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National Transmission Planner Review Public Forum – Discussion Paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to provide the following comments on the Australian Energy Market Commission's (AEMC) National Transmission Planner (NTP) Review Discussion Paper of 28 March 2008, prior to the finalisation of the Draft Report which the AEMC indicates will be released in mid April 2008.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$110 billion in assets, employ over 40,000 people and contribute \$14.5 billion dollars directly to the nation's Gross Domestic Product.

The AEMC review of the National Transmission Planning Function is guided by the Council of Australian Governments (CoAG) decision on electricity transmission planning and regulation published as part of the COAG Communiqué of 13 April 2007, which established the purpose and functions of the NTP, and the Australian Energy Market Operator (AEMO) Implementation Plan Synopsis released by the Ministerial Council on Energy (MCE) on 12 March 2008 following its meeting of 4 March 2008 to discuss governance arrangements for the AEMO. The Synopsis noted that the AEMO Board will be "directly responsible for all functions to be carried out by the organisation", which include the functions of the NTP, as recognised in the AEMC Discussion Paper.

esaa fully supports both the policy and governance arrangements for the NTP as advised in the relevant CoAG and MCE statements, and has concerns that some of the proposals in the AEMC's Discussion Paper and related Draft Specification for the NTP place obligations or restrictions on the NTP purpose and functions in excess of, or contradictory to, those required by the relevant CoAG and MCE decisions. esaa's principal concern relates to the proposed governance arrangements which unnecessarily restrict the flexibility and accountability of the AEMO Board to efficiently and effectively manage the agreed objectives and functions of the NTP.

esaa understands that the Discussion Paper is intended to provide a preliminary indication of the AEMC's current view on the development of a National Transmission Planning Function, and that further information and supporting detail, particularly on how the proposed recommendations conform to the relevant CoAG and MCE requirements, will be provided in the Draft Report. Comments and queries with respect to the AEMC's proposals for the NTP governance arrangements, information powers, the planning horizon, and the incorporation of VENCORP functions are provided below.

1. Governance Arrangements

esaa agrees with the comments in the Discussion Paper that locating the NTP function within the AEMO will deliver significant benefits, including better resourcing for the function, and beneficial integration of power system and transmission system modelling. As noted in the Discussion Paper, the MCE AEMO governance decision requires that the NTP function be vested in the AEMO Board. The Discussion Paper notes also the substantial independence and accountability mechanisms proposed for the AEMO Board in the MCE AEMO governance decision.

However, the Discussion Paper proposes additional independence and accountability mechanisms for the NTP to encourage “credible and high quality outputs from the NTP”, and to minimise “scope for undue sectoral influence over the National Transmission Network Development Plan (NTNDP)”. The Paper proposes that a requirement should be specified in the National Electricity Rules establishing a statutory “NTP Advisory Committee”, primarily to undertake consultation on and development of the draft National Transmission Network Development Plan (NTNDP) for further review by the AEMO Board.

esaa’s strong view is that the current AEMO governance arrangements have been specifically designed to ensure accountability and independence from vested interests, and that the AEMO Board is therefore well placed to manage such issues should they arise in the course of undertaking the functions of the NTP, including the development of the NTNDP.

The creation of a separate statutory NTP advisory committee, comprising three to five members with “appropriate power and transmission planning expertise” and only the Chair required to be “independent of regulatory and industry commercial interests” would appear to increase the scope for undue sectoral interest over the NTNDP. It is not at all clear how the advisory committee would strengthen accountability, or even bring appropriate focus and visibility to the AEMO’s role as the NTP over and above the statutory obligations that AEMO will have as the NTP. Furthermore, it is unclear how, in the absence of any specific power or transmission planning expertise itself, the AEMO Board will be in a position to effectively and accountably manage the resourcing and development of the NTNDP and evaluate any of the recommendations made by the proposed advisory committee in a draft NTNDP. The AEMO Board would presumably have to incur further costs to establish appropriate analytical expertise to satisfy itself that the AEMO’s statutory obligations in relation to the NTNDP were being met, and at the very least such arrangements would involve inefficient duplication.

The creation of an NTP Advisory Committee with separate governance arrangements was not specified in the NTP decision in the April 2007 CoAG Communiqué, and introduces a level of unnecessary prescription to the process of resourcing and delivering the NTP function which compromises the independence and accountability of the AEMO Board. The NTP Advisory Committee proposal also contradicts the decision on AEMO governance in the MCE implementation plan published in March 2008, which clearly states that the AEMO will be directly accountable for the NTP function.

The AEMO board should have a have a statutory obligation to produce the NTNDP, and the most efficient and effective outcome would be to allow the AEMO to allocate whatever resources or expertise it considers necessary to achieve the task for which it is directly accountable. This process is consistent with the current practices for the

Boards of VENCORP and ESIPC, and the Transmission Network Service Providers (TNSP) in their production of Annual Planning Reviews (APR). These existing parties have significant obligations with respect to network planning and are not required to establish separate Advisory Committees with alternative governance arrangements to oversee the production of their draft APRs.

Rather than replicating and potentially undermining the established governance arrangements for the AEMO, the AEMC should focus on developing relevant recommendations for the MCE to consider efficient implementation arrangements, and related amendments to the relevant Law and Rules, that clearly and unambiguously prescribe the functions and obligations for the NTP function, the powers to be provided to AEMO to fulfil the obligations, and any efficient restrictions and limitations that should apply to the use of the powers. The guiding principle should be that the AEMO Board be accountable for undertaking the NTP function in the most efficient and effective manner. The AEMO Board should also be free to determine the appropriate and transparent cost accounting and allocation arrangements associated with the NTP function.

