

19 October 2018

Mr John Pierce
Chair
Australian Energy Market Commission
PO BOX A2449
Sydney South NSW 1235

Via online submission

Dear Mr Pierce,

RE EPR0052 – COORDINATION OF GENERATION AND TRANSMISSION INVESTMENT OPTIONS PAPER

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Market Commission (**AEMC**) on the Coordination of Generation and Transmission Investment (**COGATI**) options paper.

As the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider (**DNSP**) and jurisdictional planner in Tasmania, TasNetworks is focused on delivering safe and reliable electricity network services while achieving the lowest sustainable prices for Tasmanian customers. This requires the prudent, safe and efficient management and development of the Tasmanian power system. In this regard, TasNetworks is supportive of AEMC's efforts to coordinate investment in transmission infrastructure with that of generators so that reliable, secure outcomes in the long-term interests of consumers are delivered by the National Electricity Market (**NEM**).

TasNetworks operates and maintains a transmission network with a high penetration of widely dispersed renewable sources across distinct geography. This makes delivering secure, reliable and affordable electricity challenging when compared to some other jurisdictions in the NEM. As transformation of the energy sector in Australia evolves, effective customer collaboration and consultation, which appropriately reflects local conditions and customers' needs, will be crucial for creating and sustaining long term benefits for consumers.

To enable the efficient coordination of generation and national strategic transmission investments for the long term benefit of customers, future iterations of the Integrated System Plan (**ISP**) will need to reflect the best information available. Given the truncated development timeframe with the first ISP, not all stakeholder feedback including expert analysis on Tasmanian hydrological and network considerations, could be incorporated.

To better retain and reflect such knowledge in future ISPs, stakeholders will need to be more effectively engaged with by AEMO with existing National Electricity Rules (**NER**) consultation protocols applying to the ISP. Only in this manner, will a workable, robust and stakeholder supported definition of "strategic, national projects" emerge.

TasNetworks supports Energy Networks Australia's (ENA) submission and would like to make several further comments with a particular focus on the Tasmanian context. The key points in this submission are:

- TasNetworks considers that there must be absolute clarity around the types of projects the ISP framework should apply to and roles that AEMO and TNSPs will fulfil given the natural interplay between strategic national projects and jurisdictional planning developments.
- TNSPs are best placed to understand and consult with local customers on their needs and expectations. TNSPs similarly have the best understanding of unique jurisdictional transmission issues and constraints allowing them to decide appropriately between complicated and interrelated undertakings such as renewal and replacement projects. As a result, the ISP should be jointly developed between AEMO, TNSPs and jurisdictional planners with the intent to narrow down the range of options that may be subject to further detailed analysis and consultation by TNSPs via the RIT-T process.
- TasNetworks considers that there should be an opportunity for State Governments' infrastructure and policy objectives to be reflected within the ISP, e.g. regional security and reliability requirements.
- The ISP should have standing in the regulatory framework and be subject to sufficient consultation to ensure that customers and stakeholders have confidence that the proposed transmission investments will deliver improved customer outcomes. Where the ISP's project timelines cannot be achieved, the Rules should provide for a shortened investment approval and cost recovery process that still integrates stakeholder views.
- Consistent with ENA's position, TasNetworks supports better integrating the RIT-T framework within the ISP. This includes being able to reference energy security, resilience and system wide benefits from the ISP in the RIT-T; using the ISP as the base case for all reasonable scenarios; and allowing flexibility for TNSPs to supplement ISP assumptions with more up to date and accurate analysis where appropriate.
- Crucial to the analysis of ISP projects, and particularly interconnector projects, is the issue of transmission pricing. Developing a transmission pricing mechanism which fairly allocates the costs of greater interconnection will be a critical component in developing a more accurate and more equitable cost recovery framework in which price outcomes for customers reflect market benefits.
- TasNetworks contends the TUOS should not be charged for those storage systems that are used primarily for, and in conjunction with, generation systems such as pumped hydro.

