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Dear John

NATIONAL TRANSMISSION PLANNING ARRANGEMENTS

Thank you for the opportunity to comment on the Commission's *Issues Paper, National Transmission Planning Arrangements*, released publicly on 9 November 2007.

Macquarie Generation supports the COAG request for the MCE to commission a report on the implementation of a new national transmission planner and a new national transmission network development plan. While there a variety of issues up for discussion as part of review, Macquarie Generation believes there are two key matters for the AEMC to consider and resolve.

The first issue relates to the delineation of responsibilities for planning and investment decision making between the existing transmission network service providers and the proposed national transmission planner. The COAG reference supports the development of a more strategic and nationally coordinated approach to transmission network development within a framework where transmission network service providers maintain accountability for transmission investment, operation and performance.

The other key COAG issue with transmission planning relates to the design of the regulatory test. COAG, via the MCE, has asked the AEMC to provide advice on changes to the test that would allow projects to be assessed against both local reliability standards and their ability to maximise benefits to the national market. The AEMC has invited feedback on a number of options for amalgamating reliability and market benefits.

The National Generators Forum has submitted a response outlining a position on most of the matters raised in the issues paper. Macquarie Generation generally supports these positions, with two key exceptions. We believe TNSPs should retain full accountability and responsibility for planning and investment decision in the near term – from 1 to 5 years. The NTP should have a longer term planning horizon, focusing on the network implications of different load and generation development scenarios over a 5 to 20 year period. We also support the proposed option 3 for the regulatory investment test as the most effective way of making investment decisions particularly under a framework of deterministic reliability standards.

Roles and functions of the national transmission planner

The COAG response to the ERIG report is unequivocal on the role of the NTP and the scope of NTNDP:

- The Planner will be required to develop a strategic NTNDP outlining the broad development of the power system, including the current and planned future capability of the national transmission network and development options;
- The Plan will not replace localised transmission planning, bind transmission companies to specific investment decisions, override TNSP performance obligations or constrain the timeframes for the revenue approval process of the transmission companies.

Macquarie Generation is not in a position to comment on the detailed aspects of the planning and investment decision making processes within TNSPs and planning bodies. However, we would like to offer some general observations relevant to the allocation of functional responsibilities between the NTP and the TNSPs and the respective roles of NTNDP and current planning processes.

- The primary purpose of the NTNDP is to outline and document possible transmission development options across a 5 to 20 year timeframe. The options should consider a detailed assessment of plausible scenarios for demand growth in various parts of the network and the likely development and retirement of generation assets.
- The NTNDP should aim to provide longer term guidance for both TNSPs and potential generation investors. TNSPs could incorporate nationally significant transmission development options into their plans as the system expands and the number of practical options for meeting reliability obligations becomes limited. The plan would also provide information to generation investors on the feasibility of transporting electricity from new sites and possible longer term limits on major flow paths
- The primary benefit of the NTNDP is that it will look at projects that cover more than one region, not just interconnectors that cross regional boundaries. The plan will raise the profile of nationally significant projects. For-profit TNSPs should have sufficient financial incentives to pursue projects that deliver net benefits.
- A longer term planning focus would provide guidance on possible limits that may emerge as the generation mix shifts to low emission technologies. The plan should provide a useful reference and planning document for policy makers.
- The NTP should not have responsibility for conducting or reviewing regulatory investment tests, apart from any role under the last resort planning power function. While the NTNDP should provide a key source of information to TNSPs to assist with regulatory tests and investment plans, TNSPs must be

held solely responsible for investment decision making by the AER. Shifting or sharing responsibility for the test will inevitably diminish accountability.

Regulatory investment test

Macquarie Generation agrees with the COAG proposal to combine the reliability and market benefits criteria in a revised regulatory test procedure. It seems arbitrary to exclude some projects from consideration because they do not deliver benefits that fit exclusively into either category.

The AEMC's discussion of alternative regulatory investment tests focuses on the relative merits of option 1 (full cost-benefit approach) and option 3 (combined criteria approach). Macquarie Generation is of the view that the assessment of an appropriate option depends crucially on the design and structure of the reliability standards that apply in a particular jurisdiction.

A regime based on probabilistic reliability standards could readily adapt to the full cost benefit approach. The probabilistic standard setting framework would already include methodologies for imputing the value of reliability for customers, possibly by category, in different parts of the network.

For a jurisdiction such as New South Wales with a system of deterministic planning standards the situation is much different. There is no commonly accepted methodology or information base for converting a well-defined physical planning standard into an estimate of possible customer benefit (or averted loss) of meeting the reliability obligation. While it may be possible to convert these technical measures into quantifiable reliability values, the process would be complex and contentious.

Transmission investment provides the platform for generators to deliver electricity to the major load centres. Transmission also competes with generation when it increases the level and sources of supply. Macquarie Generation's concern is that parties disaffected by a proposed transmission augmentation would question the process for making the investment by disputing the economic value placed on meeting deterministic standards. Delays in the planning process create uncertainty for investors in new generation projects and can reduce competition within and between regions.

The COAG response to the ERIG report also established a process whereby the AEMC would review "transmission network reliability standards with a view to developing a consistent national framework for network security and reliability". Macquarie Generation understands that the AEMC will commence consultations on this review in early 2008 to examine the merits of alternative network planning methodologies and the benefits of a uniform national approach.

Macquarie Generation supports a deterministic planning standard framework as it clearly and explicitly defines the service responsibilities of the TNSPs throughout the transmission system. We believe there may be some merit in having an independent third party involved in setting the deterministic standards. Similarly, there may be case for increasing the economic weighting for different customer categories in different parts of the network in setting particular standards. The review will also have

to consider the interface between the transmission and distribution systems and design of compatible standards. While these are issues for the AEMC's planning standard review, they do have implications for any redesign of the regulatory test.

Macquarie Generation considers that the AEMC must be mindful of the likelihood that mandatory deterministic standards will continue for at least some years in most regions. On this basis, Macquarie Generation supports the Option 3 approach for projects that are driven primarily by mandatory reliability standards. This approach would provide for incremental change to the current arrangements, minimise complexity and ensure new projects are not unnecessarily delayed.

To this end, Macquarie Generation supports the drafting proposed by VENCORP¹ for a new regulatory investment test in which they propose the objective of the test be expressed as:

- Maximising the net market benefits; or
- Where all or part of the reason for the project is to comply with an objective and identifiable reliability obligation, to maximise the net market benefits or minimise the net market cost across the set of projects that meet the deterministic reliability obligation.

Under this framework, the TNSP would be able to consider all projects that satisfied the mandatory planning obligation but also delivered market benefits. The TNSP would then quantify those benefits (changes to generation dispatch, losses, impact on new entry) as well as any additional reliability benefits. This would enable TNSPs to pursue projects of different scales and different timeframes depending on the relative rankings.

This approach ensures that TNSPs are capable of meeting their mandatory reliability obligations where in some cases projects may not go ahead if it was strictly limited to a market benefits assessment.

If a project were driven predominately by market benefits then it would be considered on the basis of maximising net market benefits. Similarly, if TNSP did not face deterministic reliability obligations then it would consider all projects under the net market benefits test.

Yours faithfully



RUSSELL SKELTON
MANAGER, MARKETING & TRADING
21 December 2007

¹ VENCORP Response – AEMC scoping paper on national transmission planning arrangements, p. 17.