



EPR0052

COORDINATION OF INVESTMENT
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Summary

Stanwell welcomes the opportunity to provide comment on the Australian Energy Market Commission’s (AEMC’s) Coordination of Generation and Transmission Investment Approach Paper (approach paper). We note the approach paper considers possible options to improve the coordination between generation and transmission investment.

If you would like to discuss any aspect of this submission, please contact Jennifer Tarr on 07 3228 4546.

RIT-T process ensures investment is for the benefit of consumers

There is currently significant interest in building large-scale wind and solar power stations. Stanwell understands that AEMO has around 20,000 MW of applications from large-scale wind and solar proponents, with roughly equal weighting between the two technologies.

Although this is a large amount of generation investment, any regulated transmission upgrades which occur to facilitate these connections will require a demonstration of a net economic benefit to consumers through the Regulatory Investment Test - Transmission (RIT-T) framework.

It is therefore incorrect for the AEMC to say, “*whatever transmission augmentation occurs [in Western Victoria due to Victorian Renewable Energy Target], this will be fully funded by consumers, where it may have been more appropriate for the generators choosing to locate out in Western Victoria to face some of these costs.*”¹

If consumers are funding a transmission upgrade it is because it has been proven (through the RIT-T) that there is a net economic or reliability benefit to consumers for making this upgrade. Otherwise no upgrade should occur.

The situation in Western Victoria appears to be that there is no economic benefit to build enough regulated assets to remove all constraints². In this case it is not consumers who are worse off, but the generators in Western Victoria.

The AEMC states, “*since July 2015 there has been a trend toward government intervention in the energy market, with numerous projects announced. Government intervention may result in less coordination of generation and transmission investment than has previously occurred, which potentially increases risks for consumers.*” Again, the RIT-T process ensures that investments only occur when there are economic or reliability benefits.

Developers routinely conduct network constraint studies as part of their feasibility assessment for new generators. Any constraints that will not be built out by regulated investments will be factored into a generator’s assessment. Options to

remediate the situation include funding unregulated upgrades, negotiating with other generators to jointly fund and build unregulated upgrades, resizing the proposed power station or connecting to a part of the transmission network which is more likely to benefit consumers. In each of these scenarios, investment risk is retained by the generation companies.

Potential for improved communication between TNSPs and generators

Before adopting a complex regulatory regime such as the previous Optional Firm Access proposal, an assessment of the current state of communication between TNSPs and new generators should be conducted. There are likely to be ways to improve communication that would achieve the desired outcomes of better co-ordination between generation and transmission investment without a burdensome regime.

Burden of regulatory change

The NEM is experiencing an unprecedented volume of regulatory change proposals and implementation and it is important that regulatory reform is conducted in a holistic, co-ordinated manner. Re-consideration of Optional Firm Access (or similar) at this time appears to be inconsistent with other pressing regulatory proposals. Existing major reforms such as those recommendations adopted from the Finkel review and five minute settlement should be successfully implemented before this topic is considered again.

If the issue is to be considered further, then Stanwell suggests the formation of a working group, including representation from a range of industry participants, to assist the AEMC in its decision making.

¹ Approach paper, page 18

² Approach paper, page 18. “Preliminary studies show that the cost of removing all constraints in the network would cost in excess of \$500 million, which is likely to be uneconomic.”