TasNetworks responses to individual questions are provided below and we would welcome the opportunity to discuss this submission further with you. Should you have any questions, please contact Bradley Woods, Senior Regulatory Analyst by phone on (03) 6271 6187 or via email (bradley.woods@tasnetworks.com.au).

Yours sincerely,



Wayne Tucker

General Manager, Regulation, Policy and Strategic Asset Management

Question 1: Questions arising from the ISP

The paper considers a number of questions about the role and regulatory implications of the ISP, including the links between the ISP and transmission investment decisions. Are there any questions about the role and regulatory implications of the ISP that are not set out in the options paper? Is our approach to making the ISP actionable (i.e. strengthening the link between the ISP and investment decisions) appropriate?

TasNetworks considers that the questions asked in the options paper and the AEMC's approach to making the ISP actionable is reasonable. However, one area that might be improved is consideration and appraisal of the pathways by which transition from existing arrangements to an updated and amended ISP could be facilitated. For example, the timetables for future ISP releases and any changes in governance and functional/structural reform required. In this respect, TasNetworks considers it would be useful to further define an "actionable mission statement" to establish and maintain ISP objectives, and provide confidence to stakeholders on the necessity of investment decisions in both local and national contexts.

Question 2: Interaction between the ISP and government policies

The ISP will necessarily have to take into account government environmental and industry policies in modelling ISP scenarios. Do stakeholders consider it would be helpful for the COAG Energy Council to provide formal advice to AEMO as to what government policies or scenarios should be modelled in the ISP? Are there other ways in which government policies that impact on the NEM could be incorporated as modelled scenarios in the ISP?

With increased interconnectivity between regions, the interrelationships between state and national policies will become much more important and complex. TasNetworks therefore considers that there should be an opportunity for State and Federal Governments' infrastructure and policy objectives to be reflected and assessed within the ISP, e.g. regional security and reliability requirements.

Question 3: "Strategic, national" investments and regional investments

It is proposed that the ISP only focusses on "strategic, national" investments. Do stakeholders consider this is appropriate? If so, how could this threshold be defined, or what criteria could be used to define it?

The first iteration of the ISP was executed well in regard to sharing of information, data and analysis. However, given the short development timeframe not all stakeholder feedback, including expert analysis on Tasmanian hydrological and network considerations, could be incorporated. Subsequent iterations of the ISP will need to reflect this information and analysis so the ISP can facilitate the efficient coordination of generation and national strategic transmission investment for the long term benefit of customers. To support this, the ISP needs to be widely engaged with and consulted on, with the existing consultation obligations that apply for AEMC, AER and TNSPs applying to the ISP. Only in this manner, will a workable, robust and stakeholder supported definition of "strategic national" projects and investment criteria emerge.

In this regard, the information contained in TNSP TAPR's will be vital in helping to define what criteria might reasonably be included. These could include:

- direct market benefits (regional and national);
- asset utilisation and energy transfer considerations;
- system criticality impacts including black start, HILP and network security provisions;
- operability and optionality enhancements;
- increased ancillary service provision; and
- reliability improvements.

Question 4: Risk allocation

The paper canvasses a number of options for making the ISP actionable. How may the existing risk allocation for consumers, TNSPs and generators change under the proposed options? What other regulatory changes may be required in order to mitigate against changes in the risk allocation?

TasNetworks considers that extending existing risk allocations to projects in the ISP of strategic, national significance is viable. However, as above, key to this is appropriate consultation and planning between AEMO, jurisdictional planners, TNSPs, generators, Governments and customers. This is to ensure that proposed transmission investments deliver improved customer outcomes.

Question 5: Level of consultation required under each of the options for how the ISP could be made actionable

What do stakeholders think about the level of consultation that would be required under each of the options considered for how to make the ISP an actionable strategic plan? Should there be more consultation for options that fall to the right-hand side of the table?

TasNetworks considers that there is less scope for consultation and less transparency in the planning process as options move toward the right hand side of the table. Moreover, the complexity of the changes required to existing legislation and rules arrangements associated with options on the right hand side of the table, also increases. For these reasons, TasNetworks does not consider the options to the right hand side of the option table to be viable, or in customers' best interests, and therefore does not support them.

