with TNSPs

The draft report argues for a “reciprocal relationship” between the NTP and TNSPs, meaning that TNSPs must “have regard” to NTP plans and similarly the NTP must have regard to TNSP plans.

But the MCE policy intent is surely that the relationship is *not* reciprocal, or at least not symmetrical. The NTP plans must lead and guide the TNSPs; the TNSP plans do not and should not lead and guide the NTP. Of course, the NTP must

take into account *committed* TNSP projects in its baseline assumptions. However, it should not take account of *proposed* TNSP projects. If it does, these will become self-fulfilling prophecies: they will form part of the NTNDP simply because they appear in the APRs.

NTP ROLE AND GOVERNANCE

Governance

We support the recommendation that NTP functions are the responsibility of the AEMO Board. However, we are not convinced by the proposal to have the NTP guided by an advisory committee of stakeholders. If the objective behind this is to ensure that the role of the NTP is properly supported and resourced within AEMO, we think that this may be better achieved by giving NTP responsibility to a dedicated AEMO Board subcommittee. Given the conflicting interests of advisory committee members, we think that there is a likelihood that the committee would obstruct rather than promote the NTP role.

MCE Directions

The draft report recommends that the MCE is able to direct the NTP to undertake reviews and that this is enshrined in the National Electricity Law, as it currently is for MCE direction of the AEMC.

We think this recommendation is inappropriate. The NTP is fundamentally an operational body, not a policy-making body. If the MCE wishes to undertake a review of transmission planning policy, it should direct the AEMC (noting that the AEMC can then seek operational advice from the NTP as it sees fit). The ERAA therefore does not support the MCE undertaking a review of transmission planning, as it is not the Council's role to intervene in operational matters.

In any case, if MCE-direction of the NTP is considered necessary, it should be made to the AEMO Board, who has responsibility for the NTP functions.

Development of Planning Methodologies

We note, in relation to the RIT, that the draft report proposes that the AER develop prescriptive methodologies that must be applied when undertaking the RIT. We support this proposal. However, given that the NTP cannot bind the AER and that it is inappropriate for the AER to bind the NTP, there is a risk of the NTP and the AER developing inconsistent methodologies. This outcome would be unsatisfactory, leading to a planning situation akin to having two clocks showing different times.

To mitigate this risk, there should be reciprocal obligations on the two bodies to “have regard” to each other’s methodologies in developing their own, together with an obligation to explain and justify any differences between the methodologies.

Transfer of IRPC responsibilities

We support the proposed transfer of IRPC responsibilities to the NTP. The IRPC has always been an intrinsically-conflicted body and its effectiveness has been constrained as a result. There should be benefits from an independent body taking over its roles.

RIT

Treatment of Reliability Augmentations

We generally support the proposed approach to unifying the two existing “limbs” of the Regulatory Test. The approach is generally consistent with our overarching objective, stated in our previous submission, that all material costs and benefits should be evaluated for all proposed augmentations.

Our only concern is the proposal that only “incremental” reliability benefits need to be evaluated for “reliability augmentations” within jurisdictions which have deterministic planning standards. This raises the question: Incremental with reference to what? We acknowledge that where “do nothing” is not a practical option (because it does not achieve the reliability standards), it is not possible to measure costs/benefits relative to a “do nothing” base case, so one of the practical options must be used as a base case instead. Thus all measured costs and benefits will be “incremental” compared to this base case, not just reliability benefits. In summary, we would like some clarification on what the AEMC intends by this proposal.

Other Changes

Although initially sceptical about the need for a complete replacement to the Regulatory Test – rather than incremental change to address the above issue – we generally support the proposed new features of the RIT. In particular, we support:

- prescribing of cost and benefit categories in the Rules (subject to the detailed drafting);
- requiring TNSPs to justify leaving any costs or benefits out of the analysis for “proportionality” reasons;
- having a separate consultation round to determine the costs/benefits and options to be analysed in the RIT;

- requiring that TNSPs state where there are benefits arising outside of their home jurisdiction;
- including reconfigurations (although we don't understand why like-for-like replacements should be excluded, since these are just a special case of reconfigurations, where replacement turns out to be the preferred option); and
- having more prescription in the Rules, together with prescriptive methodologies, developed by the AER.

We believe that these changes should lead to a test which is superior to the Regulatory Test that it replaces.

CROSS- BORDER TUOS

General Comments

In our previous submission, we acknowledged that existing State-based TUoS pricing is an anomaly in the context of national transmission planning, but were doubtful whether addressing TUoS pricing within this NTP review was necessary or appropriate. TUoS pricing may impinge somewhat on planning outcomes, but it also has wider policy implications in areas such as investment in the demand-side and embedded generation, retail pricing stability and inter-State distributional equity.

For a review of cross-border TUoS to be constructive, the policy objectives for these areas need to be explicit and the relationship with related market design elements (regional and congestion pricing, access rights, allocation of SRA proceeds etc) articulated. Without this policy direction, we do not expect an effective solution to cross-border TUoS to be identified and agreed.

Options

Having said this, we will consider briefly the four options presented in the draft Report. Options 1 and 2 are reminiscent of the “beneficiary pays” philosophy proposed – but ultimately rejected – in the NECA TUoS pricing review. Specifically, the term “interconnectors” would seem to relate to augmentations that provide *benefits* in more than one jurisdiction and so cross-border TUoS would be geared to allocating costs to reflect the allocation of benefits. We suspect that, just as with “beneficiary pays”, such an approach will turn out to be unsatisfactory or unworkable.

Option 3, we understand, was also considered by NECA. At face value, it appears to be a logical, incremental change to the existing TUoS pricing methodology. Whether or not it gives rise to rational, stable and justifiable prices would need to be rigorously tested before it could be seriously considered for implementation.

Option 4 would appear to represent a major policy change which, whatever its merits, could only be considered with the explicit policy blessing of the MCE.

If the AEMC decides to continue to progress this issue, it may be helpful to reconsider documentation from the last NECA review, to identify why that review was ultimately unsuccessful and to think about what has changed since that review that would lead to this AEMC initiative being more fruitful.

CLOSING COMMENTS

We are generally pleased with the approach and recommendations set out in the draft report and believe that these will help to promote efficient national transmission investment whilst being faithful to the policy guidelines and constraints contained in the MCE direction.

Apart from the various issues described in this submission, our main concern is that the good intentions of the AEMC may be lost, diluted or distorted within the final Rule drafting to be incorporated by the MCE. It is perhaps unsatisfactory that the Rule changes will be established by the MCE through the AEMO implementation process rather than by the MCE submitting a Rule change proposal to the usual AEMC process. In the light of this, we hope that the AEMC, in its final report, will urge the MCE to follow a similar consultation process in finalising the Rule drafting and also that the AEMC will be allowed to work closely with the MCE in this process.

short, prevents the full benefits of competition from being realised.

Should you require any further information in relation to this submission please feel free to contact me on (02) 9437 6180.

Yours sincerely

A handwritten signature in cursive script that reads "Cameron O'Reilly". The signature is written in dark ink on a light-colored background.

Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia