

MEU Submission to NTP Public Forum/Discussion Paper

You requested that following the forum discussing the national transmission planning (NTP) function, comments should be emailed within a few days of the forum, so that these could be integrated into the draft report being prepared. This timeframe does not allow consumers to seek input to the response requested so that the following observations should be seen in the light that they would be views that would be recommended to members of MEU.

The MEU supports the general thrust of the approach presented at the forum by the AEMC. There is a great need for a system wide planning function for the transmission network which creates the backbone of the NEM. Further as the pressure increases for the government owned transmission businesses to be privatized and this occurs, the MEU sees that the need for NTP will become even greater, as privately owned transmission businesses have as their focus the need to maximise profitability of their activities, and not the sensible and directed growth of the transmission network to meet the needs of consumers. The comments of MEU are made with this concern to the fore.

The basic concern of consumers regarding transmission network growth

1. Consumers have seen the uncontrolled growth of generation (and its location where the generators see that maximum benefit) is creating constraints in the transmission network and this is causing consumers unnecessary costs. For example, the massive growth of generation (mainly wind farms) connected at Snuggery substation in the south east of SA, has resulted in the carrying capacity of the Heywood interconnector being significantly reduced at critical times, allowing other generators in SA to exercise market power to the detriment of consumers. A similar issue sees the growth of generation in the Tarong region of Qld reduce the carrying capacity of QNI, again to the detriment of consumers. The same problem existed between NSW/Snowy/Vic and resulted in the decision to eliminate the Snowy region
2. Consumers have seen new transmission elements added to the networks but the assumed carrying capacity of the additions have been greatly reduced due to the connected regional transmission businesses declining to augment their networks to allow the inset transmission elements to perform to their maximum ability. An example of this is the Murraylink interconnector. Murraylink was built as a unilateral decision as a "market" network element. Its poor financial performance led to it being converted to a regulated element of the network. It has a nominal rating of 220 MW capacity and this is the capacity consumers are required to pay for. However Murraylink seldom operates at this capacity, and never at this capacity when it is most needed due to constraints deep within the SPAusnet and ElectraNet systems. The ACCC had allowed for augmentation in the SPAusnet network but this work, although deemed necessary and capital allowed for it in the network reset, has not been implemented, creating a "while elephant" which consumers pay for.

Observation that the transmission businesses need independence if they invest

ETNOF (now Grid Australia - GA) opined that as they were investing their money in the transmission network, then they need the maximum degree of independence from direction from NTP. The MEU points out that transmission businesses have a guaranteed a revenue, and this guarantee is provided by the many consumers using the network. Any investment made by the transmission business is guaranteed a return both of the funds invested and return on the funds invested. The changes the Chapter 6A of the Rules, provide that the transmission business gets its revenue based on the actual funds invested, even if the funds are demonstrably greater anticipated or the investment is inefficient. Thus for GA to state that they need a "hands off" approach as it is their funds that are invested, is in practice unsupportable – through the guarantee provided by consumers, the transmission businesses face little risk, as consumers effectively carry the entirety of the risks involved, even where the TNSP makes an error in its investment decisions.

The concept of secondary flow paths

The MEU agrees that in an AC system, the impact of secondary flow paths needs to be incorporated into the scope of the NTP. We noted that GA were opposed to the NTP being able to determine unilaterally what constitutes a secondary flow path as this gives the NTP the ability to determine the extent of its coverage. The MEU considers that this power of NTP is essential. If a transmission business objects to NTP coverage then the business can appeal to AEMO (even the AER). It should be considered that under the current construct of NTP to be an advisory body only, then this concern is really a non-issue.

Even if the NTP is given greater powers (as MEU considers is needed) then the MEU considers that this ability to determine coverage will meet the needs of the single market objective, and as the revenue of the transmission businesses is effectively underwritten by consumers, this interference in the transmission business activities is a minor aspect compared to the overall benefit this ability to determine coverage will provide to the NEM as a whole.