Questions 6-10. The Commission has articulated five possible options for how the ISP could be made actionable, and incorporated into the existing regulatory framework. For each option, the Commission asks:

What are stakeholder views on each of the options proposed for how to make the ISP an actionable strategic plan? Would the effective delivery of the different options have an impact on the speed with which "strategic, national" investments are made? Are there any regulatory or other implications that are not raised in the discussion of these options?

Question 11: Other options and considerations

Are there other options to strengthen the link between the ISP and individual TNSP investments that are not raised here? Are there any other matters that should be taken into account when considering options to strengthen the link between the ISP and TNSPs' individual investments?

Rather than comment on each of the options, TasNetworks' preferred position for how to make the ISP an actionable strategic plan is set out below.

TasNetworks considers that the ISP should focus on national, strategic transmission projects. This should be developed jointly between AEMO, TNSPs and jurisdictional planners and should narrow down the range of options that may be subject to further detailed analysis and consultation by TNSPs via the RIT-T process.

In this respect, there must be absolute clarity around the types of projects the ISP framework should apply to and roles that AEMO and TNSPs will fulfil given the natural interplay between strategic national projects and jurisdictional planning developments. The risk is that without such clarity, planning scope creep occurs, whereby planning intended to apply for an ISP project could have significant repercussions for other jurisdictional projects and plans.

TNSPs are best placed to understand and consult with local customers on their needs and expectations. TNSPs similarly have the best understanding of unique jurisdictional transmission issues and constraints allowing them to decide appropriately between complicated and interrelated undertakings such as renewal and replacement projects. As a result, TNSPs are the entity best able to undertake analysis of credible options for the purposes of the RIT-T once so identified in the ISP, and noting that it is a condition of TasNetworks' Electricity Transmission licence that proposed transmission augmentations must satisfy the RIT-T before they can be undertaken in Tasmania.

In order to speed up ISP analysis timeframes, TasNetworks considers that TNSPs should not be required to repeat analysis or consultation already undertaken in the ISP. Instead, the economic analysis and stakeholder engagement underpinning the ISP might be expanded to take the place of a Project Specification Consultation Report (**PSCR**) in specifying an identified need, while also helping to narrow down the range of options for consideration.

Similarly, TNSPs should be able to reference the energy security, resilience and system-wide benefits identified in the ISP when completing the RIT-T. However, TNSPs should also have the flexibility to step up away from ISP assumptions when there are grounds to do so. For example, if there is more up to date and accurate information or local considerations that would have a bearing on the project evaluation. Regional transmission investment identification and assessment should remain wholly with each TNSP to ensure clear accountability to address regional reliability and congestion issues.

Crucial to the analysis of ISP projects, and particularly interconnector projects, is the issue of transmission pricing. The current Modified Load Export Charge (**MLEC**) methodology allocates the “locational costs” of transmission symmetrically between interconnected regions. While this approach may reasonably capture asset utilisation, it does not necessarily reflect the relative benefits provided by an interconnector to each region, nor to the broader NEM. Developing a transmission pricing mechanism to allocate the costs of greater interconnection will therefore be a critical component in developing a more accurate and more equitable cost recovery framework.

To facilitate the above, the ISP should have standing in the regulatory framework and be subject to sufficient consultation to ensure that customers and stakeholders have confidence that the proposed transmission investments will deliver improved customer outcomes. However, where ISP project timelines cannot be achieved, the Rules should provide for a shortened investment approval and cost recovery process that still reflects a robust cost-benefits analysis and integrates stakeholder views.

The AER should be responsible for determining the allowed revenue for ISP projects. Although, it is not necessary or appropriate for the AER to review AEMO’s planning analysis or conclusions in the ISP, ISP information must be duly weighed by the AER. This is to ensure that any competing and contradictory regulatory functions do not deter from expediting the requisite level of expenditure needed to fulfill the ISP. For example, to avoid the situation where an ISP project is approved but commensurate funding is unavailable, delayed or subject to revenue reset considerations, meaning the project cannot be completed on time. In this regard, consideration of alternative funding mechanisms might be useful in expediting ISP outcomes.

