ISP 2022 Consumer Panel

AEMO

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Submission: Consultation on scenario refinements to the Draft 2021 IASR

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The Panel is encouraged that AEMO have made material changes to the scenario set on the basis of strong stakeholder feedback. The Panel broadly supports these changes but notes that some confusion remains amongst stakeholders.

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2.1 The Integrated System Plan (ISP)

AEMO's Integrated System Plan (ISP) establishes a whole-of-system plan for the efficient development of the NEM. It serves as an essential roadmap and vision to inform and guide the optimal mix of energy resources to deliver affordable, sustainable and reliable energy to households and businesses in QLD, NSW, the ACT, VIC, TAS and SA.

In July 2020, AEMO published the 2020 ISP, which identified the optimal development path for investment in the Transmission Network. AEMO updates the ISP every two years and development of the 2022 ISP is already underway. The 2022 ISP will be the third ISP from AEMO and the first that is subject to the full set of consultation and transparency arrangements under the National Electricity Rules.

2.2 The ISP Consumer Panel

The 2022 ISP Consumer Panel is a new advisory body set up under changes to the National Electricity Rules put in place since the 2020 ISP. The Panel forms part of the "ISP Oversight Framework" alongside the AER. We are required under the NER to publish two main reports (on the final IASR and Draft ISP).

We are a group of five individuals with long and diverse experience in the different facets of the National Electricity Market. You can read more about each of us on the AEMO website[1].

Our role is to provide independent advice and guidance to AEMO and therefore while we are independent of AEMO, we are remunerated by them and they provide us with administrative support as required under the NER.

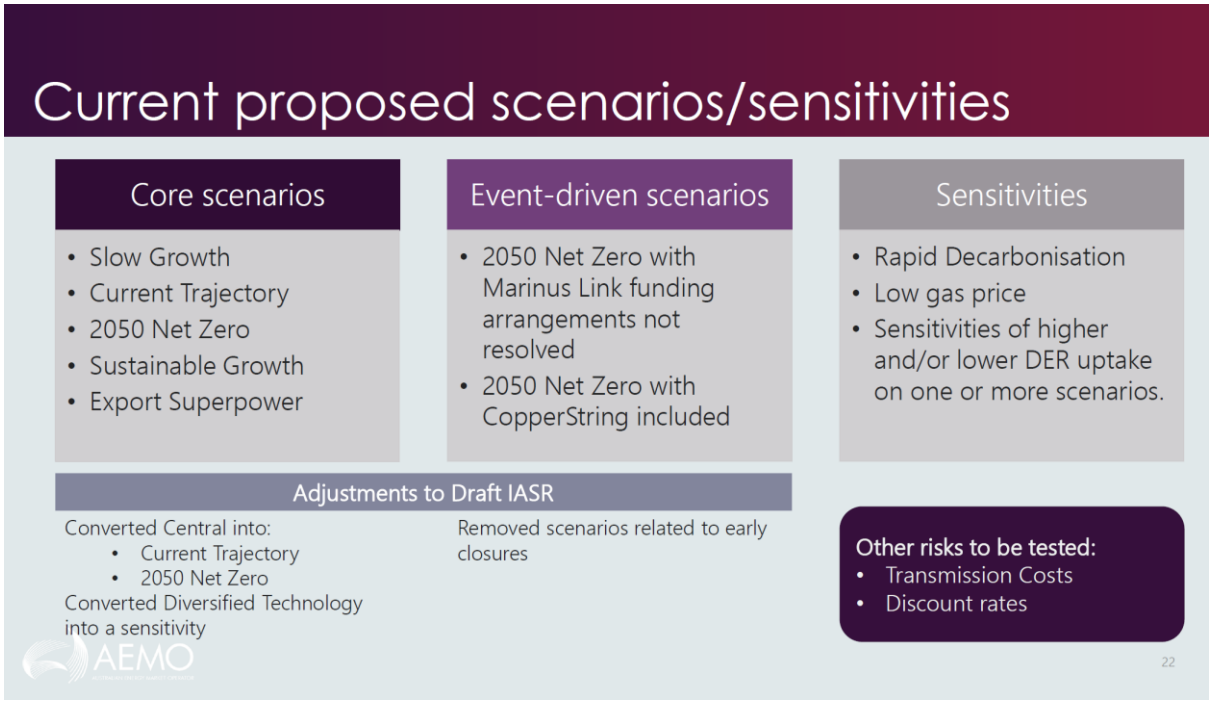
[1] https://aemo.com.au/newsroom/media-release/aemo-announces-isp-consumer-panel

3 Background

AEMO Consulted on the Draft 2021 Inputs, Assumptions and Scenarios (IASR) Report from December 2020 to 1 February 2021. AEMO also held a Forum for consumer advocates to provide verbal feedback on 4th Feb.

