



OFFICE OF THE CHIEF EXECUTIVE

Our Ref: A3014571

23 October 2018

Ms Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Attention: Elizabeth Bowron
cc: Energy Security Board info@esb.org.au

Dear Anne

Coordination of Generation and Transmission Investment – Options Paper

Powerlink Queensland (Powerlink) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Options Paper on its Coordination of Generation and Transmission Investment Review (the Review).

Powerlink supports the objectives of the Review to improve the coordination of generation and transmission network investment to ensure the National Electricity Market (NEM) and supporting regulatory and planning frameworks are able to deliver reliable and whole of system value for consumers.

In noting the request of the COAG Energy Council to the Energy Security Board (ESB), Powerlink supports the decision of the AEMC to consider options to convert the Integrated System Plan (ISP) to an actionable plan as part of the Review. In considering options to facilitate an actionable ISP, Powerlink's submission focusses on:

- 1. Streamlining regulatory processes** – opportunities to streamline regulatory processes, in light of regulatory practice and experience in developing a plan to conduct the Expanding NSW-QLD Transmission Transfer assessment in collaboration with TransGrid;
- 2. More robust analysis** – the need to enhance the preparation of the ISP to ensure the analysis that underpins it is equivalent to that required for regulatory analysis and approval processes. This would necessarily include TNSPs working more comprehensively and in a more coordinated way with AEMO in the preparation of the ISP to take broader network capacity considerations into account;

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3. **Confidentiality provisions** – strengthening information provision through changes to confidentiality provisions in the Rules. This will assist in making the ISP actionable by providing generators with better information to inform connection location decisions; and
4. **Regulatory Investment Test (RIT-T) cost threshold** – the AEMC to reconsider whether the current \$6m cost threshold or exclusions applicable to the RIT-T remain appropriate in the current context.

These matters are discussed in more detail in the Attachment.

Powerlink appreciates the opportunity to comment on the Options Paper and looks forward to engaging with the AEMC, ESB and other stakeholders as part of this Review and related work programs.

If you have any queries in relation to this submission, please contact Jennifer Harris.

Yours sincerely



Merryn York
Chief Executive

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ATTACHMENT

Coordination of Generation and Transmission Investment – Options Paper

1. Streamlining Regulatory Processes

The 2018 ISP identified a minor NSW-QLD upgrade as a Group 1 project with an indicative timing of 2020 and a medium NSW-QLD upgrade as a Group 2 project with an indicative timing of 2023.

Powerlink and TransGrid are working collaboratively together with the Australian Energy Market Operator (AEMO) to develop a plan to conduct the regulatory assessment and deliver the Group 1 project identified in the 2018 ISP as soon as practicable and with efficient outcomes for consumers if justified.

In developing its options to strengthen the link between the ISP and transmission investment decisions, the AEMC has considered the role of the RIT-T and asked what changes may make the existing RIT-T process faster.

Powerlink considers there are a number of areas that could be investigated to better streamline regulatory approval processes associated with the RIT-T in general. These relate in particular to the interactions between the RIT-T assessment, the AER Determination process in relation to the preferred option under the RIT-T and the AER's assessment and determination process in relation to a contingent project within-period.

Currently the Rules require a 14-month *minimum* approval timeframe for the following:

- 6-months for the RIT-T – from PSCR to PACR to the end of the dispute period (assuming no material issues are raised throughout the consultation process and no dispute is activated);
- 6-months for the AER's Determination process under clause 5.16.6 (assuming no material issues, extensions or delays); and
- 2-months (40 business days) for a contingent project application assessment (assuming all information is provided up-front and there are no extensions to timeframes).

The sequential application of these three processes results in a 14-month timeframe, which is partly brought about by the AER's decision to *require* 5.16.6 of the Rules to be applied as a contingent project trigger in all TNSP regulatory determinations.

To develop and deliver projects as soon as practicable, Powerlink considers that the processes identified above (as well as other delivery related processes such as the procurement of long-lead time equipment and design) could be run in parallel rather than sequentially, at least in the short-term. However, this may require TNSPs and the AER in particular to adopt a different practice that still ensures the RIT-T and other processes provide robust analysis, that there is adequate opportunity for consultation and input from stakeholders and that there is appropriate regulatory oversight. There may also be merit in investigating whether clause 5.16.6 is still required at all, given it appears to duplicate the formal RIT-T process.

Powerlink is working with TransGrid and other stakeholders to identify where and how these processes could be adapted and improved.

2. More robust analysis

The Discussion Paper identified the likelihood of congestion in the NEM in the future due to the rapid growth in proposed new generation. The Options Paper is focussed on the role of the ISP and facilitating a link to the transmission planning and investment decision framework, including consideration of the impacts of investments on identified transmission pathways for levels of congestion.

Powerlink also considers there is a need to enhance the preparation of the ISP to ensure the analysis which underpins it is equivalent to that required for regulatory analysis and approval processes. This would necessarily include TNSPs working more comprehensively and in a more coordinated way with AEMO in the preparation of the ISP to take broader network capacity considerations into account and to leverage existing planning processes. However, it is recognised that this may require some adjustment to the timing of when certain planning related information may need to be produced.

In this context, Powerlink supports AEMO's role for identifying the preferred national, strategic transmission pathway with scale efficient preferred projects identified in the ISP. For AEMO to effectively identify the preferred pathway, Powerlink considers it imperative that AEMO has the most up to date information on inter-regional grid sections and be cognisant of the performance of major intra-regional grid sections. This information should be provided by the relevant TNSP to be included in the ISP.

