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30 May 2008

Dr John Tamblyn
Chairman
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Level 16, 1 Margaret St
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By email: submissions@aemc.gov.au

Dear Dr Tamblyn

AEMC Review of the National Transmission Planner Function

The NGF appreciates the opportunity to provide comments on the AEMC's Draft Report prepared as part of its Review of the National Transmission Planner (NTP) function. This is the fourth time that we have been invited to put our views and concerns to the AEMC throughout this Review, and the AEMC is to be commended for the level of stakeholder involvement it has called for during this Review process.

The Draft Report is structured around 3 proposals:

- Establishment of the NTP function within AEMO;
- The new process for consultation & evaluation of network investment proposals; and
- Inter-regional TNSP charges.

Accordingly, our comments on the Draft Report are similarly structured. However, as a general observation on the AEMC's overall proposals, on the one hand, they still leave too much discretion in the hands of TNSPs in the grid planning process and evaluation of grid investment proposals while, on the other hand, they are far too prescriptive and restrictive regarding the NTP function and show little trust in the independent AEMO Board to organise and manage the function for the betterment of the market.

Also, the NGF has consistently argued throughout this Review that it represents a unique opportunity to consider more broadly the grid-related deficiencies in the market and access arrangements in the NEM and, in so doing, maximise the benefits for the market overall to be gained via the establishment of the new NTP function within AEMO. The AEMC has rejected these pleas, principally on the grounds as we understand it that the Terms of Reference precluded it from doing so.

At the same time however, the AEMC has now unilaterally decided to address the issue of inter-regional charges within the Review, a topic which was also not included in the Terms of Reference from the Ministerial Council for Energy (MCE). The NGF would appreciate an

explanation from the AEMC of its justification for this apparent inconsistency in its approach to the Review.

Finally, in the Issues Paper, the AEMC stated as follows:

“In March 2007, the Commission rejected a Rule change proposal submitted by Stanwell on [the issue of reconfigurations], suggesting that the issues raised would be best dealt with in a specific review of the application of the Regulatory Test.”

In reality, the AEMC in its review of the RIT-T has not yet addressed the specific issue that prompted Stanwell’s rule change request; i.e. the degradation of pre-existing network services to individual network users that can occur as a result of unilateral TNSP decisions to modify their networks. Even though a consumer’s service level may be degraded, TNSPs still have an obligation to meet mandated grid planning standards. However, generators do not enjoy similar protections.

In any event, the RIT-T as currently defined is not an appropriate form of test to address this issue. On the one hand, the NGF does not wish to delay finalisation of the new RIT-T, and therefore we propose this issue be considered as a separate issue outside of this Review. On the other hand, we consider it to be a serious deficiency in the current grid access arrangements in the NEM, and we urge the AEMC to recommend to the MCE that it be given a remit to review it as a significant access policy issue, particularly for the generation sector of the industry.

1. Establishment of the NTP Function within AEMO

1.1. Role and Functions of the NTP

At every opportunity throughout this Review, we have urged the AEMC to look beyond the minimum requirements of the MCE Terms of Reference for this Review when considering what the role and functions of the NTP should be to maximise the effectiveness of its contribution to the overall achievement of the NEM Electricity Objective. Much to our disappointment, the AEMC has largely ignored these requests and has now put forward a series of recommendations that would impede the evolution of the NTP function in the direction we’ve been proposing.

First, the policy recommendation for the NTP Objective focuses on the *“efficient, long term and coordinated development of the national transmission grid”* to the exclusion of short to medium term timeframes, grid operational issues and local or regional grid development concerns.

Secondly, the recommended functions of the NTP are confined to:

- (i) NTNDP;
- (ii) NTNDP data base;
- (iii) Current IRPC functions;
- (iv) Submissions re some TNSP RIT-T assessments;
- (v) Submissions re AER Revenue resets; &
- (vi) Policy advice (on request).

We fully support the NTP undertaking all of these functions and we agree that the NTP's role in respect of (iv) & (v) above should be discretionary. The Draft Report suggests¹ that, as the NTP functions will be specified in the Rules,

“where additional functions may be considered to be relevant for the NTP, these can be assessed through the normal rule change process.”

Given the very narrow definition of the proposed NTP Objective, virtually all of the additional functions that we have been advocating for the NTP would presumably be summarily rejected in the absence of a change to the NTP Objective enshrined in the NEL.

