



National Transmission Planner Review

Response to AEMC Discussion Paper

8 April 2008



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1. Introduction

Grid Australia is making this submission in response to the AEMC's Discussion Paper on the National Transmission Planner Review released on 28 March 2008 and the subsequent Public Forum, held on 2 April 2008.

Given the short timeframe for submissions in response to the Discussion Paper, Grid Australia has focused on its key areas of concern with the draft specifications for both the Regulatory Investment Test (RIT) and the National Transmission Planner (NTP). This submission first sets out in summary form Grid Australia's concerns with the draft specification and proposes amendments to address these concerns. The remainder of the submission then discusses each of the concerns and proposed amendments in greater depth.

Grid Australia notes at the outset that it considers the issues in relation to the RIT to be substantive and that, as currently worded, the draft specification does not meet the Commission's stated intent of proportionality nor the requirements of COAG's directive and the National Electricity Objective. In particular the draft specification in relation to the RIT:

- significantly *increases* the level of assessment that is required under the RIT for all projects above a certain threshold, by requiring full quantification of all categories of market benefits, even where the NSP can demonstrate that these are not material in a given case;
- significantly *expands* the regulatory requirements for network investment projects that are excluded from the RIT, compared with current practice (effectively lowering the current threshold for reporting for small network investments from \$1m to zero); and
- imposes an *excessive 6 month additional consultation period* for all RIT assessments, which will inevitably increase the time taken to gain regulatory approval for network investment.

Importantly, the RIT requirements relate to all network service providers (NSPs), i.e. both transmission *and* distribution businesses. This greatly compounds the impact of the requirements on the market as a whole.

Overall the Commission's proposals, if left unchanged, imply a substantial increase in the costs of the regulatory assessment process for all network investment, which will ultimately be imposed on consumers.

Grid Australia notes that there has been very limited time to prepare this response to the AEMC's Discussion Paper. Therefore, this response is unlikely to contain all of the issues of concern to Grid Australia associated with the Discussion Paper.

2. Summary of Proposed Changes

Table 2.1
Regulatory Investment Test Specification

Clause	Changes proposed	Rationale	Relevant section in this submission
(2)(a)(ii)	The estimated capital cost <u>for the preferred option</u> ¹ <u>(or the set of credible options)</u> <u>(or the highest capital cost where there are a range of potential preferred options)</u> for meeting the identified need is less than [\$5m-\$10m], <u>or, in the case of replacement/ reconfiguration expenditure the estimated capital cost for the augmentation component of the preferred option is less than [\$5m-\$10m]</u> .	<p>As drafted the threshold for the RIT assessment is likely to result in the majority of projects being above the threshold, given that for any investment there is always likely to be a high cost credible option.</p> <p>The threshold should be applied only to the estimated capital cost for the augmentation component of a project (rather than the total replacement cost). This avoids the perverse incentive a NSP would otherwise have to avoid proposing an augmentation as part of a replacement project in order to avoid the RIT process.</p>	3.1.2 3.1.3
(2)(a)(iii)	The possible credible options under consideration all maintain, rather than augment, transmission capability	<p>Grid Australia seeks confirmation from the Commission as to the interpretation of this clause.</p> <p>Grid Australia understands the Commission's intent to be that network investment projects excluded from the RIT are excluded from the entire RIT process, including the project specification stage.</p>	3.1.3

¹ Grid Australia notes that the term 'preferred option' is used by the Commission in its Discussion Paper (p. 24) to refer to the credible project that is considered most likely to satisfy the RIT assessment, although prior to this assessment actually being conducted it is possible that an alternative credible project may be found that better satisfies the RIT.

Clause	Changes proposed	Rationale	Relevant section in this submission
		The reference in clause (2)(a)(iii) to ‘the possible credible options under consideration’ needs to be clearly interpreted as those options under consideration by the NSP rather than being options identified as part of a project specification process, which would not apply in this circumstance.	
(2)(b)	For each <u>network investment</u> project, that is outside of the scope of the RIT <u>due to clause (a)(i)</u> the NSP must: [...]	<p>Clause (2)(b) represents a new set of regulatory requirements in relation to network investment, which as drafted would cover all network investment below the [\$5m-\$10m] threshold (no matter how small), all network investment in relation to connection assets and all network investment in relation to negotiated services. As drafted clause (2)(b) would apply to literally thousands of ‘rats and mice’ projects, such as the replacement of IT systems. This would represent a substantial and disproportionate increase in analysis in relation to transmission and distribution investment, for little or no discernable benefit.</p> <p>Grid Australia’s proposed drafting changes bring the requirements of (2)(b) back into line with the current arrangements. Reporting through the TNSPs’ Annual Planning Reports does not currently apply to network augmentations below the threshold for small network investments. ‘Like-for-like’ replacement is also not captured under the current NER provisions and connection and negotiated services are captured under other NER requirements. Hence the only category of network investments excluded from the RIT under clause (2)(a) that should fall within the scope of (2)(b) are</p>	3.1.5

Clause	Changes proposed	Rationale	Relevant section in this submission
		network investments which because they were urgent and unforeseen were excluded from the full RIT process by virtue of (2)(a)(i).	
(3)(a)	(To be added at the end of the clause as currently drafted) <u>Any cost or benefit which cannot be measured as a cost or benefit to producers, distributors and consumers of electricity may not be included in the RIT analysis.</u>	If the classes of costs and benefits to be considered in the RIT assessment are elevated to the NER (as proposed in clause (3)(a)), then the current clause (10) of the Regulatory Test that explicitly excludes externalities from the Regulatory Test assessment should also be elevated to the NER.	3.4.1
(3)(b)	The RIT shall include a quantification of <u>all classes of market benefits which are determined to be material, in accordance with clause 6.</u>	NSPs should not be required to devote time and resources to quantification of benefits if they are able to demonstrate at the project specification stage that the outcome will not materially affect the RIT assessment. The draft specification is not consistent with the National Electricity Objective and would result in delays in the time taken to complete the regulatory analysis, which is inconsistent with the COAG directive.	3.1.1
(3)(d)	The RIT shall <u>identify the following classes of costs that must be considered</u> <u>include costs of the following type:</u> [...]	It is not pragmatic in all cases to separately identify these classes of costs. For example, the cost of complying with laws, regulations and applicable administrative requirements will form part of the capital and operation costs of the option, and it would not be practical to separate these costs out.	3.4.2
(3)(d)(ii)	Operating and maintenance costs over the <u>operating life of the option period of assessment</u>	Currently Regulatory Test assessments are typically conducted over a 10 to 15 year time period. The wording of the draft specification should be consistent with this.	3.4.3

