

Electricity Supply Industry Planning Council

ABN 47 009 425 860

GPO Box 2010, Adelaide, South Australia 5000

Telephone: +61 8 8463 4375

Facsimile: +61 8 8410 8545

Email: esipc@saugov.sa.gov.au

Website: www.esipc.sa.gov.au



2007PC0141 folio 8

Q:\CORPORATE\Submissions\2006-07\AEMC\Ltr to AEMC re Reliability Review #3A.doc
PC2005/0037

7 September 2007

Dr J Tamblyn
Chairman
Australian Energy Market Commission
Level 5,
201 Elizabeth Street
SYDNEY NSW 2000
Submissions@aemc.gov.au

Dear Dr Tamblyn,

RE: NATIONAL TRANSMISSION PLANNING ARRANGEMENTS: SCOPING PAPER AUGUST 2007

Thank you for the opportunity to contribute to the AEMC's consideration of the Scope for its review of the role and functions associated with the new Australian Energy Market Operator (AEMO) and, in particular, the development of a National Transmission Plan.

The Planning Council's comments will focus more on the possible role of a national transmission planner and the scope of the envisaged National Transmission Network Development Plan (NTNDP) rather than on the Governance arrangements associated with the establishment of AEMO.

In addition to our specific comments in relation to national transmission planning, the Planning Council offers a number of general comments in relation to the August 2007 Scoping Paper.

NATIONAL TRANSMISSION PLANNER

In many ways the concept of a National Transmission Planner emerges as a result of a perception that the current structure does not encourage efficient investment,

particularly in relation to inter-jurisdictional planning, and also as a result of regulatory concerns regarding information asymmetry between the TNSPs and the regulator.

While a significant part of the inefficiency of inter-regional transmission impacts is a direct result of the active financial disincentive for a TNSP in one jurisdiction to solve the constraints in an adjacent one, a degree of jurisdictional myopia is perhaps inevitable when TNSPs are jurisdictional based and jurisdictionally focussed with regulatory drivers to deliver reliability to their own customers.

As such, a body that has the explicit mandate to consider the larger picture in terms of market efficiencies across states and in identifying synergies between reliability based projects and broader options that will provide both reliability and measurable market benefits will be a welcome addition to the national market, especially when such a body could have the ability to identify trade-offs between electricity and gas transmission options.

The other key role for a National Planner would be that of providing technical and planning expertise as a resource to inform the AER regulatory process. While the new body would not necessarily involve itself in planning the entire network of each state, concentrating instead on major constraints or areas of significant market benefit, we would anticipate that it would inform itself of the more detailed and lower level plans of each of the TNSPs and would be in a position to provide advice to the AER on content and costs associated with the TNSPs' revenue proposals.

In order to be effective in these roles, the governance of the National Planner would need to be such that it was truly independent with clear accountabilities and be free of jurisdictional influence.

NATIONAL TRANSMISSION NETWORK DEVELOPMENT PLAN

The Planning Council anticipates that the scope of the NTNDP will be one of the key outcomes of the AEMC's review.

In contrast to the current ANTS, the Planning Council would expect that the NTNDP will contain specific recommendations on significant projects in each jurisdiction that relate to relieving key constraints.

In particular, we would expect such a plan to focus on the non-reliability based augmentations that would require a detailed assessment of market benefits in order to proceed.

If the proposals contained within the plan are to be adopted and implemented by TNSPs it will be important that there is strong relationship between the plan and the ability to access a regulated return as a result of implementing it. As such, any recommendations out of the plan would need to be given special recognition by the AER in its consideration of a TNSP's revenue proposal.

GENERAL COMMENTS

1. Pricing

One of the primary barriers to adequate and efficient inter-state planning of the transmission network has been the assumption that transmission charges cannot cross state boundaries.

While much work has been undertaken to review and enhance the pricing principles in the market, this basic element remains the same.

In considering the scope of its review, it is the Planning Council's strong view that the AEMC must consider some mechanism to ensure that the costs associated with transmission projects can be allocated equitably such that those who benefit from the project are required to contribute towards its cost.

