

# SUBMISSION

AEMC COORDINATION OF GENERATION AND TRANSMISSION  
INVESTMENT | 19 OCTOBER 2018



AEMC

Coordination of Generation and Transmission Investment Options Paper  
Attention: Elizabeth Bowron, Project Leader

Via: AEMC submission portal: [www.aemc.com.au](http://www.aemc.com.au)

19 October 2018

## EXECUTIVE SUMMARY

The EUAA have reviewed both the Coordination of Generation and Transmission and Investment (CoGaTI) Options Paper and the Integrated system Plan (ISP) and are concerned that we appear to be heading down a path where consumers will continue to shoulder the increasing cost and risk of major network infrastructure spending, including deep connection costs associated with new entrant generation, at a time when the consumer benefits of these investments are becoming more uncertain.

A well-developed ISP can facilitate much improved overall planning and co-ordination across the NEM to minimise the chances of building stranded or underutilised assets. However, the ISP is not a substitute for a full economic analysis and robust independent assessment. Projects identified in the ISP may be worthwhile, but they should still be required to undergo full, robust assessment under the RIT-T framework, which remains an important consumer protection.

Network investments the ISP is proposing will be in place for many decades during which time the transition of our energy system will proceed apace and in directions we may not contemplate or understand today. However, once they are locked into the regulated asset Base (RAB), consumers are stuck with paying for them regardless of the use or usefulness.

We do not want to be left with stranded or underutilised assets in the future that were built too quickly to cope with expanding Distributed Energy Resources (DER) in the same we were left with stranded or underutilised assets built to meet grid demand that never eventuated. We also do not want the current low interest rate environment (and hence low WACC environment) to prevent consideration of the potentially very high cost of inefficient investment when the interest rate cycle turns in the future. Cheap debt today does not automatically equal lower costs for consumers in the future.

Central to the ISP and CoGaTI is significant investment in Renewable Energy Zones (REZ's) and self-described "strategic assets" such as interconnectors. The stated objective in the CoGaTI of making the ISP "actionable" and the significant expenditure required to do so are concerning issues for the EUAA as there appears to be an assumption that more investment will necessarily mean better outcomes for consumers. We are not certain this assumption is correct.

The view that consumers should also pay for the deep connection costs of REZ is also a concern for the EUAA. We contend that a significant beneficiary of new REZ's are the project proponents, their investors and from time-to-time, state and federal governments. The EUAA are of the view that the risk and significant portion of the capital costs associated with the connection and operation of these assets should rightfully reside with those that are the primary beneficiaries and are in the best position to manage both costs and risks.

While consumers may receive some marginal price benefit from the operation of projects located in these zones, or indeed from the development of a new interconnector, given the fluctuating nature of the energy market these benefits may be fleeting at best.

The aim must be to reduce the amount of capital expenditure of future network projects that accrue to the participating TNSP's RAB and allocate risks appropriately such that those who have the most to gain and who are in the best position to manage volume risk are making a fair and equitable contribution to the project.

The EUAA are disappointed that initiatives aimed at achieving this outcome that were included in the initial CoGaTI Options Paper have been removed from the current Options Paper due to apparent time constraints and the desire to make the ISP actionable as soon as possible. We believe this to be a short-sighted view as kicking this can down the road doesn't solve the fundamental problem of risk and cost allocation that will only become more acute for consumers as time moves on and the ISP is actioned.

The EUAA encourage the AEMC to reconsider this latest move and quickly look to work with energy consumers and industry stakeholders in an accelerated format, on developing the appropriate rule changes that reallocates cost and risk more equitably.

If there is urgency around actioning the ISP then there should be similar urgency applied to ensuring the allocation of risk and cost is not fundamentally weighted against consumers. While these changes would not be ready for Group 1 projects it is reasonable to expect that they would be ready for Group 2 and 3 projects.

The AEMC has put forward 5 options for how the ISP could be made actionable by strengthening the link between the ISP transmission investment decisions. The options progressively provide AEMO with a range of control over transmission related investments.

On reviewing these options, the EUAA support a move to the framework in Option 2. We do see benefits in a more efficient information gathering and options analysis up front. Given we have only seen the first ISP, we do not support a move now to greater AEMO control beyond what is contemplated in Option 2 primarily because of the lack of clarity on five issues being – what reliability standard will be the basis of the AEMO analysis, whether the RIT-T framework will be vigorously used, the level of and support for consumer engagement by proposed by AEMO, clearer guidelines for different approaches e.g. firm access and third party contributions, and the uncertain oversight/governance role for the AER.

We readily accept the right of COAG Energy Ministers to seek objectives outside of the reliability standard or for economic development reasons. However, we do not think that the costs of these objectives should be met by electricity consumers. It is difficult to envisage the comprehensive consumer engagement AEMO would commit to in its preferred Option 4 when there was no consumer engagement developing the ISP.

We are open to considering moving to Option 3 or 4 in the future if these concerns are addressed.

The AEMC has sought feedback on the Regulatory Investment Test for Transmission (RIT-T) and if any changes may be required to it in order to make the ISP “actionable”. The EUAA does not support material changes to the RIT-T given it has recently been reviewed by the COAG Energy Council who concluded no material change was warranted.

The EUAA would question any rationale that seeks to dilute or diminish robust, independent economic analysis so that the ISP or any other self-proclaimed “strategic” project, which has not been subject to this type of assessment, can be actioned.

