

AER Submission to NTP Discussion Paper

NTP Role and Functions

- The AER strongly supports section 7 of the specification which outlines the development of the National Transmission Development Plan (NTNDP). In particular, we support the inclusion in the NTNDP of all elements that affect the transmission capability of the National Transmission Flow Paths.
- It is entirely appropriate that discretion be allowed in the determination of the elements that affect transmission capacity on the NTFPs. The formation of the first NTNDP will necessitate a degree of 'learning-by-doing' as this will be the first time that a full national transmission plan has been put together. Accordingly, a rigid definition of the NTFPs would likely be unworkable and would limit the benefits that will flow from the formation of an independent national planner.
- The ability for the NTP to publicly submit to both Regulatory Investment Test (RIT) and revenue determinations is strongly supported. I note that as part of good regulatory practice, the AER would ordinarily publish any information that it has relied upon in making a revenue determination under chapter 6A. As such, we are supportive of the requirement for the publication of any information provided by the NTP that has been relied upon in making a regulatory determination. However, care must be taken to avoid prescribing a formal process into the Rules which would curb useful information flows between the planner and the regulator. A key benefit of the formation of the national transmission planner is the ability for independent expert information to be provided on the operation of the network and the need for future augmentations.
- I note the limitation placed on the AEMC by the MCE that the plan should not bind TNSPs to specific investment decisions. However, the AEMC's suggestion (section 15 of the specification) that NSPs should have regard to the most recent National Plan when putting together their APR's is strongly supported. It is considered that whilst the MCE does not consider that the National Plan should compel specific investment decisions, the requirement to have regard to the plan provides a sound basis for the NTNDP to be integrated into the TNSPs overall planning obligations.
- Related to the requirement on the NSPs to have regard to the NTNDP when conducting the APRs, is the requirement for the TNSPs and the AER to have regard to the NTNDP for the purposes of conducting a revenue reset process. This requirement, whilst completely consistent with the direction from the MCE, will provide a necessary link between the regulatory regime and the NTNDP. Links of this nature will be crucial in ensuring that the NTNDP is meaningful and credible. This addresses some of the main concerns with the current ANTS planning regime and is strongly supported.
- The requirement on the NTP to publish a database of key assumptions and methodologies included in the formation of the NTNDP is also supported. This will assist in the transparency and robustness of the NTP processes.
- In addition, the suggested provisions that allow the NTP to gather necessary information from TNSPs is strongly supported. It will be vital for the formation of a credible independent planner and drafting of the NTNDP that the NTP have access to all necessary information from the TNSPs. The provisions as drafted should allow the NTP to gather the required information, without any unnecessary costs being imposed on the TNSPs.

NTP Advisory Committee

- It is noted that the MCE has required the AEMC to develop a governance model where the NTP role resides with the board of the AEMO. Consistent with this direction, the AER considers that the AEMO Board should have greater flexibility as to how the draft NTNDP is created. That said, the AER supports the creation of the Advisory Committee to advise the AEMO, as this will give focus and visibility to the planning role, as you have noted. However, as the AEMO have ultimate responsibility for the production of the NTNDP, it is appropriate that they be given the flexibility in determining the form of the advice coming from the Advisory Committee.
- Further, it is suggested that the membership of the NTP Advisory Committee be restricted to a maximum number of representatives from each sector (ie. 1 from generation, 1 from transmission etc). As is the case for the membership of the AEMO Board, balanced representation of all industry sectors will be crucial to the integrity of the planning process. We are concerned that there is potential for the Advisory Committee to be dominated by the transmission sector under the current drafting of the criteria for membership of the committee. The specification as currently drafted only requires an independent Chairperson, but does not limit the other members of the committee, only requiring candidates to have a diverse mix of appropriate skills and expertise.

Regulatory Investment Test

- The AER supports the proposed RIT which requires a cost benefit analysis for all investments and thinks the AEMC has the balance right in integrating the two limbs of the test. Allowing a negative NPV for reliability driven investments is a good way of accommodating reliability augmentation while still setting a good cost-benefit analysis framework for investment decision-making. TNSPs may argue that the proposal is overly onerous and requires a disproportionate level of analysis to be done in relation to determining market benefits for reliability-driven projects.
- However, the proposal is flexible in that it allows for the TNSP to determine the materiality of different classes of benefits for any investment under \$25m. This means that where market benefits are extremely limited, the TNSP need not consider them to the same level of detail. This will provide an incentive for TNSPs to split projects up to avoid exceeding the threshold, this is the case with any threshold model.
- In addition, the proposal increases the minimum threshold for projects that require a regulatory test analysis from \$1m to \$5m. This frees up planning time and effort to get the big investment decisions right. We support the proposal that a full cost-benefit analysis be required for all projects over \$25m - this should be standard best practice. This \$25m threshold should not be increased.
- The RIT exemption for 'urgent and unforeseen transmission investment' needs to be clearly defined to ensure it is safe from gaming. Limiting the type of project that would be covered by this exemption as one that has been brought about by a force majeure event or similar. Suggested drafting:
 - urgent to be defined as a project required to be operational within a specified timeframe (say within 3-6 months);
 - unforeseen to be defined as an investment necessitated by a force majeure event such as an act of terrorism or environmental disaster and have triggered either a pass through or re-opener event under Chapter 6A.
 - The rule must exclude situations of errors in planning or demand forecasting.
- The AEMC proposes putting a large amount of RIT detail into the Rules, taking them to a much higher level of detail than what currently exists. This creates a situation where there is a high level of detail in the Rules, with the AER also required to publish a detailed set of Regulatory Investment Test Guidelines. The AER considers that either the Guidelines or the Rules should contain the details on the operation and application of the RIT, not both. As a first best solution, the AER suggests that the Rules set high level principles regarding the coverage of the guidelines, with the prescription to be added by the guidelines themselves. Alternatively, the AEMC could lift all of the necessary detail into the Rules. In any event, care should be taken not to create unnecessary overlap between the Rules and the guidelines.