Consideration for intra-regional grid sections is particularly relevant when assessing the economic merits of developing renewable energy zones (REZs) and/or when locating the generation capacity expansions plans within NEM regions. This is because new capacity may materially change the utilisation of intra-regional grid sections which at a minimum will change the intra-regional losses and may also lead to significant congestion. The performance of these intra-regional grid sections may therefore impact economic decisions on:

- location, timing and type of generation/storage;
- network augmentation to reduce congestion; and
- modify the location of the generation/storage expansion plans.

Notwithstanding the need for the ISP to inform the national, strategic transmission pathway, TNSPs should remain accountable for meeting their jurisdictional planning objectives and network service obligations for addressing their jurisdictional reliability, security, resilience and congestion needs. TNSPs are best placed to define and deliver the optimal network and/or non-network solution given their local knowledge, stakeholder engagement practices, customer relationships and project expertise. This allows TNSPs to define and refine each preferred project specification, ensuring that it delivers the optimal outcome for consumers.

3. Confidentiality Provisions

Consistent with its earlier submission on the AEMC's Discussion Paper to this review, Powerlink encourages the AEMC to give further consideration to reducing the current confidentiality provisions in the Rules which prevent TNSPs from disclosing certain information in relation to proposed connections, given the broad benefits that information sharing could provide in the current context of transformational change.

Enhanced information provision

The identification of potential REZs in the ISP, along with recommended transmission pathways for development, provide the market with information about where REZs could ideally be developed. Powerlink considers that changes to the confidentiality provisions in the Rules would significantly

strengthen information provision further, making the ISP more actionable and providing generators with better information to inform connection location decisions and achieve optimal and efficient outcomes.

Confidentiality provisions in the Rules currently prevent TNSPs from sharing information with multiple proponents seeking connection to the transmission network within a region and act as a significant barrier to co-optimisation of transmission by multiple generation developments. We consider that there are significant overall power system and consumer benefits that can be realised from sharing information regarding the existence, location, approximate size and timing of enquiries and applications would be appropriate. There are now more drivers and broader benefits to be realised in doing so, such as facilitating efficient system security solutions and ensuring the ISP is supported by comprehensive planning information processes.

A number of processes are currently underway that seek to improve information sharing within the existing regulatory framework including the recent Transmission Connections and Planning Arrangements Rule and the AER's Draft Transmission Annual Planning Report (TAPR) Guideline. Powerlink is supportive of these processes which are intended to help facilitate consistent information provision by TNSPs and provide generators and non-network service providers with information to make more informed connection decisions. Powerlink considers AEMO's project identification and evaluation process for developing the ISP would also benefit from leveraging existing planning processes, such as the TAPRs, that are supported by improved information sharing by market participants. The AER's Draft TAPR Guideline proposes that TNSPs publish additional data in relation to connection enquiries and applications. As noted earlier, while Powerlink supports this approach, existing confidentiality provisions in the Rules prevent TNSPs from providing this information.

Generation coordination

The Options Paper notes that while the current Rules allow the development of REZs through generator coordination, this would only occur if generators actually cooperate by sharing information in order to enable coordination of connections and investment in connection assets. While there are considerable efficiencies that could be achieved if generators coordinated their connections to the transmission network, historically competitive tensions and commercial challenges have acted as a disincentive for generators to do so. Following recent changes to system security arrangements, Powerlink's experience is that there are emerging drivers for generators to act more cooperatively in the short term as they seek ways to manage system strength obligations in a way that can deliver optimal and efficient outcomes.

4. RIT-T Cost Threshold

The Repex Rule, which commenced September 2017, is intended to improve the transparency of retirement, de-rating and replacement decisions by network service providers by extending the RIT-T and associated consultation processes to replacement expenditure projects. As a result of the Repex Rule, Powerlink is required to undertake approximately 45 additional RIT-T assessments over the remainder of this regulatory period (out to 30 June 2022). A large number of these relate to secondary system investments which are unlikely to have any viable non-network alternatives.

The Repex Rule has been in place for over 12 months. In that time, Powerlink has commenced/progressed 9 RIT-T replacement expenditure assessments with several more scheduled before the end of 2018. As yet, no submissions have been received on these consultations. This is despite having identified these upcoming needs in Powerlink's TAPR, published such information on Powerlink and AEMO's websites, notified members of Powerlink's Non-Network Engagement Stakeholder Register directly (which comprises approximately 30 stakeholders) and engaged with our Customer and Consumer Panel on these future needs.

In light of the release of the 2018 ISP and indicative timeframes for the assessment and, if required, the delivery of Group 1 and Group 2 projects, Powerlink recommends the AEMC reconsider whether the current \$6m cost threshold or exclusions applicable to the RIT-T remain appropriate. A more proportionate approach could be applied to the assessment of replacements and/or reinvestments, given there has been little or no demonstrated benefit arising from the additional requirement to subject secondary systems in particular to the RIT-T process. This could include increasing the cost threshold for asset replacements (potentially to \$20m) to ensure TNSPs efficiently focus their time and resources on RIT-T processes that provide material benefit to the market (including non-network solution providers) as we work to progress Group 1 and 2 ISP assessments and make future ISPs actionable. Alternatively, the AEMC could seek to exclude such assessments from the RIT-T.