2. Information Powers

esaa encourages the AEMC to provide further clarification on the information gathering powers that will apply to the NTP. While the Discussion Paper proposes that the NTP will be able to make formal requests for information to TNSPs on an annual as well as ad hoc basis, the Paper also suggests restrictions should be placed on the role of the NTP in gathering such information, specifically that it not breach confidentiality requirements and the cost of obtaining information not exceed the benefits.

Ensuring the NTP function has access to adequate market information in order to produce high quality planning guidance will be a key factor in its success and placing unnecessary restrictions on its ability to obtain such information will reduce its effectiveness.

esaa is unclear on exactly what would constitute confidential information in the context of a regulated monopoly such as energy transmission, providing information to an independent market operator. The independence arrangements for the AEMO will be devised to ensure it can undertake its market operation functions (such as scheduling plant, determining spot prices, establishing system security arrangements) consistent with the relevant Laws and Rules. The market operation functions have significant commercial implications for market participants, and if the independence arrangements are sufficient for those functions, they would also be sufficient for the NTP function.

The information powers of the AEMO for its NTP function, including access to any confidential information, should be commensurate with comparable powers of current institutions such as the Australian Energy Regulator (AER) and NEMMCO. It is noted that these powers are subject to a reasonableness test, but do not include an assessment of cost and benefits of various information requests. Determining reasonable costs and benefits for such tests in these circumstances would be administratively complex, if not impossible, given the difficulties of estimating benefits of potential future positive outcomes as a result of the information obtained.

3. Planning Horizon

esaa supports the proposed 20 year outlook as an appropriate timeframe for a strategic function such as the NTP. However, we also note that the introduction of a National Emissions Trading Scheme, the new 20 per cent by 2020 renewables target, and other greenhouse policy measures to encourage new clean and renewable technologies, are likely to lead to a substantial reconfiguration of the transmission system over the period from now to 2020 and beyond. Given the significant changes to the generation fleet and the configuration of the national transmission network that can be anticipated over the next five to twenty years, it is important that the long term planning horizon of the NTP does not reduce focus on this critical five to ten year horizon.

It will also be important that the first NTNDP is produced as soon as practicable (31 December 2009 as currently proposed) and that it provide scenarios, updated annually consistent with the CoAG direction, covering the period from inception through to the end of the 20 year period. Given the divergent regulatory periods, inevitably some TNSPs will have undergone their regulatory resets by the time the first NTNDP is produced and therefore the benefits for them of the scenario development component of the NTNDP may be reduced until the next regulatory reset. However, the current regulatory regime does provide considerable flexibility to adjust development plans within regulatory periods, and all TNSPs will no doubt be interested in reviewing their future plans against the NTNDP scenarios, particularly with respect to future generation mixes, as soon as practical.

4. Incorporation of VENCORP's existing arrangements

The MCE direction on the development of the AEMO indicates that the planning and procurement functions of VENCORP will be undertaken by the NTP. The discussion paper questions whether a conflict of interest arises from the AEMO Board undertaking both roles and whether some form of internal structural separation of such functions is warranted.

esaa agrees with the statement in the Discussion Paper that the resolution of this issue is a matter for the AEMO Board. However, it is not at all clear that there is a conflict of interest. esaa notes that no such structural separation exists under the current arrangements for the VENCORP Board in Victoria and that the CoAG direction was clear that new arrangements "will not impose inefficient restrictions requiring additional resources." While the AEMO will have responsibility for undertaking consultation and making revenue proposals to the AER (in its VENCORP role) for the purposes of the Regulatory Investment Test (RIT), and for providing submissions to such consultations (in its NTP role), the AEMO has no financial interest in the outcome of revenue proposals. Additionally the various jurisdictional TNSPs are not in competition with each other (being regionally based natural monopolies), so it is not clear that there would be any confidentiality issues or other conflicts arising from the same staff being involved in both development of the NTP and regional planning of the kind currently undertaken by VENCORP.

esaa therefore does not support the suggestion in the Discussion Paper that it is "axiomatic that the NTP should undertake the same scope of functions in all jurisdictions" and questions how this view can be reconciled with the earlier statement in the Discussion Paper that "the AEMO Board is ... the NTP", especially given that the relevant CoAG decision requires AEMO to undertake different transmission planning functions in different jurisdictions. There may be significant

benefits in the co-location of NTP and jurisdictional planning functions within the AEMO which should not be precluded. However, as noted above, these are matters for the AEMO board to manage appropriately, including any potential confidentiality or conflicts of interest questions.

Conclusion

In summary, esaa supports the enhanced national transmission planning function as provided for in the relevant CoAG and MCE directions, and suggests that a number of the proposals for implementing the function in the AEMC Discussion Paper do not satisfy the requirements of the policy and governance arrangements established to date in the CoAG decision on the national transmission planning function and the MCE decision on AEMO governance. esaa looks forward to making a further submission on the recommendations to be provided in the Draft Report scheduled for mid April 2008, including on the proposed Regulatory Investment Test.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized flourish at the end.

Brad Page
Chief Executive Officer