AEMO's response to the feedback received was presented at the Draft 2021 IASR Consultation Feedback Webinar, 3rd March. The AEMO presentation is available here and the webinar recording is available here.

Given the significant changes in the design of scenarios, AEMO has sought further written feedback on the scenarios and their settings. Submissions will be considered as a second round of consultation on Scenarios, before finalisation.



Stakeholder engagement has also identified that additional expert consultancies are desirable to inform key assumptions, including analysis of the appropriate discount rate to apply in evaluating market benefits from investments, and the scale of decarbonisation efforts that would be efficiently deployed across Australia's economy to achieve a net zero emissions transformation within the next 20 to 40 years.

4 Consumer Panel Comments

The Panel is encouraged that AEMO have made material changes to the scenario set on the basis of strong stakeholder feedback.

Under the AER ISP Guidelines[2] AEMO has considerable flexibility in developing the scenarios. The only *requirement* is to identify a 'most likely' scenario. The key question now for stakeholders is how AEMO will weight the scenarios and decide which scenario is the 'most likely'. The Panel is pleased AEMO has added a new 2050 Net Zero scenario but emphasises that AEMO needs to start consulting on the issue of scenario weights as a matter or priority.

However, the change in language from using a 'central scenario', the change in language from *risk scenarios* to *event-driven scenarios* and from a low-gas price *scenario* to a low-gas price *sensitivity* has led to some confusion amongst stakeholders.

The Panel is of the view that AEMO needs to further explain the difference between 'scenarios', 'sensitivities' and 'other risks to be tested'. In particular, further explain how 'sensitivities' and 'other risks to be tested' will be used in the ISP and by TNSPs in the RIT-T, such as moving low gas prices from a scenario to a sensitivity would appear to prevent TNSPs placing any weight on it in the RIT-T process.

The Draft IASR (see Table 5 below) proposed 5 potential 'risk scenarios' that sought to "*test the materiality of uncertainty associated with individual input parameters*" Two of these related to early closure of coal-fired generation.

Table 5 Possible risk scenarios

Risk scenario	Purpose
Central with early Victorian coal closure	To assess the potential for over-investment or premature investment in inter-regional transmission if local dispatchable capacity replacement is the only option available in time to respond to this early closure.
Central with early northern NSW coal closures	To assess the risk of under-investment or overdue intra-regional investment to support load centres in Sydney and surrounding areas.
Central with Marinus Link funding arrangements not resolved	To assess the risk of under-investment or overdue investment in other alternatives to this transmission option.
Sustainable Growth scenario with Central DER uptake	To assess the impact of more rapid development of VRE and under-investment or overdue investment in REZ transmission.
Central with CopperString* included.	To assess over-investment or premature investment in other REZ alternatives and under-investment or overdue intra-regional transmission investment in Queensland.

* CopperString refers to a proposed high-voltage transmission line that will connect the people and communities of Mount Isa and the North West Minerals Province in western Queensland to the NEM. It is a privately proposed transmission development; more information is available at http://www.copperstring2.com.au/.

[2] See Cost Benefit Analysis Guidelines pp11-13 https://www.aer.gov.au/system/files/AER%20-%20Cost%20benefit%20analysis%20guidelines%20-%2025%20August%202020.pdf

Our understanding from the AEMO webinar is that the adoption of stronger decarbonisation trajectories in the scenario set will account for earlier coal closures. However, on March 10, EnergyAustralia announced the Yallourn power station in Victoria's Latrobe Valley will retire in mid-2028 instead of 2032.[3] The announcement also included a commitment to build Australia's first four-hour utility-scale battery of 350 MW capacity by 2026 in the Latrobe Valley. We acknowledge that this is very recent news but encourage AEMO to take this opportunity to review how well the methodology accounts for early coal closures and clearly articulate that to stakeholders.

5 An eye to the 2024 ISP

Consistent with a recommendation in our submission to the Draft IASR, there is significant scope to improve the early engagement of consumer stakeholders during the scenario development phase of future ISP Development Processes. The Panel strongly encourages AEMO to consider the merits of using the same set of scenarios for two ISP iterations (at least). While some updating of assumptions and settings within the scenarios will be necessary, by maintain some consistency in the number, naming and broad narratives we would expect stakeholders will more easily engage in other aspects of the ISP methodology.

[3] www.energyaustralia.com.au/about-us/media/news/energyaustralia-powers-ahead-energy-transition