AUSTRALIAN ENERGY COUNCIL

Australian Energy Market Operator
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Submitted via e-mail to: ISP@aemo.com.au

Integrated System Plan Consultation

The Australian Energy Council (the "**Energy Council**") welcomes the opportunity to make a submission in response to the Australian Energy Market Operator's ("**AEMO**'s") *Integrated System Plan Consultation Paper* dated 18th December 2017.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over ten million homes and businesses.

Introduction

The Energy Council recognises the Finkel Review recommendation for AEMO, supported by transmission network service providers and relevant stakeholders, to develop "an integrated grid plan to facilitate the efficient development and connection of renewable energy zones across the National Electricity Market"[1]. AEMO explains that Renewable Energy Zones ("**REZ**s") are, "areas in the NEM where clusters of large-scale renewable energy can be developed to promote economies of scale in high-resource areas and capture geographic and technological diversity in renewable resources."[2]

Whilst the Energy Council understands AEMO's desire to take account of the REZ recommendation, it must also be recognised that at this time the REZ concept has no legal standing and that AEMO's planning approach needs to be guided by the framework in the current *National Electricity Rules*. This framework has been developed over many years, and its stability provides confidence for investors in the competitive sector to anticipate in what circumstances monopoly network assets will be developed.

This framework has been subject to numerous reviews during the life of the NEM, with many options for change being considered thoroughly, and then ultimately rejected. One of those considered was Scale Efficient Network Extensions ("**SENE**") which, after several years of analysis and debate, was implemented into the *National Electricity Rules* in a much reduced form. The concerns that led to that outcome may also emerge when the REZ concept is subject to more detailed assessment against the National Electricity Objective. Therefore it is important that AEMO's plan does not anticipate network planning framework changes that ultimately may not occur.

AEMO can overcome this conflict by ensuring that any REZs it promotes in the initial *Integrated System Plan* are only those that it considers likely to be found as economic under the existing Regulatory Investment Test for Transmission ("**RIT-T**"). This is effectively the same mandate that currently exists in the National Transmission Network Development Plan ("**NTNDP**") rules.

Assumptions around future generation investments is a critical question when judging the economics of network expansions of a REZ character. The existing RIT-T takes a conservative approach to these for good reasons:

- to reduce the risk that customers will be exposed to the cost of ultimately uneconomic monopoly extensions if the connecting generation does not eventuate;
- to encourage new generation to locate new assets in locations of spare existing network capacity first, thereby limiting unnecessary growth of monopoly assets; and

[1] Recommendation 5.1
[2] p.5

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- to promote an industry where competitive assets, i.e. generation and non-network options, lead the planning of monopoly assets, i.e. transmission, rather than vice versa, which would revert the industry to a centrally planned construct.

If a studied REZ appears likely to be uneconomic under the commitment assumptions obliged by the existing RIT-T, then this should be immediately noted and further assessment not progressed.

The Energy Council's caution also extends to Finkel Recommendation 5.2 that the 2019 plan identify REZs which require government support, i.e. network augmentations that are not economic in the existing regulatory framework but may have some other attraction to government. Such an approach seems contrary to AEMO's function in the existing *National Electricity Rules* and, since it includes state governments, seems contrary to AEMO's national planning role. The Australian Energy Market Commission is also captured by Recommendation 5.2, with its responsibility to first lay out a process for AEMO. The Energy Council believes that AEMO should await the development of the evaluation framework by the Commission, and this therefore should not be acted upon or otherwise pre-empted in the 2018 plan.

At page 50 AEMO suggests that, "If major infrastructure projects to link regions cannot be initially justified, the option value of linking projects at a later stage should be considered." Again, the Energy Council echoes its previous comment that economic justification should be the only basis for expending capital, the costs of which will be ultimately borne by consumers. It is important that AEMO further develops its approaches to analysing benefits, as outlined in Section 4.5[3], to ensure that assessments are justifiable and not misleading for project proponents investigating new generation opportunities.

To this end, the Energy Council cautions that AEMO's "staged transmission investment plan for TNSPs to follow" should not mandate transmission development, particularly over the ten year horizon mooted. Instead AEMO should continue in its existing function of *foreshadowing* transmission development of a national character that is likely to be found as economic under the existing regulatory framework. This will provide network companies and competitive investors an environment where transmission assets will be developed efficiently and predictably.

Conclusion

In conclusion, while the Energy Council supports AEMO developing an integrated grid plan, it must remain bound by its existing role and powers. These limit AEMO to providing recommendations to transmission providers to consider certain extensions of a national character that are likely to pass the well understood and prudent economic cost/benefit analysis of the existing RIT-T.

Any questions about this submission should be addressed to the writer, by e-mail to Ben.Skinner@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,

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[3] p.51

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