



Level 6, 60 Marcus Clarke St.,  
Postal: GPO Box 1301  
Canberra ACT 2601  
ABN: 83 113 331 623

Tel: 02 6243 5120  
Fax: 02 6243 5143  
john.boshier@ngf.com.au  
www.ngf.com.au

11 April 2008

The Chairman  
Australian Energy Market Commission  
Level 5, 201 Elizabeth Street  
Sydney NSW 2000  
Email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Dr Tamblyn

## **National Transmission Planner Discussion Paper**

The NGF welcomes the opportunity to provide further input and comment to the AEMC at this critical stage in the National Transmission Planner (NTP) Review.

These comments are relatively brief and high level; and ignore much of the detail in the Discussion Paper. Their principal purpose is to provide further elaboration on some of the key points made in our comments at the NTP Forum on 2 April 2008.

### ***NTP Roles & Functions***

#### **Limited Scope of the Proposed NTP Role and Functions**

Overall, the AEMC proposals for the role and functions of the NTP are very disappointing and they fall well short of what we were asking for in our submission in response to the Issues Paper.

Under the current transmission access regime and a legal and regulatory framework for the NEM which provides very generous protection to both NEMMCO and TNSPs from liability, generators in particular have been allocated essentially all of the transmission related planning and operational risks and uncertainties that can impact their business.

In these circumstances, generators are seeking:

- Predictability, competitive neutrality and a high degree of transparency in the transmission planning process; and
- Access to sufficient timely information to enable generators to make investment decisions in the full knowledge of the transmission related planning and operational risks involved, and to manage those risks as efficiently as possible during the operating life of their plant.

We believe that the proposed NTP function has the potential to play a pivotal role in delivering to market participants in general and the generation sector in particular what they seek in this respect.

As a strong, well-resourced and quasi-independent<sup>1</sup> function within AEMO, the NTP could provide much-needed leadership and expert scrutiny of the technical competencies and practices of both TNSPs and AEMO transmission related operations. This would considerably enhance the accountability of those functions and provide greater assurances and transparency to market participants about the true nature and extent of the transmission related risks they face.

We understand and accept that the MCE's principal objective with the establishment of the NTP function is to enhance the long term strategic development of the grid. However, in our view, the MCE's Direction to the AEMC for this Review does not preclude taking advantage of this opportunity to address our concerns.

A more expansive NTP function along the lines that we proposed in our submission would in no way undermine the accountability of TNSPs for their network investment decisions. On the contrary, our proposals were designed to ensure that TNSPs are required to adopt world's best practice, state-of-the-art planning practices, their level of discretion in planning techniques and selection of investment options is minimised and they are subject to sufficient expert external scrutiny to satisfy network users that they maintain very high standards and comply with all of their legal and regulatory obligations.

Based on some of the questions and comments at the NTP Forum, it would appear that there is also some support within the AER for the NTP to provide technical expert support to the AER for its regulatory oversight of the TNSPs. While the discussion at the Forum was more concerned with the AER's revenue determination process, our concerns are more concerned with a TNSP's compliance with its planning and operations related responsibilities under the various legislative provisions, codes and rules that govern them.

Therefore, we strongly urge the AEMC to give further serious consideration to this issue before publishing its Draft Report.

---

<sup>1</sup> This would need to include a degree of independence from the system operations function in AEMO as its operational decisions and actions in relation to the transmission network are a key component of the overall transmission related risks that generators are expected to understand and manage.

## National Transmission Network Development Plan

There are a number of aspects concerning the proposed scope of the National Transmission Network Development Plan (NTNDP) that warrant comment. These include the proposed limitations to focus the plan only on:

- The long term;
- National transmission paths; and
- Qualitative assessment of strategic development options.

These limitations appear to have been justified on the grounds of avoiding “unnecessary” duplication of planning tasks between the NTP and the TNSPs, and not undermining the TNSPs’ accountability for investment decision-making. In our view, neither of these arguments has merit. While we do not dispute the prime purpose of the NTNDP is to identify prospective long-term strategic grid development options, the development of the NTNDP should be viewed as an integral part of an overall network planning process which has sufficient structure and transparency so that participants are assured that high quality plans are being developed and implemented by the TNSPs in line with the objectives and obligations imposed on them by the overall legal and regulatory framework.<sup>2</sup>

We do not profess to be experts in transmission planning or transmission network design. However, in the current planning process, even people who do have such expertise are not able to understand the true investment drivers of TNSP investment proposals and just how sensitive those drivers are to any particular planning assumptions. This was evidenced at the AEMC National Transmission Planner Forum by the comments and suggestions of Ross Gawler of MMA.

This is a further confirmation of our view that current TNSP planning practices are essentially “a black box” with insufficient information in the public domain to enable stakeholders to understand and challenge key aspects of the process.