Quite simply, consumers who are already dealing with final bills loaded with the enduring cost of inefficient investment and inequitable risk allocation will find it difficult to support what can be perceived as back door change in the reliability standard and support for a large capex pursued by those who do not pay the cost or accept the risk.

Once again, the EUAA welcomes this opportunity to make a contribution to the CoGaTI Options Paper, would welcome further dialogue with the AEMC and would be pleased to facilitate deeper engagement with our members should it be desired.



Andrew Richards

CEO

19 October, 2018

## INTRODUCTION

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined they employ over 1 million Australians, pay billions in energy bills every year and are desperate to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

We welcome the opportunity to make a submission to the Coordination of Generation and Transmission Investment (COGTI) Options Paper. It comes at an important time for energy markets and, along with the AEMO Integrated System Plan (ISP), represents something of a fork in the road for energy consumers.

We have reviewed both the CoGaTI and ISP and are very concerned that we are set to head down a path where consumers will continue to shoulder the cost and risk of the energy transition with no practical means of managing these risks.

We are particularly disappointed that the current version of the CoGaTI does not include a number of reform concepts from previous versions that would have begun to address the current risk and cost allocation of new network and generation investments e.g. firm access. We find the reason for not considering these – too time consuming as difficult to understand when the implementation of options 4 and 5 would be very time consuming.

We are concerned that the ISP does not appear to provide sufficient weight to both non-network and non-transmission solutions. Non-network or “behind the meter” solutions are being driven by changes in consumer behaviour and state-based policies such as the recently announced 650,000 solar PV plan by the Victorian Government. While we recognise this is difficult for AEMO to plan for, this type of government initiative will continue to have a profound impact on transmission and interconnector viability. Non-transmission solutions, such as seeking to maximise underutilised capacity in distribution networks before committing to additional transmission capacity or Renewable Energy Zones (REZ's), seems a logical step given these network assets are already being paid for by consumers.

Finally, while we support the ISP as an important first step in understanding the broader interactions between jurisdictions and as a guide to potential future investments, we are concerned with the urgency to make it “actionable” given that the definition of “actionable” seems to be “quickly build new assets”. This urgency appears to be placing the ISP above important safeguards such as the RIT-T, the continuing role of the AER as the key economic regulator and investment watchdog and the principles of fostering competition where possible.

With this in mind, our submission seeks to provide a consumer perspective of the current state of energy markets and our concerns regarding current assumptions and the future direction that market participants and regulators appear to be heading. We hope this will provide some context for the positions we are adopting.

These issues laid out, we will then suggest a number of reforms to the current market arrangements that seek to re-balance the cost and risk equation of future generation and network investments such that the entire burden is not shouldered by consumers.

## **A CONSUMER PERSPECTIVE OF THE ENERGY MARKET**

Energy markets have been in transition for almost twenty years commencing with the privatisation of the Victorian energy system (followed by other jurisdictions) that not only fundamentally changed the ownership structure of our energy market but saw the introduction of an entirely new set of objectives and obligations of a different type of owner.

On top of this, the political chaos of the last decade combined with a paradigm shift in the very nature of our energy system has created new risks and challenges for all market participants. It is clear to the EUAA that this transition will continue, at pace, for some time to come.

All of this means we will continue to see significant changes in the structure of energy markets and the nature of its participants. To date this transition of our energy system has not been well managed, for a variety of reasons, which has resulted in a chaotic period for the energy industry, increased risk for investors and higher prices for consumers.

Despite the best efforts and general agreement by a vast majority of energy industry stakeholders, this chaos is set to continue with the rejection of the National Energy Guarantee (NEG). We had hoped the NEG would have delivered some level of stability to the transition already underway.

In particular, we believe the Reliability Guarantee could have played an important role in maintaining system reliability by supporting both the continuation of dispatchable resources in the NEM and providing a market environment for new resources to be deployed as we transition to a lower carbon, but more variable and dispersed energy supply.

Running parallel to the NEG, the ISP and CoGaTI have sought to provide some high-level planning and coordination for the deployment of new forms of large-scale generation and associated transmission infrastructure, including greater interconnection between jurisdictions.

Consumers themselves have been reacting to government incentives, significant increases in network costs, a volatile wholesale market and perceived poor service from retail participants to install behind the meter technologies such as solar PV in record numbers.

Many EUAA members have also sought out non-traditional suppliers of energy through corporate power purchase agreements with renewable energy suppliers and are looking to invest in energy efficiency, on-site generation and demand response capability.

This growing “non-network” solutions sector is rapidly evolving driven by improving technology, reducing costs and a desire to reduce exposure to the traditional players whom they believe have not served their long-term interests. If this is any indication then the key objective of the NER, that the market should serve the long-term interests of consumers, is not being met, at least in the eyes of many energy users.

Feedback from energy users also indicates that faith in our regulatory bodies has also been shaken in recent years. The perceived failure to stem the tide of ever-increasing network charges, the inability to manage the market dominance of vertically integrated retailers, the reluctance to assist in the progression of rule changes that may advantage customers or opaque management of system security that only seems to result in higher costs for energy users with no apparent benefit, are all examples that energy users point to as failures of a system designed to protect their long-term interest.

Perceived or real, these issues undermine energy user confidence that regulatory bodies, policy makers and market participants can be trusted to coordinate the roll out of generation and transmission investment over the coming decades in a way that doesn't leave them carrying the risk and cost of poor investment decisions by others.