Clause	Changes proposed	Rationale	Relevant section in this submission
(4)(a)(i)	<p>(4)(a) The RIT shall:</p> <p>(i) [...] The absence of a proponent will be a factor for consideration in assessing possible credible options, but will not in itself exclude a project from being a credible option, <u>except for proposed investments where the identified need is an inability to meet the service standards linked to the technical requirements of schedule 5.1 or in applicable regulatory instruments, in which case a proponent is required.</u></p>	Given the risks to reliability and the liability that NSPs face, there should be no delay to the regulatory approval of projects required to meet reliability standards as a result of consideration of projects for which there is no proponent.	3.3
(6)(d)(i)	<u>An quantified</u> -explanation is presented [...].	NSPs should not be precluded from providing qualitative explanations for why a benefit is not material, given that the classes of benefit under consideration are those for which quantification is likely to be a costly exercise (for example: changes in fuel consumption; changes in involuntary load shedding; competition benefits).	3.1.1
(6)(a)(iv) And new clause (6)(a)(v)	<u>For each possible credible option the likely preferred network option</u> , details on: [...] <u>(4) an indicative cost range</u> (6)(a)(v) The technical characteristics that a non-network option would be required to deliver, such as:	At the project specification stage, NSPs should only be required to provide a level of detail on network projects commensurate with that currently provided in the Annual Planning Reports. Contrary to the Commission's view, detailed network cost estimates are generally not available at the project specification stage. In addition, providing detailed cost estimates at this stage allows alternative solutions to be priced \$1 less than the network options which may be well	3.4.4

Clause	Changes proposed	Rationale	Relevant section in this submission
	(1) the size of load reduction (2) location, (3) operating profile (e.g. time of year; time of day).	above the actual cost of providing that solution. In addition, currently Annual Planning Reports provide information in relation to the preferred option for network augmentation, rather than for each possible credible option. Rather than require the NSP to undertake substantial analysis in relation to all potential credible options at the project specification stage, Grid Australia proposes that the NSP instead be required to set out the technical characteristics that a non-network option would be required to deliver, in order to facilitate responses to the project specification consultation report from interested parties.	
(6)(g)	Interested parties must be provided with no less than <u>8 weeks</u> to make submission on each project specification consultation report.	A 26 week timeframe is excessive and will inevitably result in an extension of the timeframe required for the regulatory approval process, which is inconsistent with COAG's directive.	3.2
(7)(a)(vi)	<u>The identification of those market benefits (quantified in national terms) that are</u> estimated to arise outside of the NSP's region	The total quantification of market benefits (on a national basis) will be incorporated in the market benefits in the RIT analysis. The further break-down of this quantification on a regional basis is onerous in terms of additional analysis and highly uncertain, and does not provide any additional benefits.	3.1.4
Clause 7(a)(vii)	Should refer to <u>costs</u> as well as benefits	Minor drafting amendment	3.4.4

Table 2.2
National Transmission Planner Specification

Clause	Changes proposed	Rationale	Relevant section in this submission
(2)	The objective of the NTP is to promote the development of a strategic and nationally co-ordinated <u>transmission network to help optimise investment between transmission and generation across the power system</u> , having regard to the National Electricity Objective.	COAG's directive expresses the objective of the NTP and NTNDPAs being 'to promote the development of a strategic and nationally co-ordinated <u>transmission network to help optimise investment between transmission and generation across the power system</u> .' This objective should be reflected in the wording of the specification. Transmission and generation must be considered together by the NTP.	4.3
(3)(d)	Additional sub-clauses: (3)(vi) the focus of the NTP on strategic, long-term, high-level planning (3)(vii) avoiding duplication of the planning which NSPs have to do to meet their obligations with respect to reliability.	Changes proposed in order to ensure that the NTP's focus on strategic, long-term objectives is adequately captured.	4.1
(4)(a)	[...], the NTP must provide to <u>registered market</u> participants details of its work-plan and budget [...]	The correct reference is to 'registered participants', as 'market participants' excludes NSPs.	4.5.2
7	Governance arrangements should allow interested parties to dispute the NTP's decision as to what constitutes a NTFP and for an independent body (such as the AEMC or the Reliability Panel) to have the ability to make a	The governance arrangements currently proposed in the draft specification allow the NTP to potentially self-expand, given that it can determine what 'in its opinion' constitutes a NTFP. This is inconsistent with the National Electricity Objective and COAG's directive since it would result in duplication of	4.4