Given the possible adverse financial impact of transmission investment decisions on market participants, particularly generators, the required standard for the quality and integrity of the network planning process must be to be set at a very high level. Arguably, the current process does not satisfy such a standard. Subject to the NTP being able to maintain a certain degree of independence from AEMO operations, the establishment of the NTP presents to the AEMC a unique opportunity to both improve the quality of the planning process itself but also ensure that

---

<sup>2</sup> The NGF supports the establishment of a process that requires the AEMO to publicly consult with market participants on the outcomes of the NTNDP when the report is in a draft form. A short period of consultation may be given to stakeholders for comment before a final report is released. This action would improve the transparency of the development of the NTNDP and quickly improve its credibility as a planning instrument when introduced in the NEM.

TNSP implementation of the process is properly scrutinised by independent, technically competent personnel.

## **Role and Composition of the Proposed NTP Advisory Committee**

We have a number of queries and concerns about the role and composition of NTP Advisory Committee. For example:

### *Preparation of the first draft of the Annual NTNDP*

The AEMC has proposed that the NTP Advisory Committee prepare the first draft of the NTNDP each year. Precisely what this means in terms of the involvement of the Committee, and the AEMO staff and management is unclear. Presumably, the Committee would merely oversee the work of AEMO management and staff within the NTP function, sign off on the draft plan, and then present it to the AEMO Board.

Our view is that it should be possible to devise a more efficient process that involves the development of a draft NTNDP but ensures that the AEMO Board is exposed to all of the main views and concerns associated with that draft plan (of both the Committee and AEMO personnel) before the Board makes a decision re publication or requesting further work.

### *Full-time chairperson*

Given the very limited role of the NTP function as proposed by the AEMC, there appears to be little justification for a full-time chair-person for the NTP Advisory Committee. Whether or not the chair-person is full-time will not affect the visibility and 'separation' of the NTP function within AEMO, but it will severely restrict the list of potential candidates for the position.

### *Required expertise of Committee members*

The AEMC's proposal calls for the appointment of what is in effect an expert committee steeped in network and system planning competencies. We have a number of real concerns with this. Firstly, it will mean that the field of suitable candidates for Committee membership will be limited largely to ex AEMO and TNSP senior staff supplemented by a few academics and ex consultants. Yet, the role of the Committee should be to ensure that the process by which the NTNDP is developed safeguards the interests and concerns of the broader community of energy consumers and market participants.

Overall, we believe any advisory committee of this type should be more representative of the broader community of market stakeholders, it should have the authority and access to funds to seek independent advice and undertake independent reviews on key matters pertinent to its role, and, if necessary, it should be able to publish its own views and concerns, particularly where these are at odds with AEMO.

## **Linkage of the NTNDP to TNSP Investment Plans**

At this stage, it is difficult to envisage how the information published by AEMO in the NTNDP (as currently proposed by AEMC) will have any material effect on the network investment plans of TNSPs. As we understand it, the NTNDP is currently intended to be limited to a timeframe beyond the near term focus of the TNSPs, i.e. the period for which they must commit to their network investment plans.

The NTNDP can only influence these investment plans to the extent that it convinces TNSPs to consider credible options which they might otherwise have ignored and/or it modifies a TNSPs planning assumptions about the potential costs or benefits of any particular option.

Therefore, at best, the linkage between the NTNDP and the investment plans of individual TNSPs will always be rather tenuous, and TNSPs will be much more heavily influenced by the detailed rules and guidelines for applying the Regulatory Investment Test (RIT) than they will be by the contents of the NTNDP. Under these circumstances, the value added of the current proposed NTNDP within the overall planning process is questionable, and any assessment of its net worth to market stakeholders will always be highly subjective.

## **Separation of NTP from other Transmission Functions in AEMO**

The AEMC proposals call for a degree of separation of the NTP function from other transmission related functions and responsibilities within AEMO. They seem to be calling for a quite separate organisational unit staffed and managed by transmission planning personnel who have no involvement in any of the other AEMO transmission related functions.

We are not convinced of either the wisdom or the practicality of this approach. Expert, technical staff with all of the competencies and experience needed to undertake these functions effectively and efficiently are scarce, and their value to AEMO is not necessarily maximised by splitting them up into disparate activities with arms-length relationships between them. In any event, merely splitting the staff into separate organisational units does not guarantee the sort of separation that the AEMC appears to be looking for. It ignores the effects of 'informal' organisation structures and networks within organisations that are usually just as influential as the formal structures in determining how organisations operate and perform.

To the extent that these activities need to be treated differently, we suggest that the AEMC focus more on the stakeholder consultation processes and the corporate governance arrangements associated with each as the means of differentiating them, and leave it to the AEMO Board and Management to decide how to best organise and manage them internally.