On behalf of our members, we suggest that continuing on with a status quo system that has not served the long-term interests of consumers is not an option. We strongly recommend that a re-set is required that re-allocates risk and cost more equitably than is currently the case.

## GENERAL COMMENTS ON COGATI AND ISP

### Risk allocation needs re-setting

We acknowledge there are good reasons to support a more coordinated approach to generation and transmission investment including greater interconnection between jurisdictions as identified in the ISP. A level of centralised planning envisaged by the ISP would improve information exchange and system knowledge of market participants and could lead to a more coordinated and therefore cost-effective deployment of network and generation assets. We also acknowledge that interconnection between states can provide greater flexibility for market participants and the system operator and could foster more competitive markets.

However, we are concerned that the rapid rate of change in technology, fundamental changes in end user behaviour and significant political and regulatory uncertainty materially increase the future risks associated investments proposed in the ISP. The key driver of the ISP is the rapid nature of the energy transition, yet AEMO does not seem to see that huge investment in long lived assets may have considerable stranded asset risks from this very energy transition.

The past approach where governments owned the entire energy value chain, for and on behalf of taxpayers, commercial issues like funding and short-term financial outcomes were not seen as significant issues. Equally, these assets were built in a far more stable market and political environment where the total system cost could be socialised.

Now the regulatory framework provides a propose/response model to enable consumers to participate in the process to arrive at the level of costs – operating and capex – a network is allowed to recover for regulated services. Key to consumer comfort that this process produces robust results for TNSPs is the RiT-T process – not just for new investment but now also for replacement investment. As the CoGaTI notes<sup>1</sup>:

“...there are risks in having too much, or too little, transmission capacity. Consumers will bear these risks through either:

- paying higher than necessary network charges, if the network is oversized; or
- reliability issues, or higher electricity prices if congestion occurs where the network is undersized.

Even if a project passes the RiT-T test and the capex is included in the RAB, consumers still bear the risk that the modelled benefits do not eventuate. This issue is magnified in a market undergoing such fundamental changes as we are currently witnessing. Hence the need to have rigorous analysis of investment proposals – and a WACC that appropriately reflects the risk allocation post construction. As COGTI says (this is one of many places)<sup>2</sup>:

“Transmission assets can be very expensive, running into the billions of dollars. Once they are built, consumers pay for them for decades. The process for managing the risk that consumers pay for underutilised or inefficient investments must therefore be rigorous and transparent.”

Key to managing this risk is:

- (i) setting a reliability standard that is supported by consumers – the 0.002% USE that should serve as the basis for investment evaluation,
- (ii) the use of the RiT-T process to evaluate investments,

<sup>1</sup> Page 24

<sup>2</sup> Page i

- (iii) allocating the risk to the party best placed to bear it, and
- (iv) setting the rate of return to reflect that efficient risk allocation

EUAA members have confidence in the process used to set the reliability standard and see that it has not been breached for many years in the NEM. They are much more focussed on affordability than reliability. This view is common across consumer groups. The Consumer Reference Group in its second submission to the AER Rate of Return review referred to the<sup>3</sup>:

“...consumer preference for a higher reliability risk in return for lower prices.”

The CRG saw the lower equity return in the AER’s Draft Guideline as more reflective of the much greater risks that consumers bear vs networks. Consumers do not want a planning framework seemingly imposed a more stringent reliability standard than they are not willing to pay for as a basis for assessing investment decisions. In our view this simply increases the consumption/demand risk consumers face.

The ISP seems to make the assumption that building new infrastructure will always be in the long-term interests of consumers. Rest assured, this assumption is not supported by energy users and will be further tested with the introduction of the REZ concept.

In their April 2018 Discussion Paper, Coordination of Generation and Transmission Investment, the AEMC have stated that one of the key aspects of transmission framework within the NEM is efficient risk allocation:

*“A key consideration that should be taken into account when determining arrangements for REZ’s is who is best placed to manage risk...The Commission does not necessarily think it is appropriate for consumers to bear the costs associated with centralised resources (e.g. large-scale generation and transmission). This risk is likely to be better placed with the generation and transmission businesses themselves.”<sup>4</sup>*

We would contend that a significant beneficiary of new Renewable Energy Zones will be the project proponents and their investors. Consumers have no control over the financial viability or operation of these assets but will carry the cost while the project developers connecting into a REZ would gain significant financial benefit from doing so given their “free access” to the NEM this would provide.

The EUAA are of the view that the risk and significant portion of the capital costs associated with the connection and operation of these assets should rightfully reside with the project owner/operator given they are the primary beneficiaries and are in the best position to manage both costs and risks. While consumers may receive some marginal price benefit from the operation of projects located in these zones, or indeed from the development of a new interconnector, given the fluctuating nature of the energy market these benefits may be fleeting at best.

So, we are disappointed that the CoGaTI paper specifically excludes any consideration other than open access.

It is our view that the cost and risk must be rebalanced such that those who have the most to gain financially and are in the best position to manage risk, need to take on an equitable portion of the costs.

In the case of REZ’s and the ISP, much of this additional investment is largely driven by a need of new entrant generators to gain access to the National Electricity Market, from which they will gain significant financial benefit. In some cases, these additional investments (including interconnectors) will help to support state and federal government policies such as the continued roll out of renewable energy and the regional economic benefits that flow.