Clause	Changes proposed	Rationale	Relevant section in this submission
	binding ruling in relation to such disputes.	planning with that conducted by the TNSPs. It is also inconsistent with good governance practices.	
(7)(d)	Each National Transmission Flow Path development strategy shall reflect, <u>to the degree of accuracy and detail consistent with the strategic, high-level, scenario-based nature of the NTNDP</u> , a quantitative analysis of: [...]	The coverage of the National Transmission Flow Path development strategies set out in the draft specification is very detailed, requiring significant analysis and resources. The NTNDP needs to be focused on the pre-feasibility assessment of alternative transmission development scenarios, so as not to duplicate the planning that TNSPs are inevitably required to undertake to meet their reliability obligations. Duplication would represent a highly inefficient outcome and as a result would be inconsistent with the National Electricity Objective and COAG's directive.	4.2
(8)(e)	In preparing the draft NTNDP, the <u>NTP and</u> the NTP Advisory Committee must consider: [...]	The obligations set out in the draft specification should be imposed on the NTP rather than the NTP Advisory Committee alone, given that it is the NTP that is the party that bears the responsibility.	4.5.1
(8)(f)	In preparing the draft NTNDP, the <u>NTP and</u> the NTP Advisory Committee must have regard to: [...]	The obligations set out in the draft specification should be imposed on the NTP rather than the NTP Advisory Committee alone, given that it is the NTP that is the party that bears the responsibility.	4.5.1
(8)(f)(v)	Augmentations which have been either committed or proposed by NSPs	Minor drafting addition, to ensure consistency between NTNDP and NSPs planning.	4.5.2
(9)(i)	<u>Information requested by the NTP must be of an order of accuracy consistent with the</u>	The strategic, high-level nature of the NTNDP should be reflected in the information requests made to TNSPs (and	4.2

Clause	Changes proposed	Rationale	Relevant section in this submission
	<u>strategic high-level nature of the NTNDP</u>	other market participants).	
(9)(a)(b)(d) (e)(f)(g)(h)	Add ‘ <u>and market participants and intending market participants</u> ’ following each reference to TNSPs.	The NTP should have the ability to seek information from market participants and intending participants (particularly generators) as well as TNSPs, in order to enable it to take into account energy market development more generally. This is consistent with COAG’s statement of the objective of the NTP and NTNDP being in relation to the power system rather than solely transmission investment.	4.3
(16)(b)	The AEMO shall, upon receipt of a written request <u>related to a potential material inter-network impact</u> , prepare [...]	Minor drafting addition, to provide certainty.	4.5.2

3. Regulatory Investment Test

Grid Australia considers that the draft specification in relation to the RIT raises the following major concerns:

- the analysis required both under the proposed RIT and for projects excluded from the RIT is not proportionate to the costs of that analysis and the benefits that may result. The proposed analysis is also inconsistent with the National Electricity Objective in relation to efficiency;
- the timeframe required for consultation on the project specification consultation report will result in a significant increase in the timeframe taken for regulatory approval, in contradiction to COAG's directive; and
- the removal of the requirement for a proponent for options driven by reliability concerns raises unacceptable risks for NSPs.

The remainder of this section summarises Grid Australia's concerns in relation to each of the above issues, and provides amendments to the draft specification that address these concerns.

In addition Grid Australia considers that the balance between what is in the National Electricity Rules (NER) and what is in guidelines needs to be carefully considered to ensure the evolution of investment analysis arrangements is not unnecessarily restricted. In this regard it is noted that the AER has considerable experience with the Regulatory Test, having developed the current guidelines associated with Version 3. The AER would therefore be well placed to further develop such guidelines for any additional requirements for the new Regulatory Investment Test. Together with the database of information to be provided under the National Transmission Planning arrangements this will considerably enhance the consistency of approach among those organisations applying the RIT.

3.1. The Proposed RIT Is Not Proportionate

The Commission stated in its presentation at the Public Forum on 2 April and in its Discussion Paper that its intent in relation to the proposed RIT is to ensure that the RIT is proportionate:

‘ie, it adds value to the decision making process without imposing an unnecessary burden on transmission operators or other stakeholders.’²

Proportionality is also one of the principles set out in the current NER in relation to the Regulatory Test assessment and proposed in the draft specification for the RIT.

Grid Australia supports this intent. However, Grid Australia is strongly concerned that the specification of the RIT set out in the Discussion Paper would result in a greatly increased burden on TNSPs and DNSPs which is clearly disproportionate to the benefits that will be realised from the proposal.

² AEMC Discussion Paper, p. 18.

The increased burden resulting from the scope and detail of the proposed analysis will, in turn, result in an extension of the timeframes required for RIT applications. This is inconsistent with COAG's directive that 'where possible the new regime must at a minimum be no slower than the present time taken to gain regulatory approval for transmission investment.'

The disproportionate nature of the increase in the resources required for both the RIT analysis and for analysis of investments excluded from the RIT, compared to the benefits that may be realised from this analysis, is also inconsistent with the National Electricity Objective in relation to efficiency. As currently proposed by the Commission, the draft specification for the RIT would imply a substantial increase in costs associated with the regulatory investment process, which would ultimately be passed through to customers.

Grid Australia believes that the Commission's draft specification is not in line with its stated intention and needs to be modified to meet the aim of proportionality and for consistency with both COAG's directive and the National Electricity Objective.

Specifically Grid Australia considers that the following amendments are required in order to achieve proportionality:

- NSPs should only be required to quantify costs and benefits where they are material, rather than in all cases for investments over a certain size (clause (3)(b)(ii));
- the project specification consultation report should provide an explanation as to why a particular class of benefit is not expected to affect the outcome of the assessment stage, but this explanation need not be quantitative (clause (6)(d)(i))
- the \$ threshold applied in determining whether a RIT assessment is required should be expressed in relation to the cost of the preferred option³ or potential preferred options rather than the cost of the highest credible project (clause (2)(a)(ii));
- in relation to replacement expenditure, the \$ threshold for application of the RIT should only be applied to that component of the investment that augments capacity, rather than to the entire replacement cost (clause (2)(a)(ii));
- the requirement to separately identify the value of any class of market benefit estimated to arise outside of the NSP's region should be replaced with a requirement to identify these benefits in qualitative terms (clause (7)(a)(vi)); and
- information requirements in relation to investments that lie outside of the RIT should be limited to investment required to address urgent and unforeseen network problems, rather than capturing *all* other investments (including very low cost investments and negotiated services) (clause (2)(b)).