## ***Regulatory Investment Test***

In broad terms, the NGF supports the general thrust of the AEMC's proposals to consolidate the RIT into a single process, standardise the list of benefits to be considered, and generally reduce

some of the current range of the TNSP discretionary decision-making about what project options it considers and how it evaluates them.

In this regard, while we accept the TNSPs' call for appropriate proportionality in the evaluation process, we do not accept at face value their sweeping claims about the unworkability of the current proposals. It seems rather ironic to us that as TNSPs ramp up the number of projects they intend to undertake and the overall size of their capital budgets, the frenetic pace of their proposed investment plans is then used as an argument as to why the evaluation process itself and its required resourcing must be kept in check. On the contrary, a dispassionate and logical view of the issue would suggest that, as the rate of investment increases, then so should the level of scrutiny applied to each element of spending.

### **Proposed definition of the RIT**

The stated purpose of the RIT in the draft specification is "*to identify the project (or group of projects) which maximises net economic benefits to all those who produce, consume and transport electricity in the market.*"<sup>3</sup> Planning for the future, particularly where it involves highly capital intensive infrastructure for which the required cost recovery will extend over a number of decades, a core feature of the economic evaluation of any proposed investment ought to be a proper assessment of the risks and uncertainties associated with that investment and the potential costs of managing or mitigating those risks should the need arise.

Because these risks and uncertainties are so significant over a planning period of 30 years or more, we need to understand and accept that the stated aim of identifying "the project (or group of projects) that maximises economic benefits ..." is an impossible standard to satisfy for all plausible futures. In these circumstances, we urge the AEMC to reconsider how this future risk and uncertainty should be recognised and factored into the evaluation process, and then articulate this in the RIT specification.

The key concern to generators is the potential for TNSPs to make long term assumptions about the future costs and patterns and locations of generation investment and committing to network investment plans that in effect "channel" generation future investment decisions to fit the TNSPs' chosen network development strategy.

### **Grounds for Review**

We are concerned that the potential grounds for raising a dispute about a TNSP's application of the RIT as currently proposed by the AEMC appear to be quite narrow. Some of the areas of concern include the following:

---

<sup>3</sup> Appendix B, Clause 1(b) in the AEMC Discussion Paper

### *Personal detriment*

Arguably, where the assessed net economic benefit of a proposed network investment is low (with a relatively wide band of uncertainty), but the personal detriment it causes to an individual or small group of market participants is of a comparable size (and with a much smaller band of uncertainty), then surely the distributional effects of the proposed project are a legitimate basis for questioning the merits or otherwise of proceeding with it.

### *Relevant information*

If new information comes to light between when the TNSP undertakes the RIT and the closing date for lodging a dispute, if this new information is likely to change the preferred investment option, then surely common sense should prevail and, to the extent that the new information can be assimilated and properly assessed by the TNSP before it must make a final commitment to proceed, then it should do so. A blanket exclusion on new information as legitimate grounds for raising a dispute relieves the TNSP of any obligation to behave prudently in this regard.

### *Compliance with AER guidelines*

While the draft specification makes it clear that non-compliance with the Rules would be grounds for disputation, it is unclear whether non-compliance with the spirit and intent as well as the actual substance of the AER's detailed guidelines for application of the RIT would be as well. In our view, the guidelines will need to play a major role in limiting TNSP discretionary decision-making about the range of projects it chooses to assess, and the way it conducts the assessment. For this reason, we urge the AEMC to be more specific about the purpose of the guidelines and then include TNSP non-compliance with the guidelines as a legitimate basis for raising a dispute.

### *Manifest error in the calculations*

A "*manifest error in the calculations*" should be clarified to include

- (i) A failure of the TNSP to disclose where the results of its assessment are particularly sensitive to specific planning assumptions and publish the results of sensitivity analyses to demonstrate that; and/or
- (ii) A consistent pattern of bias in the planning assumptions or process used in the evaluation which has the potential to alter the preferred choice of investment option.

TNSPs need to be held accountable for their planning assumptions and assessment methodology, not merely their compliance with rules and guidelines.

While we completely endorse the AEMC's aim of preventing vexatious disputes and that the disputation process itself should not be used as a "fishing expedition" to find errors and gaps in the

TNSP's evaluation, there is a need to ensure that TNSPs have acted reasonably and arrived at the correct investment decision, particularly where the project in question can have quite a severe adverse impact on individual market participants.

An alternative approach which may be worthy of further consideration therefore would be to grant adversely affected individuals or groups of market participants the right to request (at their expense) a comprehensive, external independent audit (under AER supervision) of a TNSP's planning procedures, planning assumptions and economic assessment processes that were used to arrive at its decision. Even the mere threat of such an audit would, in our view, incentivise TNSPs to clearly identify any material adverse impacts of their proposals on participants, and more generally impose on them a higher level of discipline in undertaking their planning and RIT assessment processes.