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<sup>3</sup> (CRG) [“Submission to the AER - Response to the Rate of Return Draft Decision” p.v](#)

<sup>4</sup> AEMC Discussion Paper, Coordination of Generation and Transmission Investment: Page 64  
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In essence, we believe these REZ related assets, being built specifically for new entrant generators, should be considered dedicated connection assets. We agree with AEMC position, outlined in their April 2018 Discussion Paper, that there is little justification for the consumers to effectively subsidise new entrant generators selling into the NEM.

“Under the transmission framework, as amended by the TCAPA Rule from 1 July 2018, the assets associated with REZ’s would most likely be considered dedicated connection assets and identified assets that are required to connect a group of generators to the shared transmission network. In other words, these assets would be considered connection assets, providing connection services, and so would be paid for by the connecting party/is ( i.e. generators).”<sup>5</sup>

We recognise that moving to generator co-contribution could result in slightly higher contract prices (i.e. PPA’s) as project proponents seek to recover these additional costs. So yes, while the customer will always pay we should not continue to be asked to absorb aspects of project risks and costs that we have no control over or be faced with paying “full weight” for underutilised assets. Further, we contend that that exposing more network costs to open markets and competition will drive better outcomes for consumers compared to a regulated environment that, despite good intentions to deliver a result that replicates a competitive market outcome, has not always proven to be so.

Recovery of these costs from generators could be managed in a number of ways including:

- Capital cost recovery from generators as they connect based on the total installed capacity of the asset (expressed either in MW or % of line capacity). The assessed capital contribution would then be deducted from the RAB of the participating TNSP’s in a form of “reverse contingent project” process. There already exists a contingent project process for adding capital to a RAB in the middle of a regulatory period so a precedent exists for mid period adjustments.
- Several options for providing generators with firm access in exchange for co-contribution to deep augmentation costs are:
  - Optional firm access: This would allow generators to purchase a partially firm financial access right to the regional reference node, at a regulated price in order to manage the financial impacts of network congestion. Generators would be entitled to compensation if constrained below their level of firm access. This would change the way in which transmission and generation investment decisions are made, and would mean generators would bear more of the risk associated with some transmission investment. In effect this would introduce firm transmission rights, while providing locational (nodal) pricing signals to generators.
  - Locational marginal pricing, with deep connection charges: This would establish sub-regional pricing, and generators would have access to their locational marginal price, but would also be able to purchase optional fully firm financial access to defined trading hubs. In order for generators to be able to acquire access rights beyond those available through the existing system, they would have the option of paying deep connection charges, for which they would also receive optional fully firm access. In essence, this option would provide generators with fixed financial access, compared to optional firm access where only firm financial access would be provided (i.e. there would be times under an optional firm access model where there would be operating conditions under which the capacity of the transmission network would be reduced and so access for firm generators might also correspondingly be reduced. The deep connection charge would not reflect locational differences in costs.

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<sup>5</sup> AEMC Discussion Paper, Coordination of Generation and Transmission Investment: Page 56  
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- Government equity participation that would have the effect of reducing the capital expenditure by participating TNSP's, reducing the amount of project cost that would be incorporated into the RAB.
- Access to more favourable debt via the Clean Energy Finance Corporation or Future Fund contribution, having the effect of lowering overall capital costs of the project.

We recognise that some of these co-contribution options would require changes to the current open access rules but we felt it necessary to raise these issues in this submission to highlight the need for a revised approach.

Regardless of the method of co-contribution, the aim must be to reduce the amount of capital expenditure of the project that accrues to the participating TNSP's RAB and allocate risks appropriately such that those who have the most to gain and who are in the best position to manage volume risk are making a fair and equitable contribution to the project.

We are disappointed that the above initiatives have been removed from the current Options Paper due to apparent time constraints and the desire to make the ISP actionable as soon as possible. We believe this to be a short-sighted view as kicking this can down the road doesn't solve the fundamental problem of risk and cost allocation that will only become more acute for consumers as time moves on and the ISP is actioned.

We encourage the AEMC to reconsider this latest move and quickly look to work with energy consumers and industry stakeholders on developing the appropriate rule changes in an accelerated format.

If there is urgency around actioning the ISP then there should be similar urgency applied to ensuring the allocation of risk is not fundamentally weighted against consumers. If this occurred it would not be in their long-term interests.

**We need to be clear about the NEO and who pays for what.**

The COGTI notes that two important questions arise from the ISP, one of which is<sup>6</sup>:

“What is the relationship between the ISP and government policy objectives that are beyond the scope of the NEO?”

The NEO, as stated in the NEL, is:

“to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to: price, quality, safety and reliability and security of supply of electricity; the reliability, safety and security of the national electricity system”.

Robust, independent economic assessment, such as the RIT-T is directly related to the NEO in promoting “efficient investment” as it requires TNSPs to consider all credible options to find the one that maximises net economic benefits.

The COGTI also comments that while AEMO must have regard to the NEO in designing the ISP, it notes there are broader policy objectives that may impact on the energy market, mentioning objectives around State Government renewables policy and Commonwealth Government emissions reduction policies.

We would caution any attempt to use the ISP process as a “back door” way of changing the NEO or diluting/avoiding RIT-T assessment. Any change in the NEO such as including a sustainability objective should be done in the context of a formal review of the NEO. There is a legitimate debate to be had around the inclusion of sustainability objectives in the NEO but having it as part of a debate on how to speed up the implementation of the ISP is not an appropriate approach.

This does not preclude the COAG Energy Council from providing formal advice to AEMO specifying sensitivities around which analysis would be done. As the COGTI notes<sup>7</sup>:

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<sup>6</sup> Page 18

<sup>7</sup> ibid



“Such an approach would also assist governments to understand the costs and how government policies can shape the development of the transmission network.”