Each of these amendments is discussed in turn below, together with the amendments to the draft specification which Grid Australia considers are necessary in order to ensure that the

³ Grid Australia notes that the term 'preferred option' is used by the Commission in its Discussion Paper (p. 24) to refer to the credible project that is considered most likely to satisfy the RIT assessment, although prior to this assessment actually being conducted it is possible that an alternative credible project may be found that better satisfies the RIT.

analysis required under the RIT and for investments excluded from the RIT is proportionate to the benefits that may result from undertaking that analysis.

3.1.1. Quantification of benefits should only occur where they are material

The draft specification contains a proposed threshold for when the RIT assessment must include quantification of all costs and benefits (rather than only those classes of costs and benefits that are determined to be material). The proposal is for this threshold to be expressed in dollar terms, with values of \$25m-\$35m suggested.

Grid Australia considers that there is no need to specify a threshold for the inclusion of full quantification of all costs and benefits in the RIT analysis, if the NSP can demonstrate through the project specification process that some categories of market benefits are not likely to be material.

Where the NSP can demonstrate this to be the case, it is clearly inefficient and costly to require the NSP to undertake full quantification as part of the assessment.

Quantification of several of the benefit categories set out in clause 3(a) of the draft specification would require market modelling. Specifically, changes in fuel consumption arising from changes in dispatch and the changes in the timing of new generation plant. To require the NSP to devote time and resources itself or commission external resources to such quantification where it is able to demonstrate (at the project specification stage) that the outcome will not materially affect the RIT assessment is not consistent with the National Electricity Objective. Such extensive and unnecessary analysis will also result in delays in the time taken to complete the regulatory analysis, which is inconsistent with COAG's directive.

It is the *nature* of particular investments, rather than their dollar value, that determines whether those investments will have an impact on the market and therefore result in market benefits. For the vast majority of augmentations, there will be few market benefits. This is because the majority of augmentations are within a region and are driven by the need to meet mandated reliability standards. There is little or no evidence that there are widespread instances where consideration of market benefits would make material changes to reliability augmentation outcomes.

Grid Australia proposes that:

- there should be no explicit threshold above which NSPs are *required* to undertake full quantification of all market benefits. Clause 3b should be re-drafted as follows:

Clause (3)(b) The RIT shall include a quantification of all classes of market benefits which are determined to be material, in accordance with clause 6;
- NSPs should be required at the project specification stage to demonstrate the likely material relevance of each of the classes of benefit, in relation to all RIT applications (ie, clause 6(b) should be applied to all RIT applications, not those below a certain threshold); and
- clause 6(d) should be revised to remove the reference to a 'quantified' explanation in 6(d)(i):

Clause (6)(d)(i) An explanation is presented [...].

In relation to the last of these points, Grid Australia expects that in many cases an indicative quantitative assessment may be the clearest way to demonstrate that a particular class of benefit is not material. However, this may not be practicable in all cases, given that the classes of benefit under consideration are those for which quantification is likely to be a costly exercise (for example, changes in fuel consumption, changes in involuntary load shedding and competition benefits). For this reason, NSPs should not be precluded from providing qualitative rather than quantitative explanations for why a benefit is not material as part of the project specification consultation report.

Grid Australia considers that the above approach is appropriately tailored to the nature of the investment (and whether or not it gives rise to market benefits), rather than applying an indiscriminate dollar value to determine when full quantification of all categories of costs and benefits is required under a RIT assessment. Grid Australia further notes that stakeholders have the opportunity to challenge the NSP's analysis as set out in the project specification consultation report, if they consider there are substantive market benefits that the NSP is not proposing to take into account. This acts as a check on the NSP in demonstrating the non-materiality of benefits.

3.1.2. Application of the dollar threshold above which investments are required to pass a RIT assessment

The draft specification proposes that the threshold that determines when investments are required to pass a RIT assessment should be applied in relation to 'the estimated capital cost for the most expensive of the range of possible credible options.'

Grid Australia considers that the proposed application will have an effect contrary to that intended by the Commission, since it will result in effectively all projects being above the threshold.

For any investment, there is always likely to be a high cost credible option. For example, the transformer capacity at a 132/66 kV substation may need to be augmented and the preferred option is to install a new 132/66 kV transformer at cost of \$3m. However a "credible" alternative might be to establish a new 132/66 kV substation at a cost of, say, \$12m. This investment would therefore be caught under the proposed application of the RIT threshold, and as a result before the investment can go ahead the NSP would need to go through the full RIT process for a small asset.

Grid Australia proposes that a more workable alternative would be to retain the current arrangement of applying the threshold to the capital cost of the preferred option. Where a preferred option has not been identified at the project specification stage, the capital cost of the highest of the potential preferred options should be adopted in assessing whether the project meets the threshold. This approach would continue to allow credible 'outliers' to be excluded in applying the threshold.

Grid Australia proposes that the reference to the threshold in 2(a)(ii) be amended as follows:

2(a)(ii) The estimated capital cost for the preferred option (or the set of credible options) (or the highest capital cost where there are a range of potential preferred options) for meeting the identified need is less than [\$5m-\$10m].

As discussed above, the threshold proposed for all costs and benefits to be quantified in applications of the RIT should be removed.

3.1.3. Application to replacements and reconfigurations

Grid Australia understands the Commission's intent is to extend the requirement to undertake a RIT assessment to network replacements and reconfigurations, where these *also* augment network capabilities.

Grid Australia notes that the threshold above which a RIT application must be undertaken (clause (2)(a)(ii)) relates to the estimated capital cost of the entire option. Where a replacement could augment capacity at an additional/incremental cost below the [\$5m-\$10m] threshold, but where the cost of the replacement itself is above the threshold, this approach may have the unintended and inefficient consequence of providing a disincentive for the NSP to propose the augmentation, as it would require the NSP to undertake the (onerous) RIT process.

To avoid this perverse incentive Grid Australia recommends that the application of the [\$5m-\$10m] threshold should apply to the estimated capital cost of the *augmentation component only*, rather than the capital cost of the entire replacement.