The powers of the NTP

The powers of the NTP as proposed are limited to an advisory level only. Yet the AEMC has developed a complex structure giving it significant independence from AEMO, through the requirements for an independent advisory panel and of other aspects. The MEU questions that if the NTP is to be purely advisory as proposed, then the complex and costly structures to give it independence from AEMO, become meaningless. The MEU can accept that if the NTP had greater powers then there is a need for this degree of independence.

The MEU considers that the powers of the NTP as presented by AEMC are too weak. Under the current proposal the decision tree for needed augmentation would take the following structure

1. NTP identifies or otherwise becomes aware of a need
2. NTP assesses the business case of the need and recommends implementation
3. NTP puts proposal to the involved TNSP(s)
4. The next action is either for
 - TNSP(s) to approach AER with a business case (either as part of a reset or as a contingent project), or
 - The AER to raise the project with TNSP as part of reset, where it can discuss its need and/or whether TNSP will incorporate the project in the reset allowances
5. AER approves project and allows TNSP revenue to cover its implementation
6. Project is implemented

However if the project is not embraced by the TNSP(s)

7. **DISCONNECT.** If two or more TNSPs are involved, and only one decides to implement its part of an augmentation, then the augmentation cannot proceed
8. **DISCONNECT.** The TNSP decides whether to use the allowed revenue for the target project or for another project
9. Project not implemented and last resort planning power (LRPP) is invoked, the TNSP(s) are directed to investigate the project
10. **DISCONNECT** Unless a VENCORP model is used (where VENCORP will implement an investment if it is in the interests of consumers and the investment meets the Reg Test requirements), a TNSP still has the power to not implement a decision, even if its assessment carried out under the LRPP indicates it is viable under the Reg Test

The MEU can identify three points in the decision tree where a needed and approved project might not proceed, primarily because one or more regional TNSPs elect unilaterally not to implement the project.

The outcome of the planning function is that unless there is a commitment by all concerned to implement a recommendation by the NTP and which complies with the Reg Test, then the NTP function becomes a pointless exercise. It is in recognition of this essential disconnect between determining a valid recommendation for a complying augmentation and its implementation, that the VENCORP model has applicability. Even the last resort planning power still does not require a complying augmentation to be implemented (except in Victoria) as it lies within the power of the regional TNSP to determine whether or not a needed and justified augmentation will proceed.

Therefore the MEU considers that the NTP function must require a TNSP to implement an augmentation which has been assessed by the NTP and approved by the AER.

Regulatory Investment Test

Consumers note that the aspect of inclusion of market benefits from an augmentation to consumers is still excluded from the RIT, despite the fact that consumer pay for over 90% of the TNSP revenue. Consumers do not agree that the economic case should exclude the identifiable market benefits that accrue to consumers resulting from a guarantee they provide for the investment. This decision runs counter to the basic concept that if one pays, then the benefits accrue to the payer.

The RIT does require significant costs to be incurred by TNSPs when evaluating projects and these costs will be passed onto consumers through their inclusion in the regulatory opex. Thus consumers see that there needs to be a project evaluation cost structure that provides a greater degree of proof for the need, with an increasing cost exposure. Consumers do need to be assured that costs they underwrite have a sustainable legitimacy. Consumers therefore are prepared to consider a sliding scale of project assessment where the degree of proof increases with the expected cost of a project.

A well run business requires increasing degrees of internal oversight and proof of need as the expected cost for an investment increases. Recognising this, use of standard internal documentation could be used to provide an external demonstration of need and cost, provided that the internal processes are adequate.

In this regard, it is suggested that for small projects the AER be permitted to review internal approval procedures used by a TNSP and if considered adequate, to allow the use of these internal procedures rather than use the RIT. The MEU is prepared to work with the AER for it to develop guidelines which allow the use of internal approval documentation to demonstrate validity of small projects.

We trust the above views are of assistance.

Regards
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