This approach would provide clarity on the costs to meet outcomes that are not consistent with the NEO and hence the share of the investment cost that Governments should fund above what consumers are prepared to pay for through the RAB.

**We do not accept that “faster is better”**

The COGTI highlights concerns that have been expressed about the pace of development of network investment, particularly ISP identified Group 1 and Group 2 projects. The ISP argues that<sup>8</sup>:

“AEMO recommends that these network investments be progressed as soon as possible, because of the identified benefits they provide immediately, and the support they deliver to achieve the highest consumer economic and system security and reliability benefits over a range of modelled plausible scenarios.”

At the 9<sup>th</sup> October forum, AEMO argued that any delay in Group 1 projects will forgo significant benefits and that these projects need sign-off by mid-2019. This could be achieved, for example, by a COAG direction or an expedited rule change.

The need to review projects on a faster timescale is seen as justification for the AEMO preference for Option 4 on strengthening the link between ISP investment decisions. It notes<sup>9</sup>:

“The AEMC acknowledges the concerns of some stakeholders that these arrangements are not facilitating the delivery of the transmission investments that may be needed to deliver the ISP within the timeframes identified in the ISP.”

This is the basis for making the ISP “actionable”, this is to make investment happen faster or what is referred to as:

“...in a timely manner. There may also be scope to identify improvements to the various stages in the investment decision process, including those parts that are regulated by the NEL/NER and those that aren’t, to promote timeliness and process efficiency.”

The EUAA does not share this view. The ISP did not undertake a RIT-T analysis. These projects are currently being evaluated either through a RIT-T or exemption (for SA system strength project) process which will provide an answer as to their lasting, material consumer benefits

We also do not accept the view expressed in the form of “given the estimated \$450-650m cost is relatively small compared to total RABs, it is reasonable to fast track them” or “it is clear that these investments are ‘no regrets’”.

The ISP also strongly supports the development of Riverlink and other associated Group 2 projects<sup>10</sup>:

“The analysis in the ISP supports a new interconnection between South Australia and New South Wales (RiverLink). The ISP has identified a range of further expected benefits from RiverLink, which as well as improving resilience for South Australia, would enable connection of large amounts of renewable energy resources from the Riverland to Murray REZ, as well as improving inter-regional trade and competition, especially if linked to developments to support the Snowy 2.0 project in the 2020s and planned augmentation of the Victorian to New South Wales interconnection in Group 3.

yet:

- the recently published submissions on the PADR for RiverLink shows consumers have great concerns about the economic case advanced by Electranet<sup>11</sup> and this concern is shared by generators<sup>12</sup>.

<sup>8</sup> ISP p. 8

<sup>9</sup> Page 17

<sup>10</sup> ISP p. 8

<sup>11</sup> See submissions from ECA, The Energy Project, PIAC, Business SA and EUAA <https://www.electranet.com.au/projects/south-australian-energy-transformation/>

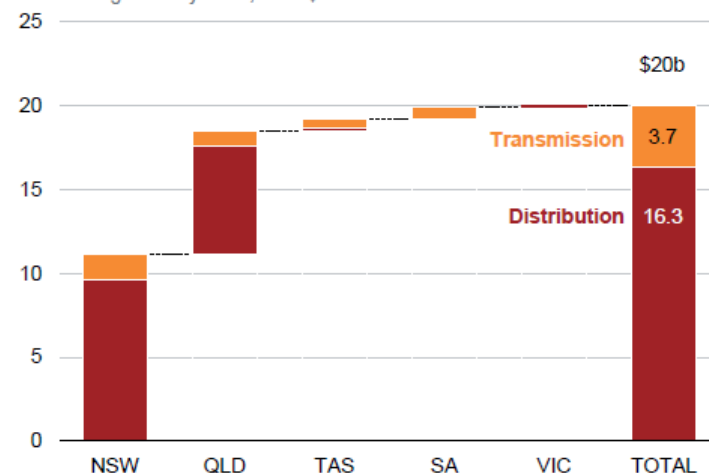
<sup>12</sup> E.g. see the submissions of Energy Australia and the Australian Energy Council

- there is considerable debate around the economics of Snowy 2.0 so it seems unusual to consider the benefits of Snowy 2.0 in an assessment of RiverLink

It seems that the only stakeholders who are clamouring for “quicker is better” are those who do not have to pay for the investment and accept the risk that the benefits do not accrue over its life. Based on the Grattan Institute’s research, consumers have been and will be paying for \$20b of what were sold at the time as “no regrets” investments.

**Figure 3.1: Network assets are over-valued by up to \$20 billion based on network use**

Excessive growth by state, 2017\$ billions



Note: See Box 2 on page 22 and Technical Supplement for our methodology.

Sources: Grattan analysis of network determinations (AER (2018a)), performance data (AER (2017a), AER (2017c) and AER (2018c)) and historic reports.

**A significant part of that over-investment was due to higher reliability standards; a repeat of this must be avoided**

The discussion in the ISP and the COGTI is dominated by the discussion of “the reliability and security requirements of an integrated grid” and “the need to ensure reliability and security in the transition to more distributed generation”. However, it is unclear in the ISP modelling if it designed to achieve the reliability standard or a higher standard. In discussing the mix of generation in the forecast, the ISP says<sup>13</sup>:

“More work however is needed to ensure that the reliability standard can be achieved with this mix of generation.”