Clause (2)(a)(ii) should be amended as follows:

(2)(a)(ii) The estimated capital cost for the preferred option (or the set of credible options) (or the highest capital cost where there are a range of potential preferred options) for meeting the identified need is less than [\$5m-\$10m], or, in the case of replacement/ reconfiguration expenditure the estimated capital cost for the augmentation component of the preferred option is less than [\$5m-\$10m].

There would also need to be commensurate changes to clauses (3)(b)(i) & (ii) and(6)(a)(b) if the threshold for full quantification of costs and benefits were to be retained, to ensure that the thresholds only apply to the incremental costs associated with the augmentation of the transmission capability.

Grid Australia understands the Commission's intent to be that network investment projects excluded from the RIT (as specified in clause (2)(a)) are excluded from the entire RIT process, including the project specification stage. In this regard, the reference in clause (2)(a)(iii) to 'the possible credible options under consideration' needs to be clearly interpreted as those options under consideration by the NSP rather than being options identified as part of a project specification process, which would not apply in this circumstance.

3.1.4. Requirement to separately identify the value of any class of market benefit estimated to arise outside the NSP's region

Clause 7(a)(vi) requires the value of any class of market benefit estimated to arise outside the NSP's region to be identified in the Project Assessment Draft Report.

COAG's directive requires the Commission to review whether the current definition of market benefits is sufficiently comprehensive to capture all national market benefits, rather than those focused within a TNSP's region.

The Discussion Paper notes the Commission's view that the current definition of market benefits in the test is sufficiently broad to capture national benefits. However the Commission is concerned that it may have been interpreted too narrowly under current applications of the Regulatory Test.

The Commission notes that it has addressed this concern in three ways:

1. The amalgamation of the reliability and market benefits limbs of the Regulatory Test will encourage TNSPs to broaden the scope of possible market benefits considered;
2. The proposal to mandate in the NER the list of market benefits and costs that TNSPs must consider; and
3. A requirement on TNSPs to specify the value of any market benefits which occur outside the TNSP's region.

The Commission comments that the last requirement (which is reflected in 7(a)(vi)) will 'improve the transparency of project assessments.'

Grid Australia agrees with the Commission that the current definition of market benefits in the Regulatory Test is broad enough to capture national benefits, and that the assessment of market benefits is not restricted to the market benefits only in the TNSP's region. Market benefits associated with a network investment should be reflected in the RIT analysis, where those benefits are *material*, regardless of the region in which those benefits accrue.

However, Grid Australia considers that a requirement to *separately* identify and *separately* quantify the market benefits that occur outside a TNSP's region requires an additional level of analysis (in addition to that undertaken as part of the RIT assessment) that is highly uncertain and likely to yield very little benefit. For example, when losses are incorporated within a RIT assessment, they will need to be calculated throughout the NEM, both inside and outside a particular TNSP's region. For lines that cross regional boundaries, it is unclear how their losses should be apportioned between the regions (ie, should this be undertaken on the basis of the length of the line in each region or on the basis of the load in each region?).

Grid Australia considers that the first two changes in the RIT noted above, together with a requirement for the NSP to clearly state where market benefits accrue outside of the NSP's region, are sufficient to ensure that NSP's adequately account for market benefits on a national basis and provide sufficient transparency to stakeholders. The total quantification of such market benefits will be incorporated in the RIT analysis. A further break-down of this quantification on a regional basis is onerous in terms of additional analysis and does not provide any additional benefits beyond those that are already achieved by the above measures.

Grid Australia therefore proposes that clause (7)(a)(vi) be amended as follows:

(7)(a)(vi) The identification of those market benefits (quantified in national terms) that are estimated to arise outside of the NSP's region

3.1.5. Requirements in relation to projects falling outside of the RIT is too broad

Clause 2(b) of the draft specification sets out a number of requirements in relation to projects that fall outside of the scope of the RIT (as determined by clause (2)(a)). The requirements in clause 2(b) relate to the provision of information in the NSP's Annual Planning Reports and a requirement that the project is planned and developed on the basis of maximising the net economic benefits to all those who produce, consume and transport electricity in the market.

Grid Australia is concerned that, as currently drafted, clause 2(b) covers *all* network investments below the [\$5m-\$10m] threshold (including negotiated services). Grid Australia considers that this was surely not the Commission's intent, since it would represent a significant increase in the regulatory analysis required for network investment, for little or no discernable benefit.

The current Regulatory Test provisions relate to *network augmentation* only. The proposed specification has been drafted in relation to *network investment*, and hence is much broader than network augmentation. In addition, under the current regulatory arrangements augmentation investments *below* the 'small network investment' threshold are not required to be reported on in the Annual Planning Reports. As currently worded, the draft specification removes this 'lower bound threshold' for reporting by imposing reporting requirements on *all* investments below the [\$5m-\$10m] threshold for RIT assessments.

Grid Australia notes that it has submitted a Rule Change Proposal to the Commission to increase the thresholds used in the definition of small network investments and large network investments, from \$1m to \$5m and from \$10m to \$35m, respectively. Under this proposal, network augmentation under \$5m would not be subject to any of the Regulatory Test requirements. Neither would there be any reporting requirements in the TNSPs Annual Planning Reports in relation to these augmentations. For network investments above \$5m but below \$35m the NSP would need to provide information on these projects in its Annual Planning Report but would not need to undertake the full Regulatory Test process. In contrast the Commission proposal as reflected in the draft specification would *lower* the current threshold for reporting for small network investments from \$1m to zero.

Under clause (2)(a) of the draft specification, it is proposed that certain types of network investment be excluded from the RIT. This includes investment below the [\$5m-\$10m] threshold, investment in relation to connection assets and investment in relation to negotiated services.