### **Credible Options**

As a general comment, at this stage, the draft specification does not provide a very clear picture of what would constitute a "credible option" for addressing any particular planning need. We agree with the TNSPs' concerns that, at least in theory, it should not extend to include any technically feasible investment option that would address the planning need regardless of cost.

At the same time however, the spirit and intent of what constitutes a credible option needs to be very clear, and the onus should be on the TNSPs to demonstrate that they have complied with this as well as the specific rules and AER guidelines governing the selection of credible options.

Secondly, we are particularly concerned about the absence of a level playing field for detailed consideration to be given to both network and non-network solutions for satisfying specific planning needs. While the AEMC's proposals are a move in the right direction in this respect, there is still some way to go before non-network solutions would be given equal opportunity to compete with traditional network solutions.

Areas that could be improved in this respect for example include:

- (i) At least some obligation on TNSPs to be pro-active in seeking out and supporting (and, if necessary even partially underwriting) non-network options so that they don't fall over merely because they lack a proponent even though there is a strong possibility that a non-network solution would in fact be the preferred option from an economic standpoint;
- (ii) Provision of access to a regulated funding source for pre-feasibility work on the best non-network options to equate with a TNSP's regulated funding of its planning studies of traditional network solutions;
- (iii) Regulatory supervision of a TNSP's proposed allocation of risk between the TNSP and the proponent of the non-network solution to ensure that it is fair and reasonable taking into



account the low level of TNSP exposure to non-performance under the current access regime; and

- (iv) Timely access to sufficient planning information for proponents of non-network solutions so that they have a very clear understanding of the cost and performance hurdles they need to satisfy to be a serious contender. TNSP arguments that vital information must be withheld to prevent proponents from submitting cost estimates that are marginally below the estimated costs of the best traditional network solution seriously constrains the ability of proponents of non-network options to put together potentially viable project proposals.

This issue is more concerned with the detailed planning procedures used by TNSPs than it is with the detailed specification of the RIT itself and, rather than trying to address them as part of the RIT, arguably, they would be more appropriately addressed as an integral part of specific regulatory rules and guidelines governing a TNSP's detailed planning procedures and acquisition of externally provided network support services.

## **Transparency**

TNSP published information provided to market stakeholders is generally designed to facilitate public consultation. While this enhances stakeholder understanding of the planning need and the options considered, it generally lacks sufficient detail to provide stakeholders with the information they would need to truly understand the risks and uncertainties surrounding each project option or the sensitivity of the results of the assessment to changes in critical planning assumptions.

Under these circumstances, aggrieved stakeholders don't have access to the detailed information necessary to review the validity of the TNSP's economic assessment and mount a case to raise a dispute. As suggested earlier, to overcome this, if the issue is sufficiently material to an individual stakeholder or group of stakeholders to seek confirmation of the validity of the TNSP's planning investigations and analysis, their concerns could be addressed by giving them the right to request an independent audit of the TNSP's work.

To prevent spurious or vexatious type requests, those requesting the audit could be required to fund the non-TNSP/AER component of the audit costs involved (i.e. the costs involved in engaging an independent expert to undertake the audit and prepare the audit report). If this suggestion is accepted by the AEMC, then the timetable for raising and settling disputes would need to be adjusted to accommodate this additional step in the process.

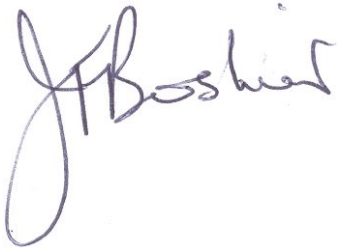
In addition to the above, we would also suggest that the AER issue guidelines which clarify the planning and project information as well as the details of the economic assessment that TNSPs are required to put in the public domain so that stakeholders have sufficient information to enable them to develop a view as to whether or not they have a legitimate basis for raising a dispute.

## **Lack of Detail**

As with many aspects of the NEM market arrangements, "the devil is in the detail". In this particular case, much of the detail in terms of the detailed design of the RIT, TNSP choice of credible options and the process for application of the RIT have all been left to the AER to define.

In these circumstances, our support for the AEMC's current proposals as modified to accommodate the suggestions contained herein must be heavily qualified. We would therefore expect the Rules to make it clear that before finalising the new RIT and RIT application guidelines, the AER will consult extensively with market stakeholders in regard to their detailed proposals.

Yours sincerely

A handwritten signature in blue ink that reads "John Boshier". The signature is written in a cursive, flowing style with a large initial 'J'.

John Boshier  
Executive Director