

Integrated System Plan Consultation  
Australian Energy Market Operator

By email: [ISP@aemo.com.au](mailto:ISP@aemo.com.au)

28 February 2018

## **Re: Submission to AEMO's Integrated System Plan Consultation**

Spark Infrastructure welcomes the opportunity to respond to Australian Energy Market Operator's (AEMO's) development of an Integrated System Plan (ISP).

Spark Infrastructure is listed on the Australian Stock Exchange (ASX) and is a leading Australian investor in Australian electricity transmission and distribution Network Service Providers (NSPs) who transport electricity to customers in South Australia, Victoria and NSW.

Spark Infrastructure has been listed on the ASX since 2005 and has a current market capitalisation of around \$4 billion. Spark Infrastructure's investment portfolio includes:

- 49% interest in SA Power Networks (South Australia),
- 49% interest in CitiPower and Powercor (together known as Victoria Power Networks, in Victoria), and
- 15% interest in TransGrid (NSW).

Spark Infrastructure is approximately 75% owned by Australian professional, superannuation and retail investors, with the remaining 25% representing foreign investors.

The NSPs in our investment portfolio rank amongst the top performing electricity transmission and distribution NSPs in Australia, maintain constructive labour relations (including investment in employees and apprentices), and achieve best in class safety and reliability. We are very focussed on ensuring that our networks provide the services our customers require at least cost.

Spark Infrastructure and its investors are the providers of long-term equity capital into these NSPs which is necessary to build and maintain the networks required to deliver critical electricity to customers whilst maintaining the high standards of safety, reliability, security of supply and efficiency demanded by customers and regulators. These networks will be critical to supporting a changing mix of generation and distributed energy resources as the market evolves from thermal to renewable generation.

Domestic and global capital is highly liquid and is attracted by secure and robust investment destinations. Uncertainty in energy policy and critical infrastructure planning will see efficiently priced (lower cost) capital quickly relocate to alternate investment locations, whether that be alternate industries or countries. We welcome the process for developing an ISP to provide a higher level of certainty and a level playing field across the energy supply chain.

The development of an integrated, strategic and objective based plan for the electricity system that co-ordinates transmission and generation investment, including future generation characteristics and locations, will provide the certainty and guidance required to achieve low cost, low emission and reliability objectives.

Further, we consider that the following will be critical to ensure successful implementation of the plan:

1. The recognition of the vital role of transmission, including improving regional and State interconnection, to achieve efficient utilisation of existing generation assets, connection of demand and supply and improving resilience of the overall National Energy Market (NEM).
2. Synthesis of other policy and regulatory reviews to support rather than undermine related initiatives.
3. Acceleration of pricing reform to ensure that proper price signals exist in the market to deliver the most efficient mix of investment.

We note that TransGrid has provided a submission to the ISP consultation that includes an analysis and recommendations regarding the most favourable renewable energy zones. We support TransGrid's submission and urge AEMO to ensure that consequential changes are made to the Regulatory Investment Test (RIT) process to ensure the ISP is given appropriate weight in the AER's considerations, including any broader benefits identified that might not have previously been included in the RIT process. Further, the scope of options to be identified by an NSP should not be expected to be wider than those identified in the ISP. Otherwise, delivering on the good intentions of the ISP may be thwarted by the RIT process.

### Vital role of electricity networks

This is a time of great change in the Australian energy landscape. Traditional large scale, remote coal-fired generation is being replaced with other sources including large-scale renewable energy and behind the meter solar. This will deliver energy in the long-term, securing our energy supply for the future, while lowering emissions in line with Australia's international obligations and delivering the lowest cost electricity to consumers.

The changing energy market landscape is highlighting the importance of strategically located, efficient and reliable networks. The need for transmission development, previously driven by load growth, is now predominantly driven by the changing generation mix and the location of new generation. The transmission and distribution spine will enable an orderly transition away from aging coal fired generation to geographically diversified and dispersed renewables and is the most effective way to enable peer to peer trading for residential and business customers

We agree with the benefits outlined by AEMO in the ISP consultation paper that are likely to be delivered by the efficient development of the transmission system:

- More efficiently sharing generation between regions in the NEM
- Capturing the diversity of variable generation across different regions
- Improving power system resilience through developing a more meshed network, and
- Sharing system support services such as frequency and voltage support.

TransGrid has identified several areas where it believes transmission interconnection is the most cost-effective way of relieving regional supply and demand mismatches, and to bring large scale renewable generation to load centres. These projects highlight the importance of transmission and a more meshed network and demonstrate that generation alone will not resolve Australia's reliability, security and renewable requirements, in an affordable manner.

### Synthesis of policy and regulatory reviews

It is important that the ISP does not occur in isolation. Instead, the plan will need to inform and incorporate the developments in national energy policy such as the National Energy Guarantee being consulted on by the Energy Security Board, the Distribution Market Model under consideration by the Australian Energy Market Commission, and important supporting regulatory instruments such as the RIT and Ring Fencing Guidelines being revised by the Australian Energy Regulator. Regardless of the specific outcomes of these reviews, investors in the sector need certainty that there is a stable and well managed regulatory environment.

### Pricing reform

Electricity networks are being used increasingly differently by customers as electricity flows move from traditional one-way flows from centralised coal-fired baseload plants to multi-directional and net flows from new distributed

and intermittent renewable generation sources. This fundamental change in the way customers engage with networks requires a new tariff charging paradigm, away from the largely volumetric basis that is used today. These issues are recognised in the ISP. However, we consider the ISP's value may be undermined if pricing reform is not accelerated.

Efficient network tariffs signal to customers and investors the real cost of the network and provides better information to compare the costs and benefits of different supply solutions. This can reduce the need to invest in building capacity, signal the need for additional generation and facilitate efficient adoption of emerging technology and behind the meter generation. Further, the full benefits of investment in advanced interval meters and peer to peer trading will only be delivered if efficient tariff structures are passed through to customers. Progressing pricing reform maximises the cheapest energy (as recognised by AEMO in all scenarios) as that which is not used.

We invite you to contact us to discuss this submission further or to seek further information. Please call Sally McMahon, Economic Regulatory Advisor, on 0421057821.

Yours sincerely,



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**Spark Infrastructure**