Clause (2)(b) sets out the requirements in relation to all network investment that is excluded from the RIT assessment. This represents a new set of regulatory requirements in relation to network investment. Importantly, there is no limitation placed on the types of investment to which clause 2(b) applies. Therefore all investment below the [\$5m-\$10m] threshold (no matter how small), all investment in relation to connection assets and all investment in relation to negotiated services would be subject to these requirements.

As currently drafted, clause (2)(b) would apply to literally thousands of 'rats and mice' projects, such as the replacement of IT systems. This represents a significant and disproportionate increase in analysis for transmission and distribution investment, for little or no discernable benefit. The application of clause (2)(b)(i) to negotiated services would also

be nonsensical, given that the parties to those services have agreed to pay the cost of those assets.

Grid Australia considers that the substantial broadening of the regulatory requirements in relation to network investments excluded from the RIT is unlikely to be the Commission's intent.

Grid Australia's proposed drafting changes bring the requirements of (2)(b) back into line with the current arrangements. Reporting through the TNSPs' Annual Planning Reports does not currently apply to network augmentations below the threshold for small network investments. 'Like-for-like' replacement is also not captured under the current NER provisions and connection and negotiated services are captured under other NER requirements. Hence the only category of network investments excluded from the RIT under clause (2)(a) that should fall within the scope of the additional reporting requirements set out in clause (2)(b) are network investments which, because they were urgent and unforeseen, were excluded from the full RIT process by virtue of (2)(a)(i).

Grid Australia proposes the following change to the introductory wording of clause (2)(b), both to clarify the scope of the term 'project' and to limit the scope of the clause to urgent and unforeseen network investment:

- (2)(b) For each network investment project, that is outside of the scope of the RIT due to clause (a)(i) the NSP must: [...]

3.2. The 6-Month Timeframe Proposed for the Project Specification Stage is Excessive and Will Delay Investment

The Commission proposes to extend the current RFI provisions in the Regulatory Test that apply to augmentations assessed under the market benefits limb to apply to all network investment subject to the RIT.

The Commission has re-named the process the 'Project Specification Stage' and proposes that NSPs publish a project specification consultation report prior to applying the RIT to a particular investment. The Commission further proposes that interested parties must be provided with not less than 26 weeks to make submissions on each project specification consultation report.

Grid Australia has a fundamental concern that the 6-month timeframe proposed is excessive and will inevitably result in an extension of the timeframe required for the regulatory approval process. As such, the proposal is inconsistent with COAG's directive that: 'where possible the new regime must at a minimum be no slower than the present time taken to gain regulatory approval for transmission investment.'

Grid Australia understands from the Commission's presentation at the Public Forum on 2 April that the Commission considers that the project specification consultation report could potentially be appended to an NSP's Annual Planning Report, and could potentially cover a number of investments, such that individual project specification consultation reports need not be published throughout the year. Grid Australia considers that such an approach is impractical, as substantial analysis is required to be undertaken in relation to each project before a project specification consultation report can be issued.

In particular, there is a requirement for NSPs to explain why a particular class of benefit is not expected to affect the outcome of the assessment stage within the project specification report. Such an assessment requires a reasonably in depth level of analysis on the potential costs and benefits to be included in the assessment to demonstrate whether any classes of costs/benefits may not be material and could therefore be excluded from the analysis. In effect, the Commission is requiring that any detailed analysis currently undertaken at the Application Notice (draft recommendation) stage of the Regulatory Test be brought forward to the RFI stage.

Grid Australia considers that the Commission may be assuming that the project specification consultation report could be issued at an earlier stage in the planning process than is actually the case, given the analysis that will need to feed in to the project specification consultation report in order for it to be credible. As a consequence, the timetable set out for consultation on the project specification report *inevitably* imposes a delay to the timeframe for the regulatory assessment, compared to the current Regulatory Test process, since it adds a further step to the process that is not currently present for augmentations driven primarily by reliability concerns.

Grid Australia notes that the current RFI process applying to augmentations assessed under the market benefit limb of the Regulatory Test has an 8 week timeframe. This timeframe was determined only recently (in 2007) by the AER, who noted that:

‘The AER considers that the minimum 8 week timeframe fits well into the broader Regulatory Test consultation process and balances the need to provide sufficient time for the preparation of quality workable alternative options whilst minimising the procedural delay.’⁴

Grid Australia notes further that the AEMC has previously considered the benefits of applying an RFI process to investments driven by reliability concerns and concluded that:

‘Overall, it is not clear whether the application of an RFI to large reliability investments would deliver additional benefits beyond the consultation requirements that presently exist, compared to the additional risks of delays.’⁵

In light of this, Grid Australia recommends that the timeframe set out in clause 6(g) for interested parties to make submissions on the project specification consultation report be reduced to 8 weeks.

3.3. Requirement for a Proponent for Reliability Augmentations

The Commission proposes to remove the current requirement that investments driven by reliability need to have a proponent in order to be included in the RIT assessment. The

⁴ AER, *Final Decision Regulatory Test version 3*, November 2007.

⁵ AEMC, *Final Rule Determination, National Electricity Amendment (Reform of the Regulatory Test Principles) Rule 2006*, 30 November 2006, p. 70

Commission considers that removing this restriction reduces the risk that practicable and efficient options are overlooked.⁶

The Commission notes that the absence of a proponent may be a factor that the TNSPs could have regard to in determining whether an option is credible or not.

Grid Australia strongly considers that the risks to reliability of supply and the potential liability exposure that NSPs face are such that there must not be a delay to the regulatory process as a result of consideration of projects for which there is no proponent. Given the extensive project specification process now proposed for all investments, including reliability investments, by the time that the RIT assessment is undertaken, potential proponents will have had adequate opportunity to identify themselves.

Grid Australia proposes that clause (4)(a)(i) of the draft specification be amended as follows:

(4)(a) The RIT shall:

(i) [...] The absence of a proponent will be a factor for consideration in assessing possible credible options, but will not in itself exclude a project from being a credible option, except for proposed investments where the identified need is an inability to meet the service standards linked to the technical requirements of schedule 5.1 or in applicable regulatory instruments, in which case a proponent is required.