Quite clearly, the AEMC has not been persuaded by our arguments for a more expansive NTP function at this time as is evidenced by the very limiting nature of the recommendations in the Draft Report. However, we still urge the AEMC to acknowledge the possibility that our views have validity and therefore frame an NTP Objective that would enable the role of the NTP to grow and evolve over time via the Rule Change process (and/or via a reorganisation of grid related functions within AEMO by the AEMO Board) without having to seek any amendments to the NEL.

1.2. Governance Arrangements

Given the MCE's directive which calls for the NTP to be an integral part of AEMO with the AEMO Board being ultimately responsible for the NTP, the NGF supports the current AEMC proposals for the governance arrangements associated with the NTP function within AEMO.

On the issue of Advisory Committee membership, the current proposals allow for up to 2 AEMO representatives (a Director as Chairman and one possible AEMO employee) and a Committee of not more than 5 members. From our perspective, there appears to be little justification for constraining the potential number of members of the Committee to only five, with a worst case scenario where 2 of a Committee of 3 (i.e. the proposed minimum) are AEMO people.

Most advisory committees or working groups in the NEM have a larger membership than this and they seem to work reasonably well. We suggest the NEL give the AEMO Board a little more latitude so that it can decide on the optimum size of the Committee in the light of practical experience. The AEMC can then reconsider this issue during the proposed 5-year review.

1.3. The NTNDP

As with other aspects of the NTP function, our views, as expressed in previous submissions, concerning the preferred scope of the NTNDP and its interaction with the development plans of individual TNSPs are markedly different to those of the AEMC.

Even putting these differences to one side and looking at the AEMC's proposals as currently drafted, we still have some concerns about the practicality of the proposed NTNDP development process and potential value of the plan itself. The AEMC's proposals are based largely on its interpretation of what the MCE wants to see in the NTNDP and a desire to minimise costs and duplication of planning effort.

While we are not grid planning experts, we would expect that, in order to prepare an NTNDP in accord with world's "best practice in transmission planning", it will involve more than a concentrated annual planning study based on a single annual submission of planning data by the TNSPs in respect of so-called NTFPs. Unless the NTP has an extremely well grounded understanding of the transmission network topology across all TNSPs as well as the detailed planning constraints that the TNSPs must work within in their jurisdiction, the NTNDP will have little credibility in the eyes of the market and will have very little influence over the strategic development of each TNSP's network.

¹ AEMC Draft Report – page 15

The AEMC should take care to ensure that the NTP and the AEMO Board have sufficient authority and flexibility to deliver an NTNDP that will indeed make an effective contribution towards achievement of the NEM Electricity Objective. In this respect, we propose that the AEMO Board be granted some latitude in order to ensure that the NTNDP is a credible planning document that satisfies its stated objective. We believe the AEMC's current Rules proposals are too prescriptive and will not necessarily deliver the expected outcome.

Some areas where in our view, additional latitude would be beneficial include:

- The extent to which the NTP can call on the JPBs and individual TNSPs for information and other assistance for input into the preparation of the NTNDP; and
- The scope of the NTNDP in terms of the time period covered, the number and type of scenarios considered, the network coverage, the timing of its publication, and the breadth of information it contains.

We understand the AEMC's current proposals represent the majority views expressed in submissions; however, these stakeholder views themselves are likely to evolve and change over time with experience; and the process for preparing, and content of, the NTNDP should not be so prescriptive in the Rules or the NEL to prevent this occurring.

Finally, although it is a relatively minor issue, the NGF considers the term "NTNDP" to be rather unwieldy. We suggest the AEMC consider some alternatives. One possibility for example would be to simply call it the National Grid Plan or NGP.

2. Regulatory Investment Test for Transmission

In broad terms, the NGF is in general agreement with the proposals for the new RIT-T. Overall, we believe they are a considerable improvement on the policies and practices of the past and they have the potential, if properly implemented by the AER, to overcome our main concerns with the current grid investment evaluation process.

Having said that however, we still feel that they could be further enhanced by a number of minor changes:

2.1. Decision Making Rule

The AEMC has made specific reference to deterministic reliability standards in the decision-making rule. This would suggest that it believes any probabilistic grid standard would be expressed as a value maximization objective taking into account some definition of value of reliability to consumers.

This is probably true if it is expressed in the simplest possible way. However, it could also include mandatory risk mitigation requirements that mean that it would not necessarily be a value maximizing solution in all cases. To avoid this, we suggest the AEMC simply remove the word "deterministic" from the Decision Making Rule. In the draft Rules, this equates to modifying Clause 5.6.5(c) to refer to any relevant mandated grid planning standard, not merely a *reliability* standard.

2.2. Scope of Projects

The AEMC's Discussion Paper² put forward an AEMC proposal which appeared to suggest that the new RIT-T would apply to asset reconfigurations and to like-for-like replacements where other credible options were available.