Question 12: RIT-T benefits

Are there any additional benefit categories that should be considered in the RIT-T? Why have no network businesses sought approval from the AER for additional benefits to be considered in RIT-T assessments as allowed for under the current NER?

TasNetworks considers that the recent clarification and guidance provided as part of the RIT Applications Guidelines consultation has been beneficial in illustrating how different categories of benefits can be handled within the RIT. If the proposed amendments suggested by ENA in its response to the RIT Applications Guidelines are integrated into the final guideline, TasNetworks sees that there will be no need to consider further categories of benefits.

With respect to the reason why approval for additional benefits to be considered in RIT-T assessments have not been sought by TNSPs, TasNetworks suggests that this may have been because some benefits, although being theoretically and qualitatively demonstrable, are difficult to quantify in practice. As such, their materiality to economic assessments is hard to establish and verify.

Question 13: Potential concerns with the RIT-T process

What are stakeholder views on current limitations with the RIT-T process? Setting aside the ISP and how to make it more “actionable,” what other issues warrant attention when considering the objective of the RIT-T? What changes may make the existing RIT-T process “faster”? What is the role of a dispute process in the RIT-T? How could spurious disputes be minimised?

TasNetworks notes that the RIT-T process has been the subject of much review in recent times. The conclusions drawn have largely supported the RIT-T and/or proposed minor enhancements and clarifications to improve how the RIT-T is applied. TasNetworks supports these developments but considers that the RIT-T could be better informed by ISP analysis being used as the base case for all reasonable scenarios. By not duplicating or repeating analysis and consultation already undertaken in the ISP, TNSP RIT-T modelling and analysis burden will be reduced. Further, in better defining the credible future transmission pathway, this should help crystallise a “certainty premium” to ISP investments with disputes more likely to be averted. Both of these would ultimately result in a more streamlined and efficient RIT-T process.

Another TasNetworks concern with the current RIT-T framework is the assumption of a risk neutral approach to evaluating scenarios. That is, negative outcomes are weighted the same as positive ones. In the current environment of significant change and uncertainty an alternative approach may be to consider whether negative outcomes are weighted higher than positive outcomes to appropriately manage national down-side risks, e.g. High Impact Low Probability (**HILP**) events.

Finally, and as discussed below in the REZs section, there is no explicit mechanism for resolving the “chicken and egg” dilemma. That is, how the inherent mutual dependency between major network augmentation and new generation investments can, or should, be managed within the RIT-T.

Questions 14-18. The Commission discusses five potential options for developing REZs. For each option, the Commission asks:

Do stakeholders agree with our conclusions for how REZs can occur under current regulatory arrangements? Do stakeholders agree with our assessment of whether potential REZ models are consistent with the options discussed for making the ISP actionable? What other considerations should be taken into account?

TasNetworks agrees with the AEMC’s assessment on most of the options presented. In brief, TasNetworks considers that:

- Option 1 (enhanced information provision) would represent the least disruptive change to the current regulatory framework and is more or less already occurring. TasNetworks continues to engage with stakeholders to extract the maximum value from these developments.
- Option 2 (generator coordination) has had the opportunity to be applied since the SENE rule changes and this has had little impact, owing mostly to the inability of generators to coordinate. Although there may be some benefit to further exploring this option, TasNetworks considers that the same or better outcomes might be achieved as a by-product of option 3.
- Option 3 (TNSP speculative investment) does not work under the current regulatory framework. For example, although TNSPs could undertake such activity now, they could not be sufficiently compensated for the increased risk of doing so. Change would therefore be required to the existing framework to incentivise and reward TNSPs to undertake speculative activities and demonstrate the benefits to consumers of such a model. Despite this, TasNetworks considers this model may have some merit, particularly in being able to overcome generator coordination inertia. TasNetworks supports further investigation of how this may be actualised in practice, e.g. via a more detailed appraisal of the ENGIE model and related alternatives.