3.4. Other Required Amendments

There are a number of other amendments that Grid Australia considers should be made to the draft specification.

3.4.1. Explicit recognition that externalities are to be excluded from the analysis

The draft specification proposes that the different categories of costs and benefits that should be included in the RIT assessment should be set out at the level of the NER, rather than being set out in the AER Regulatory Test Guidelines (as is currently the case).

Grid Australia notes that as a general point, the detail of the RIT analysis (including the categories of costs and benefits that should be included) would be more appropriately contained in the AER Regulatory Test Guidelines rather than the NER. The AER Guidelines would be more amenable to modification as required going forward, rather than requiring a Rule change proposal.

For example, the list of costs and benefits set out in clause 3(a) does not explicitly include the benefits associated with changes in carbon emissions. Whilst this is appropriate currently (in the absence of an explicit carbon trading scheme), once such a scheme is introduced Grid Australia anticipates that the inclusion of changes in the costs of emissions associated with alternative options will become an important aspect of the RIT analysis.

In the event that the Commission decides to retain a full list of costs and benefits to be considered in the specification, with the intention that these would be incorporated into the

⁶ Discussion Paper, p. 25

NER, Grid Australia considers that it is also important to include an explicit reference to externalities being excluded from the analysis in the NER. This reference is currently incorporated into the Regulatory Test as promulgated by the AER and is expressed as follows:

‘Any cost or benefit which cannot be measured as a cost or benefit to producers, distributors and consumers of electricity may not be included in the analysis proposed in accordance with this test.’ (AER Regulatory Test Version 3, (10)).

Grid Australia notes that over the years the treatment of externalities in the Regulatory Test (particularly in relation to the environment) has been subject to much discussion, and therefore considers that there should be an explicit reference in the NER in relation to this.

3.4.2. Separate identification of classes of costs is not pragmatic

Clause (3)(d) of the draft specification requires the NSP as part of the RIT assessment to identify specific classes of costs that must be considered.

It is not pragmatic in all cases to *separately identify* these classes of costs. For example, the cost of complying with laws, regulations and applicable administrative requirements will form part of the capital and operation costs of the option, and it would not be practical to separate these costs out.

Grid Australia proposes that the clause should be amended as follows:

(3)(d) The RIT shall ~~identify the following classes of costs that must be considered~~ include costs of the following type: [...]

3.4.3. Time period for RIT assessments should not be tied to operating life of assets

Currently Regulatory Test assessments are typically conducted over 10 to 15 year time periods. The wording of the draft specification should be consistent with this. In particular, the reference to the ‘operating life of the option’ in clause (3)(d)(ii) should be deleted, as this implies a much longer time period for assessment (e.g. 40-50 years).

Grid Australia proposed the following drafting amendment:

(3)(d)(ii) Operating and maintenance costs over the ~~operating life of the option period of assessment~~

3.4.4. Provision of an indicative cost range only in the project specification report

At the project specification stage, NSPs should only be required to provide a level of detail in relation to project costs commensurate with that currently provided in the Annual Planning Reports.

Contrary to the Commission’s view as expressed in the Discussion Paper⁷, detailed cost estimates are generally not available at the project specification stage. In addition, providing detailed cost estimates at this stage allows alternative solutions to be priced \$1 less than the network options which may be well above the actual cost of providing that solution.

⁷ Discussion Paper, p. 24.

In addition, currently Annual Planning Reports provide information in relation to the preferred option for network augmentation, rather than for each possible credible option. Rather than require the NSP to undertake substantial analysis in relation to all potential credible options at the project specification stage, Grid Australia proposes that the NSP instead be required to set out the technical characteristics that a non-network option would be required to deliver, in order to facilitate responses to the project specification consultation report from interested parties.

Grid Australia proposes the following drafting amendment:

(6)(a)(iv)(4) For each possible credible option the likely preferred network option, details on: [..]

(4) an indicative cost range

(6)(a)(v) The technical characteristics that a non-network option would be required to deliver, such as:

(1) the size of load reduction

(2) location,

(3) operating profile (e.g. time of year; time of day).

3.4.5. Drafting suggestions

Grid Australia offers the following additional minor drafting suggestion:

- Clause 7(a)(vii) should refer to costs as well as benefits.

4. National Transmission Planner

Grid Australia broadly supports the Commission's proposals in relation to the NTP and considers that they are, in the main, in line with COAG's directive. However, Grid Australia does have concerns with some aspects of the proposals. Specifically:

- the draft specification should clearly reflect the Commission's (and COAG's) intent that the NTP be focussed on strategic, long-term objectives;
- the NTNDP needs to be pitched at an appropriate level of detail, reflecting its strategic and scenario-based nature. This approach is consistent with the National Electricity Objective in ensuring efficiency and the avoidance of duplication with those activities that TNSPs are required to undertake;
- the objective of the NTP should reflect the efficient development of the power system, and therefore needs to consider both transmission and generation; and
- there should be appropriate checks and balances in relation to the NTP's determination of NTFPs, in order to prevent self-expansion by the NTP.

Furthermore, Grid Australia supports the Commission's approach in relation to transparency of the NTP's involvement in the revenue reset process of the AER and the RIT assessments conducted by NSPs. Preservation of this transparency is required for good governance. In addition, accountability for revenue reset decisions must remain with the AER in accordance with the separation between Rule making and Rule enforcement roles introduced during the recent energy market reforms.

4.1. Strategic High-level Focus

Grid Australia supports the Commission's proposal to ensure that the NTP is focussed on strategic, long-term objectives. This approach is consistent with COAG's directive.

To ensure that this focus is adequately captured, Grid Australia recommends that two further sub-clauses be added to the list of proposed factors the NTP must have regard to, as set out in clause (3)(d) of the draft specification, namely to:

- focus on strategic, long-term, high level planning; and
- avoid duplication of the planning which NSPs have to do to meet their obligations with respect to reliability.