And goes on to say<sup>14</sup>:

“The ISP is not a capacity adequacy assessment, and is not equivalent to the detailed assessments required to project the achievement or not of the Reliability Standard. The Electricity Statement of Opportunities (ESOO) fulfils this role.”

The only other reference to the “reliability standard” is on page 98 referring to the impact on the standard of the unexpected exit or failure of coal plant in NSW or Victoria.

Given this lack of reference to the Reliability Standard we are concerned that AEMO may be seeking to apply a standard different to 0.002% USE. This is certainly the approach of AEMO in the AEMC’s consideration of the RERT as it seeks to apply a standard of a reliable operating state where there can be no load shedding.

The EUAA strongly supports the Reliability Standard as currently expressed. The AEMC has recently completed its 4-yearly review of the standard, re-affirming its application across NEM planning. No submission sought to change the standard. The EUAA believe that any consideration of ISP related investments has to be in the context of the existing Reliability Standard.

<sup>13</sup> ISP p. 36

<sup>14</sup> ISP p. 36 footnote 35

## The RIT process is not the problem and is important to retain – with improvements

The underlying assumption in much of the AEMO proposal and the options presented seems to be that there is a fundamental problem with the RIT-T process – that it is a barrier to the range of network investment that AEMO considers is required. We do not share this view.

The COAG review summed up the RIT-T process well<sup>15</sup>:

“Simply put, the RIT-T plays the role of gate-keeper—ensuring that consumers only pay for investments that are economically efficient and optimal overall for the NEM. It aims to ensure that all credible options for addressing an identified need are considered, and that the relative merits of network and non-network options are considered on an equal footing.

The COGTI options paper points to what some stakeholders see as a lengthy timetable<sup>16</sup>. We see this as an indication of a thorough process. As we noted previously, faster is not always better. A lengthy process may mean that a project does not proceed or that it proceeds with a delay or design alteration – all of which can be consistent with the NEO. The COAG RIT-T review concluded<sup>17</sup>:

“The review considered, but found no evidence to warrant, options to streamline the test by shortening consultation and/or lessening requirements around the cost-benefit analysis in certain circumstances. The underlying issues which have led to protracted processes, in some cases, appear to stem from contention between project proponents, interested stakeholders and proponents of competing options rather than the design of the test or its governance. Any paring back of current timeframes would compromise the ability of the test to effectively identify and assess all credible options.”

The recent AER review of RIT-T guidelines found strong support for the process. Consumers welcome the opportunity to be involved and provide robust critiques at each stage.

The AER’s current role:

- set the guidelines under which the RIT-T process is undertaken
- at the end of the process assess whether the guidelines have been followed and,
- in the next regulatory period, assess how much should be put into the RAB.

should be expanded to include:

- greater oversight through the process
- greater consideration of options values, and
- a review process, perhaps at 3-year intervals after commissioning of the project, on whether the benefits assessed in the original RIT-T analysis have been, and are likely to be, realised

We also see the benefits from improving the efficiency and timeliness of the initial information gathering and options stages analysis through a more mature and well-developed ISP process. This is why we support Option2.

## Let’s not confuse what consumers are prepared to pay for and what COAG Energy Council might consider required

Energy users are prepared to pay a reasonable price for a service delivered efficiently. As noted previously, in the current context, two key building blocks to getting some confidence on this efficiency are the 0.002% USE reliability standard and the RIT-T process. Consumers have actively engaged over many years on developing the reliability standard and are comfortable with it being an appropriate trade-off between reliability and cost. As the COAG review noted, consumers look to the RIT-T process as the “gate-keeper”.

<sup>15</sup> COAG Energy Council “Review of the Regulatory Investment Test for Transmission RIT-T Review” 6 February 2017 p.10

<sup>16</sup> Pp 66-67

<sup>17</sup> COAG Energy Council “Review of the Regulatory Investment Test for Transmission RIT-T Review” 6 February 2017

The EUAA is happy to accept the COAG Energy Council changing either of these building blocks – as long as consumers do not have to directly bear the costs in their TUOs charges.

If Ministers wish to provide directions, such as on a different reliability standard or a specific scenario that is outside these parameters, then the role of the RIT-T analysis is to highlight the additional costs that result and the network to seek funding for that additional cost from outside of the regulated revenues.

**Any change will require considerable consumer engagement resources that consumers do not have**

CoGaTI recognised that<sup>18</sup>:

“There is a need for robust stakeholder consultation throughout the investment process under all of the five options”

This robust consultation covers being heard in the development of inputs and assumptions that help identify needs and options, process of decision making and the ability to challenge inputs, assumptions and decisions.

While there is growing consumer engagement with the AER revenue reset process (particularly after the abolition of LMR), there has only been very limited involvement in RIT-T and RIT-D matters. For example, the EUAA recently made a dispute application to the AER relating to an Ausgrid RIT-D project – only the second time a dispute had been raised for a RIT-T or RIT-D matter.

Given that there was no consumer engagement by AEMO as it developed the ISP, we look forward to more evidence that AEMO is willing to undertake best practice consumer engagement under the “involve” collaborate” and “empower” parts of the spectrum before we will have confidence to consider moving toward the Option 4 favoured by AEMO.

Consumer advocate resources are greatly stretched and we can only cover a fraction of the consumer engagement opportunities we are invited to participate in. Discussion at COAG around funding models for consumer engagement seem to have floundered.

