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Converting the Integrated System Plan into Action

Energy Consumers Australia appreciates the opportunity to comment on the Energy Security Board's (ESB) *Converting the Integrated System Plan into Action Consultation Paper* (the Paper) of May 2019.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We have engaged in the development of the first and second Integrated System Plan (ISP) because the decisions taken under it – particularly those to build long-lived electricity transmission infrastructure – will shape price and service outcomes for Australian households and small businesses for the next 50 years. The affordability challenges consumers are facing now must be the starting point for any consideration of new measures to manage the transformation of the energy system. The ISP and the rules that will give effect to it must ensure that, in simple terms, not a dollar more than is necessary is spent, not one day earlier than needed.

The Paper is addressing three of the recommendations (8,9 and 10) from the *ISP Action Plan* presented by the ESB to the COAG Energy Council:

- covering rule changes to replace the National Transmission Network Development Plan (NTNDP) by the ISP;
- to ensure refinements to the process are included in the next ISP; and
- to enable the ISP to fulfill some of the functions of the RIT-T process.

We understand that the ISP is to be more than simply an 'actionable' version of the NTNDP. The intention is for a plan that promotes the efficient achievement of emissions reduction goals while maintaining energy security through promotion of Renewable Energy Zones (REZ) and to provide a framework for government investment where required. This expands the role of the National Transmission Planner beyond that undertaken in the NTNDP and in both geographic reach and as a first step in the RIT-T process. This raises a question as to the ongoing relationship between the National Transmission Planner and Jurisdictional Planning Bodies.

In our view this consultation is important because it is about the rules and the guidelines about *how* the Australian Energy Market Operator (AEMO) will undertake this critical new, expanded planning task. AEMO will be undertaking this task at the same time as a paradigm shift in electricity services is occurring: from a system comprised of a small number of large things, to one comprised of a large number of small things.



There are two key implications for this consultation. Firstly, the ISP framework and the cultures of the organisations that will operate under it, will need to be able to cope with a greater degree of uncertainty and change. And secondly, the framework and the culture of these organisations will need to ensure that the larger and more diverse stakeholders who are not only served by the system but are increasingly investors in it, have their say in the planning process.

The consultation paper proposes a central role for Australian Energy Regulator (AER) guidelines in the ISP framework: one to govern the way AEMO undertakes the forecasting task, and another to govern the way it then assesses the costs and benefits of projects to upgrade/augment system infrastructure. It is critical that these guidelines reflect the latest engagement, transparency, forecasting, scenario planning and other methodologies that are relevant to ISP and the larger system optimisation task.¹

We also believe that consideration should be given to establishing a panel within AEMO – akin to the Australian Energy Market Commission’s (AEMC) Reliability Panel – to manage the ISP process. The ISP Panel should be supported by appropriate governance arrangements and provide a formal mechanism for consumer participation in the development of the ISP.

Issues raised in the consultation

The discussion above frames our response to the specific consultation questions raised in the Paper.

3.1 The ESB invites stakeholders to provide comments on whether the timing deadlines associated with the ISP process should be specified in the Rules.

A number of recommendations in the *Review of the Governance Arrangements for Australian Energy Markets* (the Vertigan Review) and the Australian Competition and Consumer Commission (ACCC) Retail Electricity Price Inquiry (primarily in relation to economic regulation of distribution networks) and experience in the National Electricity Market (NEM) has shown that being too prescriptive in the rules about process can limit the effectiveness of the framework. Generally, Energy Consumers Australia supports the proposition that the National Electricity Rules (the Rules) should simply require that an ISP be prepared every two years and that the process must adhere to ‘relevant guidelines issued by the AER.’

Two caveats are placed on this position.

- The need and purpose of a draft ISP must be specified in the Rules.
- An ‘ISP Panel’ should be created inside AEMO.

The discussions on making the ISP actionable have considered the desirability of the Draft ISP publishing identified projects and calling for proponents of alternate solutions (possibly ‘non-network’ solutions) to provide these in response to the draft. Priority transmission projects then still included in the Final ISP would include consideration of why the project is preferred to any alternatives either identified in planning or identified by responses to the Draft ISP.