4.2. Appropriate Level of Detail

Grid Australia is concerned that the detail required in the NTNDP is too great, given the intended strategic nature of the plan and the high degree of uncertainty in relation to scenario planning. In particular, the coverage of the National Transmission Flow Path development strategies set out in the draft specification is potentially very detailed, requiring significant analysis and resources. There is a very real danger that the NTNDP could duplicate work that TNSPs are required to do as a result of their reliability obligations, if the coverage is at the

level of detail implied by the draft specification. This would represent a highly inefficient outcome and would be inconsistent with the National Electricity Objective.

Consistent with its strategic focus, the NTNDP should include only pre-feasibility assessments of alternative transmission development scenarios. This ensures there is no duplication of the planning that TNSPs are inevitably required to undertake to meet their reliability obligations. The Commission should ensure that the level of detail required to be reflected in the NTNDP is commensurate with the uncertainty and inaccuracy inevitable in such strategic, scenario-based planning.

Grid Australia therefore proposes that clause (7)(d) in the draft specification be amended to recognise the strategic, high-level nature of the plan, by adding the following:

(7)(d): Each National Transmission Flow Path development strategy shall reflect, to the degree of accuracy and detail consistent with the strategic, high-level, scenario-based nature of the NTNDP, a quantitative analysis of: [...]

The strategic, high-level nature of the plan should also be reflected in the information requests made to TNSPs (and other market participants). Grid Australia proposes that the following sub-clause be added to clause 9:

(9)(i) Information requested by the NTP must be of an order of accuracy consistent with the strategic high-level nature of the NTNDP

4.3. Focus should be on the Development of the Power System

COAG's directive sets out the objective of the NTP and NTNDP 'to promote the development of a strategic and nationally coordinated transmission network to help optimise investment between transmission and generation across the power system.'

Consistent with this, Grid Australia considers that the objectives for the NTP and the NTNDP must similarly be expressed in relation to the development of the power system, rather than solely focused on transmission investment. Transmission and generation must be considered together by the NTP. As a result, Grid Australia proposes that the objective of the NTP as set out in clause 2 of the draft specification be amended as follows:

(2) The objective of the NTP is to promote the development of a strategic and nationally co-ordinated transmission network to help optimise investment between transmission and generation across the power system, having regard to the National Electricity Objective.

Grid Australia considers that a key element of the NTNDP is identifying the alternative generation planting in each scenario, in order to guide generation investment.

To enable the NTP to take into account energy market development more generally, it should also have the ability to seek information from market participants and intending market participants (in particular from generators) as well as from NSPs. Grid Australia considers that this could be given effect by amending the information provision clauses in the draft specification (9)(a)(b)(d)(e)(f)(g) and (h) to add 'and market participants and intending market participants' following each of the references to TNSPs.

4.4. Checks and Balances on NTP's Determinations of NTFPs

Grid Australia is concerned that there are inadequate checks and balances on the NTP in relation to the scope of its role.

The Commission has placed some boundaries on the activities of the NTP by requiring it to focus on national transmission flow paths (NTFPs). The Commission has provided a soundly reasoned basis for these constraints, which are consistent with the NTP's role in focusing on strategic, high-level developments and avoiding duplication with the planning activities that TNSPs are required to carry out. However, as currently drafted, clause (7)(c)(ii) allows the NTP to identify the NTFPs, without providing any recourse for interested parties to contest the NTP's opinion. Moreover, clause (7)(b) allows the NTP to include in the scope of the NTDP those transmission elements which *in its opinion* are part of or materially affect the transmission capability of the NTFPs. Again, there is no recourse for interested parties to challenge the NTP's decision.

Grid Australia does not consider that the governance arrangements set out for the NTP in this regard reflect good governance practices. The consultation process in relation to the draft and final NTNDP is not adequate in this regard. The lack of recourse to an independent body in the case of disputes as to what constitutes a NTFP or the transmission elements that may affect the transmission capability of NTFPs allows the NTP to potentially self-expand. Given that the NTP is an unregulated monopoly whose costs are met by participant fees, Grid Australia considers that there is a need to impose a more appropriate governance structure on the NTP than that set out in the draft specification, to guard against this potential.

Grid Australia considers that the governance arrangements set out in clause 7 of the draft specification should be amended to allow for interested parties to dispute the NTP's decision as to what constitutes a NTFP and for an independent body (such as the AEMC or the Reliability Panel) to have the ability to make a binding ruling in relation to such disputes.

4.5. Additional Drafting Issues

Grid Australia also proposes that the following amendments be made to the draft specification.

4.5.1. Obligations to be placed on NTP rather than NTP Advisory Committee

The obligations set out in the specification should be on the NTP, with the NTP Advisory Panel being mindful of these obligations. The NTP is the party that bears these responsibilities and therefore should also be the party on whom obligations are placed. This requires modification to the current wording of clauses such as (8)(e) and (8)(f), where currently the obligation to consider certain factors is placed on the NTP Advisory Committee rather than the NTP itself.

Grid Australia proposes that the wording of these clauses be modified as follows:

(8)(e) In preparing the draft NTNDP, the NTP and the NTP Advisory Committee must consider: [...]

(8)(f) In preparing the draft NTNDP, the NTP and the NTP Advisory Committee must have regard to: [...]

4.5.2. Further drafting suggestions

Clause (4)(i): The correct reference is to ‘registered participants’, as ‘market participants’ excludes NSPs:

(4)(a) [..], the NTP must provide to registered market participants details of its work-plan and budget [..]

Clause 8(f): Add the following sub-clause:

(8)(f)(v) Augmentations which have been either committed or proposed by NSPs

Clause (16)(b): Add the following words to provide certainty that the request has to be in relation to material inter-network impact:

(16)(b) The AEMO shall, upon receipt of a written request related to a potential material inter-network impact, prepare [..]