COGTI notes that:

“ In the AEMC’s view, the options to the right side of the table, under which AEMO has greater responsibility for the stages in the investment process, would require a more robust and prescriptive consultation process through the ISP than is currently the case.”

The lack of consumer resources for this engagement is one of the reasons we do not support options 3, 4 and 5

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<sup>18</sup> Page 25

## RESPONSE TO OPTIONS PAPER QUESTIONS

### Chapter 4 – Marking the ISP an actionable strategic plan

Question	EUAA Response
<p>Q1.</p> <p>Questions arising from the ISP</p>	<p>It is stated that the ISP is a cost-based engineering optimization plan that identifies potential transmission investments that AEMO deems necessary to support the long-term interest of consumers.</p> <p>While the EUAA see the ISP as a useful planning document and potential guide for market participants, investors and governments, it is primarily an engineering document.</p> <p>We are not convinced that the ISP is a robust financial document and do not see it making a compelling “business case” for full deployment of the ISP elements.</p> <p>We are concerned with the current tone of the conversation that the ISP must be made actionable, seemingly at all costs. We do not think ISP should take primacy over existing consumer safeguards such as RIT-T or robust assessment by the AER</p> <p>Finally, we feel that non-network solutions have not been sufficiently considered in the ISP. We are also concerned that non-transmission solutions, primarily being the better utilisation of distribution assets, have not been considered at all meaning that potential value is being paid for by consumers via existing RAB’s, but not used to their full potential.</p> <p>We would much prefer that assets already being paid for by consumers are used before additional network investments or significant upgrades to existing assets are made.</p>
<p>Q2.</p> <p>Interaction between the ISP and government policies</p>	<p>We think it is appropriate for governments (either individually or via COAG Energy Council) to provide formal advice to AEMO as to what policies or scenarios should be modelled in the ISP, recognising that at times these will be conflicting.</p> <p>Ideally, for the ISP to maximise its usefulness, the COAG Energy Council should provide an agreed set of policies or scenarios to be modelled. This has been an elusive outcome and emphasises that even with an ISP, political risks will remain until bi-partisan agreement on energy policy is reached.</p> <p>Until that time, individual jurisdictions will continue to move in their different directions, making the task of developing the ISP more difficult than it need be. This also increases the risks associated with making long-term investments based on ISP assumptions that can change from year to year, which at the moment are entirely paid for by consumers.</p> <p>Therefore, we would caution against an “ISP or Bust” approach where actioning the ISP takes primacy over robust, independent financial assessment.</p> <p>If there are directions from Government(s) to consider matters that are outside the RIT-T scope then the cost of these directions should be met by outside funding sources, especially where they are the beneficiaries of the investment, and not electricity consumers under the networks regulated revenues.</p> <p>We also think it appropriate that the risks and costs of these investments are spread across those participants that are in the best place to manage them including market participants (i.e. new entrant generators), investors and governments, the latter whom are pursuing their own political agendas.</p>

<p>Q3. “Strategic, national” investments and regional investments</p>	<p>The ISP is a transmission and large scale-generation engineering plan which, by its definition, focusses on what would be considered “strategic, national” investments.</p> <p>While this may have been AEMO’s “brief” we feel that non-network solutions have not been sufficiently considered in the ISP. We are also concerned that non-transmission solutions, primary being better utilisation of distribution assets, have not been considered at all.</p> <p>We would note that just putting “strategic” in front of something shouldn’t automatically elevate it above proper scrutiny nor should it be pursued blindly while ignoring a range of other options.</p> <p>If governments (state or federal) were to deem an initiative as “strategic” then we would suggest they assist in its funding, ensuring consumers don’t carry the entire cost and risk associated with what may be a political or state centric decision.</p> <p>If the long-term interests of consumers are at the heart of the ISP than a “Total Integrated System Plan” should be developed that delves deeper into the interactions between non-network solutions and maximising existing, underutilised distribution assets.</p>
<p>Q4. Risk allocation</p>	<p>See our comments above on “Risk Allocation needs Resetting”</p>
<p>Q5. Level of consultation required under each of the options and how the ISP could be made actionable</p>	<p>We agree with the statement made in the Options Paper that “Confidence in the planning process will likely become more important if the ISP is to be actionable.”</p> <p>The EUAA are involved in between 6 to 8 network price re-set processes at any one time and have seen consumer consultation improve dramatically over the last 2 years.</p> <p>While some market participants are better than others, it is clear that those who engage in a meaningful way with consumers tend to achieve better overall results in terms of reputation, trust and long-term financial sustainability.</p> <p>Despite some improvements, more work needs to be done which is why we would like to see the International Association for Public Participation (IAP2) framework adopted by market participants and regulators as a means of better engagement with consumers. In this case that consultation needs to be well down the “involve” collaborate” and “empower” parts of the spectrum</p> <p>Given the lack of AEMO consumer engagement as it developed the ISP, we are yet to be convinced that AEMO will undertake the level of consumer engagement required to implement its preferred Option 4.</p> <p>Adopting the IAP2 principles and seeking to move along the Public Participation Spectrum would demonstrate real commitment to delivering outcomes that are in the long-term interests of consumers.</p>
<p>Q 6-10. The Commission has articulated five possible options for how the ISP could be made actionable, and incorporated into the existing regulatory framework</p>	<p>Of the 5 options put forward in the Options Paper, options 1 and 2 appear to be reasonable next steps.</p> <p>Option 1: Requirement for TNSP’s to consider ISP identified needs in their TAPRs is a small step beyond what currently occurs, especially given TNSP’s already provide significant input into the ISP and therefore would already be considering these potential investments.</p> <p>Option 2: Requirement for TNSP’s to conduct RIT-T on ISP identified needs and options appears to be a reasonable next step in the coordination role of the ISP.</p>