¹ ECA in its submission to the AER Consultation on the Forecasting Best Practice Guideline is providing commentary about this wider view (ISP and Retailer Reliability Obligation) of the role of the Forecasting Guideline.



Both the Energy Reform Implementation Group (ERIG) recommendation on the National Transmission Planner function in 2007 and recommendation of the Independent Review into the Future Security of the National Electricity Market (Finkel Review) for integrated planning highlight the need for stakeholder involvement in developing ISPs. An 'ISP Panel' within AEMO, like the Reliability Panel within the AEMC, is a model that could appropriately embed stakeholder involvement in the process. We believe that the level of engagement on the plan envisioned by the Finkel Review could be enhanced by this arrangement.

3.2 The ESB invites stakeholders to provide comments on the governance framework that applies to the ISP.

We support the ESB proposal that the AER publish Cost-Benefit Analysis Application Guidelines that would enable consistent application across the ISP and the Regulatory Investment Test – Transmission (RIT-T). This, together with the processes associated with a Draft ISP above, would mean that priority projects were well advanced through the assessment process if included in the final ISP.

3.3 The ESB invites stakeholders to provide comments on the proposed guidelines in Box 1 and 2 above (in Italics) and whether further subordinate guidelines are required and if so for what.

Adding compliance elements to the ISP development process may unnecessarily complicate matters. Our view is that the requirement should be for the ISP to be accompanied by a statement demonstrating how the Forecasting Best Practice Guideline and Cost Benefit Analysis Application Guideline has been applied and identifying how comments on the draft plan have been incorporated/addressed.'

3.4 The ESB invites stakeholders to provide comments on whether the contingent project mechanism should be amended to provide more time for the AER to undertake its assessment.

The regulatory intent of the strict timelines applying to the inclusion of additional projects in the revenue base within a regulatory period is designed to benefit the applicant by ensuring that the AER considers the application in a timely way.

The ESB's suggestion is that these timelines could work against the interests of the applicant. Consequently, an amendment to the rules that allowed the AER to request additional time (at or near the start of the process) which the applicant can decide to agree to would provide the appropriate level of flexibility.

3.5 The ESB invites stakeholders to provide comments on the proposed dispute resolution framework.

We do not agree with the ESB's assessment that the process of developing the ISP involves steps that progressively lock down parts of the plan. While this is partially the approach today, it masks the fact that changes can be made in response to outcomes as various modelling processes are completed.

The best protection against the consequence of disputable input decisions is to increase the flexibility in modelling and to increase the range of sensitivity analyses undertaken. Hard work to select the 'right' values of input parameters is wasted if the sensitivity of the outcomes to the values chosen are not recognised.



That said, cases where the Forecasting Best Practice Guideline and Cost Benefit Analysis Application Guideline are not being followed by AEMO should be able to be referred to the AER at the earliest opportunity. This is then more about disputing the process rather than disputing the parameter value. The range of scenarios included at the start should (under best practice forecasting) be broad enough to consider all of the input values that stakeholders believe are credible.

3.6 The ESB invites stakeholders to provide comments on whether the Last Resort Planning function provides an appropriate safety net.

There should be no need to implement the Last Resort Planning function, but it does provide a mechanism that can be used if the ISP has identified a priority project that the Transmission Network Service Providers (TNSP) are not progressing (either with sufficient urgency or at all).

That a function such as this has not been called upon is not an indication that it is not needed, indeed its simple presence changes the motivation of TNSP response to planning.

Conclusion

The intent of the ISP is to be far more than simply an enhanced NTNDP that facilitates the bringing forward of transmission construction. In its response to the Energy Council the ESB needs to encourage the Council to act on recommendations 2.1 and 2.2 (in part) from the Finkel review.

The Rules framework for the development of the ISP needs to be as minimally prescriptive as possible and should include a specification of the role of the Draft ISP. Finally, we encourage the ESB to consider the option of creating an ISP Panel modelled on the Reliability Panel to provide cross industry governance of the project.

Thank you again for the opportunity to contribute to the development of the arrangements for the ISP. Please do not hesitate to contact David Havyatt, Senior Economist, on 02 9220 5500 or david.havyatt@energyconsumersaustralia.com.au, if you would like to discuss this submission further. Yours sincerely,

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