- Option 4 (TNSP prescribed service) leaves customers with the stranded asset risk which should be avoided. TasNetworks does not support this option and therefore agrees with the AEMC that it should not be pursued further.
- Option 5 (clustering) would seem to be inconsistent with the open access framework at this juncture. In addition, it would require several other issues to be resolved such as the appropriate length of the season, the geographical size of the cluster and what would constitute an efficient outcome. When combined with the risk that clustering would slow development timeframes, TasNetworks considers that investigating a clustering approach in further detail would not be the best use of regulatory resources.

Regardless of which option(s) are investigated and endorsed, consideration of the practical REZ development issues is needed, e.g. obligations arising from the new 'do no harm' provisions and the 'chicken and egg' problem. In terms of the latter, this relates to those situations where generation proponents may not achieve financial close until transmission capacity exists but with funding for the appropriate transmission capacity hamstrung by the RIT-T requiring committed projects before it can be released. In this respect, further consideration on alternative funding mechanisms for resolving such issues and revising the definition of committed projects for the purposes of the RIT-T, may be appropriate.

Question 19. REZs and access

Do stakeholders agree with our conclusion about the types of REZ models that are feasible under the current transmission access framework?

TasNetworks agrees with the AEMC's assessment on this issue and is one reason why TasNetworks does not see revisiting access arrangements as a prudent use of resourcing with respect to the clustering option.

Question 20: Conclusion on need to consider access issues

Do stakeholders agree with the Commission's conclusion in this Chapter that access and congestion management issues are likely to need to be addressed in the near term, once the role of the ISP has been addressed?

TasNetworks agrees that network utilisation, operability and resilience planning must be prioritised to support the ISP. To facilitate the implementation of a more complex and more heavily utilised network, grid planning strategies and the ISP must take into account both the scale and pace of generation and load diversity. For example, although a REZ is identified in North-West Tasmania to be maximally utilised within 10 years, the volume and nature of connection enquiries received to date necessitates action now so access and congestion issues can be managed appropriately.

Question 21: Storage and TUOS

Do stakeholders agree with the way the Commission has framed the issue of whether or not storage should pay transmission use of system (TUOS) charges?

TasNetworks agrees that the main policy question concerns situations where an energy storage system withdraws electricity from the grid for the purposes of storage, and then exports electricity back into the grid at a later time/date.

Question 22: Storage and TUOS - current arrangements

Do stakeholders have any comments on the Commission's initial views on storage and transmission charges? Are there any other arguments that are not discussed?

TasNetworks considers that the Commission has identified the appropriate arguments and counter-arguments relevant to TUOS charging arrangements. Consistent with the sentiment detailed in the ENA submission to the earlier directions paper, TasNetworks contends the TUOS should not be charged for those storage systems that are used primarily for, and in conjunction with, generation systems, e.g. Hydro Tasmania's Battery of the Nation initiative. Although it could be argued that such

storage systems act in a market customer fashion, as correctly noted in the options paper, this occurs in a different manner to regular residential or business customers. Storage systems rely on non-firm network access to charge and/or replenish storage levels. Further, this energy is not end consumed. Instead, it is stored until such time as it is used for export for generation or auxiliary support services purposes. Generators are not currently charged TUOS for these services and this should extend to those storage systems used for a similar purpose, e.g. pumped hydro.

Question 23: Storage and TUOS - considering changing existing arrangements

Are there any matters the Commission hasn't discussed that should be addressed if a change to the existing arrangements for transmission charging for storage is considered?

TasNetworks also agrees that the Commission has identified the three key questions warranting further consideration if the current TUOS allocation model is to be changed. However, TasNetworks does not consider that changes to charge TUOS for those storage systems that are used primarily for, and in conjunction with, generation systems is in the best interests of the NEM. Aside from increasing costs to consumers, it could disincentivise generation and storage investment as well as limiting the market for auxiliary service provision.

Question 24: Storage and TUOS - additional considerations

When considering the approach to the recovery of transmission charges, are there any additional factors worthy of consideration that the Commission has not listed?

TasNetworks considers that the factors identified are appropriate.