	<p>We agree with the AEMC that, based on TNSP feedback, this option could speed up the RIT-T process as the ISP has already identified “priority” investments.</p> <p>To this point, final investment decisions are still left with the TNSP’s and are subject to existing consumer protections of the RIT-T and AER oversight. The EUAA is supportive of this.</p> <p>Options 3, 4 and 5 are <u>not supported</u> by the EUAA. We need more comfort around five issues - what reliability standard will be the basis of the AEMO analysis, whether the RIT-T framework will be vigorously used, the level of and support for consumer engagement by proposed by AEMO, clearer guidelines for different approaches e.g. firm access and third-party contributions, and the uncertain oversight/governance role for the AER.</p> <p>While we are in favor of increased scrutiny of investment decisions made by TNSP’s, they should not be directed or compelled to make investments in assets they (or the AER) deem to be sub-optimal. This would create another, very genuine, investor risk and likely result in the withdrawal of capital from the market. This is not in the long-term interests of consumers.</p>
<p>Q11. Other options and considerations</p>	<p>The EUAA are supportive of the ISP as a transmission and large-scale generation planning document that can guide market participants and investors.</p> <p>We would encourage more work on understanding both non-network solutions and non-transmission solutions that may obviate the need, delay the deployment or mitigate the scale of some of the investments identified in the ISP.</p> <p>Regarding non-transmission solutions. We must avoid scenarios where new transmission assets are built through a distribution system that has spare capacity, albeit for the connection of smaller generation assets (i.e. a series of 40MW, distribution connected solar parks in lieu of one 200MW transmission connected project).</p> <p>The EUAA would find it difficult to accept more capital being included in a TNSP RAB, when existing capacity is being underutilised at DB level.</p> <p>We would encourage state and federal governments to consider how they can facilitate investments identified in the ISP through more efficient planning processes (i.e. new easements) help to encourage, coordinate and support, scale efficient network extensions and above all, work to provide a more stable investment environment through coordination of energy policy.</p>

## Chapter 5 – The regulatory investment test for transmission

Question	EUAA Response
<p>Q12. RIT-T benefits</p>	<p>The EUAA recognises the recent COAG Energy Council review of the RIT-T framework and supports the conclusion that no material changes are warranted.</p> <p>The AEMC is correct to identify that <i>“These processes have been designed to achieve different things - the ISP is a strategic infrastructure development plan, while the RIT-T replicates investment outcomes for defined projects in a competitive market environment.”</i></p>

	<p>The RIT-T is a fundamental consumer protection against capital spending that does not provide a material, lasting financial benefit for consumers.</p> <p>However, we do recognise that the RIT-T, like most other aspects of the energy market, is struggling to deal with ongoing political volatility. As we noted in our submission to the Riverlink RIT-T (see Appendix A), <i>“With the National Energy Guarantee now put into suspended animation and with it the Reliability Guarantee that could have played an important role of integrating variable generation and deployment more dispatchable resources, the unpredictability of the system is only set to get worse.”</i></p> <p>The same political risks that make it difficult to build a business case for new energy generation (beyond legislated targets) or for consumers to commit to long-term investments in plant and equipment, has significant effects on the reliability of assumptions regarding new transmission assets, in particular new interconnectors. This in turn may make it difficult to justify many new investments contemplated under the ISP.</p> <p>While we are not in favour of material changes or weakening of the RIT-T (i.e. including additional, hard to quantify elements) we do think that reducing the amount of capital being assessed in a RIT-T application would significantly improve the prospect of it being approved.</p> <p>As we have stated earlier in this submission (Risk Allocation needs Resetting), co-contribution from governments and/or new entrant generators would mitigate risk and costs for consumers and require those who are best place to manage these risks and costs to take on this responsibility.</p> <p>If new entrant generators need a transmission line to a REZ or if governments want to deploy more renewable energy or desire additional security they should pay for a majority of the cost.</p> <p>This is a user/causer pays approach that would create additional competition and shield customers from stranded asset risk.</p>
<p>Q13. Potential concerns with the RIT-T process</p>	<p>As per above, our main concern would be any significant changes to diminish the RIT-T.</p>

## Chapter 6 – Renewable Energy Zones

Question	EUAA Response
<p>Q 14-18. The Commission discusses five potential options for developing REZ’s.</p>	<p>As previously discussed, our primary concern is risk allocation and who pays. We do not believe it is appropriate that consumers pay for REZ’s that will primarily benefit corporate investors.</p>
<p>Q 19. REZ’s and access</p>	<p>As above.</p>

### Chapter 7 – Congestion and access

Question	EUAA Response
<p>Q 20. Conclusion on need to consider access issues</p>	<p>As previously discussed, our primary concern is risk allocation and who pays. We do not believe it is appropriate that consumers pay for REZ's that will primarily benefit corporate investors.</p>

### Chapter 8 – Treatment of storage

Question	EUAA Response
<p>Q 21-24 Storage and TUOS</p>	<p>We have nothing material to add to this section other than to say that large C&amp;I customers who have installed their own storage and subsequently use it to assist the market operator for system strength or reliability (i.e. RERT or ancillary services) should be exempt from TUOS or DUOS charges.</p>