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Colin Sausman
Senior Director
Australian Energy Market Commission
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Dear Mr Sausman,

Re: National Transmission Planner Review – Discussion Paper

This is a short response from Total Environment Centre (TEC) to the AEMC's Discussion Paper, pending further discussion.

We are generally supportive of the AEMC's recommendations concerning the proposed National Transmission Planner (NTP) and amendments to the Regulatory Test (the new Regulatory Investment Test – RIT).

However, the AEMC has fallen short in taking this rare opportunity to improve transmission network planning, in particular, to level the playing field between demand management (DM) and augmentation approaches. Removing the barriers to DM that extend to the cultural bias of networks requires proactive changes that ensure that DM is prioritised by transmission networks.

Our specific comments are outlined below.

1. National Transmission Planner

1.1 NTP needs to improve accuracy of forecasts

TEC's main concern with the NTP is whether the new arrangements will end the consistent overestimation of demand by NEMMCO (based on information from TNSPs) over the last 6 years. Dealing with the chronically inflated demand forecasts is urgent. Unrealistic projections, which underestimate the contribution of DM and energy efficiency, give distorted signals that reinforce a culture already biased towards infrastructure building and against DM.

1.2 NTP should develop methodology for inclusion of DM in forecasts

To improve the accuracy of demand forecasts, the NTP should have explicit responsibility for inclusion of DM potential and participation. As NERA has noted, this will require the development of a methodology for this process, which should be open to public consultation.

1.3 NTP should undertake annual DM Forecasting

To address the chronic lack of understanding about the potential for DM and energy efficiency to meet demand, a key role of the NTP should be to undertake explicit, annual DM forecasting. This would integrate with NERA's recommendation for the NTP to:

“...identify and evaluate non-network options, with the information being provided to network service providers for consideration in the regulatory investment test.”¹

This would support NERA's additional recommendation for NSPs to be required to:

“...seek information from demand side proponents on an annual basis, on potential non-network solutions to emerging network constraints, outside of the application of the regulatory investment test.”²

1.4 Lack of power of NTP to influence transmission planning

We are concerned about the lack of actual capacity of the NTP to influence transmission network planning. Without stronger requirements for TNSPs to undertake DM, for example, it is likely that the NTP will be little more than a commentator on TNSP planning issues. This would be an unfortunate waste of resources.

We therefore refer the AEMC to TEC's Rule change package, where we recommend a variety of means to improve on the vast underutilisation of DM in the NEM.

1.5 NTP recommendations supported by TEC

TEC however supports the AEMC recommendations that the NTP will:

- have regard to a wide range of issues (Section 3d), including climate change and demand side alternatives
- publish an annual national transmission network development plan (NTNDP)
- include secondary as well as major issues in the NTNDP
- consider “more strategic forward looking scenarios”
- consider “broad and deep future supply and demand scenarios”
- maintain a database
- offer advice and make submissions to other processes
- conduct reviews.

¹ NERA for AEMC, Review of the role of demand side participation in the National Electricity Market, 2008, p. 35

² NERA for AEMC, Review of the role of demand side participation in the National Electricity Market, 2008, p. 33

We also support the general form and content of the NTP and NTNDP.

2. Regulatory Investment Test

2.1 Lack of clarity about ‘Additional Benefits’

TEC has concerns about the lack of clarity about how additional benefits beyond those listed in the RIT will be determined. In particular, non-network alternatives and carbon costs are not explicitly referred to in the list of costs/benefits – this is a significant oversight, which the generic references in the list will not satisfy.

These concerns would be at least partly addressed through some small changes in the NTP Specification. We note that Sections 7c(iii) and d(iii) refer to market benefits – it would be helpful if these could be explicitly listed as they are for the RIT (with acknowledgement of the issues in Section 3d). In addition, Section 8e(v) could make explicit reference to the issues referred to in Section 3d.

To address at least part of our concerns, we recommend that Section 3, Part a, concerning “Quantification of Market Benefits and Costs”, be amended to include an extra class of market benefit:

[new (iv)] changes in any other demand side participation measures
[new v] changes in costs through avoidance of greenhouse gas emissions and any associated carbon costs

It would also be helpful if the meaning of “possible option value” was clarified in Section 3a(viii).

TEC is also not convinced that TNSPs will not use the concept of “urgent and unforeseen” to avoid proper consideration of non-network alternatives. A cultural bias by networks against demand management and distributed generation on the grounds of ‘reliability’ can be expected to continue unless the RIT is more explicit about the assessment and use of these tools to meet demand.

2.2 RIT threshold should remain at \$1 million

TEC is concerned that the threshold for the RIT is proposed to be raised to \$5 million or \$10 million. The RIT provides much needed oversight of a multitude of TNSP investment decisions. Combined, these small investments may comprise a significant imposition on consumers. To allow such investments to occur without the rigour of the RIT would be against the interests of consumers. In particular, we are concerned that many DM alternatives to smaller augmentation decisions may be overlooked.

2.3 Length of time to respond to project proposals

As TEC has pointed out in its Rule change proposal, the planning stage of network development is biased against DM. Typically, augmentation approaches are already well under way by the time a TNSP makes its project proposal public. This disadvantages DM providers which, by comparison, are given a small amount of time to prepare a viable response.

We therefore propose that the time NSPs are required to allow for submissions is increased from 26 weeks to 52 weeks.

2.4 RIT recommendations supported by TEC

TEC however supports the AEMC recommendations that the RIT will:

- include a wider definition of benefits, even where this may lead to higher costs, allowing the choice of highest net present value (notwithstanding our comments above lack of clarity)
- remove the distinction between the reliability and market benefits limbs
- allow the AER to develop a methodology for quantifying reliability benefits
- consider not only augmentation, but also replacement and reconfiguration
- allow for the default of all options being analysed unless there are good reasons not to (though it is not quite certain that the current wording of the RIT does this effectively)
- prevent the TNSPs exercising their discretion to exclude certain classes of benefit
- require TNSPs to consult the NTP before undertaking a formal project assessment for new large transmission works
- incorporate a consistent dispute resolution process.

Yours faithfully,

Jane Castle and Glyn Mather