This proposal now appears to have been scaled back quite considerably in the Draft Report insofar as:

- Like-for-like projects have a blanket exemption; and
- Reconfiguration projects are only subjected to the RIT-T process if the augmentation component of the project costs more than the regulated threshold amount (i.e. AEMC proposal for this is for it to be set at \$5 million).

² "National Transmission Planner Review Public Forum Discussion Paper" published by the AEMC, dated 28 May 2008 – page 21

By providing a blanket exemption for all “like for like” projects and reconfigurations with a small augmentation component, the AEMC is ignoring the opportunity value of easements and the like which the new assets will utilise, and it also ignores the possibility of potentially more cost-effective network and non-network solutions being available to the TNSPs to achieve the same outcome.

We urge the AEMC to revert back to its position as stated in the Discussion Paper. In addition, we suggest the proposals be further refined by, for example:

- Including “opportunity value foregone” as a real project cost – this is the cost side equivalent of the AEMC’s proposed inclusion³ of “Option Value” in the list of potential market benefits; and
- Requiring TNSPs to undertake the Project Specification Consultation phase on all “like for like” projects above the normal \$5 million threshold to see if there are any potential non-network solutions and, if so, then the full RIT-T evaluation process should apply.

In any event, we also propose that the AEMC include a provision in the Rules which prevents a TNSP from being able to break down what is in effect an integrated network solution to an identified need such that it is deemed to be multiple projects, each of which has an investment cost which is less than the threshold amount which would trigger the RIT-T evaluation process.

2.3. Determination of Credible Options

We are concerned that the current proposals still offer the TNSPs what we consider to be undue discretion in determining what shall be the full range of credible options for addressing any particular planning need that will be assessed. The attitude of Grid Australia on the issue of project proponents is probably representative of its membership and the position they are each likely to adopt when deciding whether or not a non-network option is ‘credible’.

Merely including consultation in the objective framework in the Rules for determining which options are credible is not enough to convince affected stakeholders of the objectivity of TNSPs in their decision-making and their full compliance with the spirit and intent of the Rules governing this decision framework.

If a disaffected stakeholder wishes to raise a dispute about a TNSP’s list of credible options and/or the process by which this decision was made, it does not make sense to defer Dispute Resolution in respect of this until after the Final Project Assessment Report has been published.

Provided the objective framework that the TNSP must comply with is sufficiently well defined, we would agree that disputes should only be assessed on the basis of whether the TNSP has complied with the relevant Rules and Guidelines. However, due to the high degree of information asymmetry, the onus should be on the TNSP to demonstrate that it has complied rather than on the Complainant to demonstrate that the TNSP has failed in this respect.

2.4. Proposed Legal Drafting

The AEMC’s proposed legal drafting of the RIT-T arrangements appears to be based on a rather limited view of some aspects of the grid planning and investment evaluation process and/or the attributes of potential credible options that will need to be assessed.

³ AEMC Draft Report – page 46

For example:

- Transmission Investment is defined as: “Investment which is undertaken by a *Transmission Network Service Provider* to address an *identified need*.”

For the purposes of defining credible projects, some transmission investment options are in fact non-network solutions that may or may not involve TNSP investment and which, in any case, will generally involve investment by entities other than the TNSP and these non-TNSP costs should obviously be included in the assessment.

- When a TNSP is assessing a non-network credible option, Clause 5.6.5B(d)(8) requires the TNSP to consider various categories of costs associated with the provision and use of the credible option. In the case of non-network solutions, not all of these costs should be included in the assessment unless the full range of market benefits of the non-network option is also included. An acceptable alternative in many cases would be to merely include cost streams that reflect the estimated network support payments by the TNSP and only those market benefits that do not accrue directly to the project sponsors via other revenue streams in the market. This would streamline and simplify the evaluation process and it would be more acceptable to non-network project proponents because it would enable non-disclosure of commercially sensitive data.

We have not undertaken a comprehensive review of the legal drafting; however, the above examples indicate to us that such a Review is required by both regulatory and planning experts before the AEMC submits its final report to the MCE.

2.5. Dispute Resolution Process

While we are generally in agreement with the Dispute Resolution Process as proposed by the AEMC, we believe stakeholder rights could be enhanced without undue burden being imposed on the TNSPs by:

- Making provision for disaffected stakeholders to raise a dispute in relation to a TNSP’s determination of the range of credible options (this has been discussed earlier in this submission) at a much earlier stage;
- Making it quite clear that compliance with the Rules also includes compliance with the spirit and intent as well as the substance of both the Rules and any relevant regulatory instruments issued by the AER; and
- In the absence of a comprehensive and legally binding document discovery process, ensuring the onus of proof in any dispute primarily resides with the TNSP.

If the TNSP has fully complied with its regulatory obligations and has a high quality compliance regime in place, then its decision-making process will already be well documented, in which case, requiring the TNSP to demonstrate its compliance should not involve an undue amount of additional work on its behalf.

2.6. Other Issues

The NGF supports the proposal to include a market benefit category of option value provided that:

- A corresponding cost category reflecting the full opportunity cost of scarce resources used in a project such as existing line easements and station sites are also included; and
- The AER provides clear guidelines as to how each of these costs and market benefits are to be valued.

Opportunity costs in this context include for example the value of existing easements and terminal/switching station sites, or the potential additional costs of subsequent network augmentation which would be necessary compared with the situation if the current project proposal did not proceed. Another category of opportunity cost, which probably should already be included under the current RIT in any event, is the added market costs during construction caused by existing assets being taken out of service to allow the construction work to proceed. This can include for example the cost effects of generation plant being constrained off and also additional grid losses occurring.

3. *Transmission Charging across Regional Boundaries*

At this stage the NGF has not developed a consensus view on the preferred model for inter-regional grid charges. Nevertheless, we do share the AEMC's concerns about the lack of proper locational signals in grid charges and the potential for the lack of a formal inter-TNSP charging mechanism to impede joint planning across TNSP boundaries, and we agree it should be addressed. None of the options listed is clearly superior to the others from the point of view of economic efficiency, and in any event, economic efficiency is not the principal driver of TNSP behaviour – rather, it is the incentives or disincentives inherent in the regulatory processes that determine their revenues and hence their profitability.

This issue has been introduced into the Review process by the AEMC at a relatively late stage, and the Draft Report provides the first exposure of AEMC thinking on the matter. The options put forward in the Draft Report are discussed purely at a conceptual level and little if any analysis of the pros and cons of each are provided.

In these circumstances, the NGF would support an AEMC recommendation in its Final Report to the MCE advocating the development of a formal inter-TNSP charging mechanism that promotes economic efficiency and facilitates cross-boundary collaboration between TNSPs. However, it needs to be considered in conjunction with the allocation of SRA sales proceeds and not as a separate issue. There may also be cross-border risk allocation issues to consider, particularly where the performance of one TNSP has the potential to impact on the performance of other, presumably adjacent, TNSPs.

In summary, we believe this issue is more complex than is implied in the Draft Report and it warrants much more consideration and input from stakeholders than is possible at this time given the very little information published to date on the matter. Therefore, we would be concerned if the AEMC continues to press for a final resolution of the issue within the limited time remaining for the completion of this Review.

4. *5-Year Review*

The AEMC has proposed a review of the NTP Advisory Committee after 5 years of operation. A minimalist approach would be to limit the scope of this review solely to the effectiveness of the Advisory Committee in raising the visibility of the NTP function and contributing to the achievement of the NTP Objective.

At the other extreme, it could be a much more expansive review including:

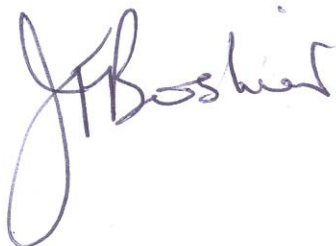
- A comprehensive performance audit of the NTP's initial years of operation;
- A policy review of the NTP's role in the NEM and the potential which exists to enhance its contribution towards achievement of the NEM Electricity Objective (and possibly its gas-related counterpart); and
- A consequential review of the NTP's legal, regulatory and institutional governance arrangements taking into account the findings of the above.

As the NTP is a totally new, untried initiative in the NEM and it is likely to be implemented in a form which falls well short of what we currently envisage is needed, the NGF would prefer a more expansive form of review.

We also suggest that it commence 3 years after the establishment date for AEMO. In our view, all stakeholders will by then have a view on the apparent effectiveness of the NTP in its appointed role, and they will also have gained a much clearer insight into the true potential, if any, of the NTP function to add further value within the NEM. It also places added pressure on the AEMO Board to progress the establishment of the new function and develop the processes for preparing the NTNDP as quickly as possible.

We would be pleased to discuss any of the matters raised in this submission with you or your staff in more detail at your convenience if you wish, and if you have any questions regarding this submission, please contact me on (02) 6243 5120.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'J Boshier', with a large loop at the end of the first name.

John Boshier
Executive Director