At the moment, there is no incentive for a jurisdiction to even consider a transmission augmentation that, for a small cost might defer a much larger project in an adjacent region. Even that small cost would currently be borne by customers in the constructing state rather than those in the state that benefits from the project. Such incentives result in inefficient decisions in both jurisdictions.

While some safeguards will be necessary to ensure that customers in one jurisdiction do not have inefficient costs allocated to them by another jurisdiction, the ability to transfer efficient costs will be a pre-requisite to an effective national transmission scheme.

Ultimately, without resolving this issue, any structure put in place to handle national transmission planning is unlikely to succeed.

2. Aligning the Review of TNSP Revenues

Provided the new NTNDP contains sufficient detail each year to project forward projects across the NEM, the Planning Council sees no particular need to align the review of TNSP revenues.

By staggering the reviews, the AER has the benefit of smoothing resource requirements both within its own organisation and for any consultant support it may require.

A staggered approach would also avoid all of the TNSP's having their revenue determined by economic indicators at a single point in time. Should the risk-free rate or CPI or other indicators vary from forecasts, the changing circumstances could be reflected in subsequent resets rather than impacting on all of the TNSPs at the same time.

In any event, the Planning Council views the current time-frame between revenue resets of five years as an appropriate balance between the long term

nature of transmission assets and the ability to accommodate the many changes in the framework and participant base of the NEM.

In considering the potential efficiencies associated with aligning revenue proposals, the Planning Council contends that there may be greater benefit in aligning the transmission and distribution reviews of each of the jurisdictions as there are many cases where a network issue may be solved by either a transmission or distribution option and the ability to assess those side-by-side would allow for more consistent and efficient decision making.

3. Separating Planning and Investment Decisions

There is an inherent risk associated with separating the decision on what to build and the responsibility for making an investment. While such a separation is possible, it needs to take account of a private or public TNSP's access to capital and staff, including an appreciation of debt covenants and financing options. Ultimately, any decision to direct a TNSP to build rather than simply advising them to do so will need to be carefully structured as it raises significant issues in relation to accountability.

Ideally the regulated TNSPs will be making the correct investment decisions as a result of an appropriately structured incentive regime.

4. Review of Reliability Criteria Across the NEM

While each jurisdiction may choose to implement different levels of reliability by making its own assessment of the "risk versus cost" trade-off, where possible, NEM wide conventions for the definition of reliability standards would assist both investors and regulators alike. Simply having a consistent approach to the documentation of reliability standards would be a step forward, but the Planning Council would urge, where possible, that the AEMC go further in establishing a consistent methodology for measuring and reporting on reliability criteria.

5. Revision of the Regulatory Test

The Planning Council supports the proposed revision of the Regulatory Test based on a more classical cost-benefit approach and discarding the current two-limb nature of the test.

The current reliability limb appears to encourage TNSPs to adopt least cost, but not necessarily market optimum solutions. Given a set of clearly defined reliability standards, the Planning Council envisages a regulatory test structure that selects the project with the highest NPV while still meeting the minimum reliability standard.

It will be important over the next phase of infrastructure replacement, particularly given the aging profile of the assets of many NSPs, that the Regulatory Test

encourages NSPs to efficiently combine augmentation and replacement projects to achieve efficient capital programs.

6. Definition of Prescribed and Negotiated Transmission Services

In considering the scope of its review into national transmission planning, the AEMC may wish to consider a clarification of the definition of those services that qualify as Prescribed and those that will be Negotiated. As more of the existing networks' capabilities are utilised, there will be growing pressure through the connection of significant loads or new generators to more clearly understand which part of the augmentations required for these connections are to be shared through the regulated assets base and which are to be paid by the connecting entity.

In any event, the role of the National Transmission Planner needs to be understood as either including or excluding consideration of negotiated network services.

7. Locational Pricing Signals

One of the tools that might be considered for a National Transmission Planner is a reconsideration of location pricing signals for the market. While the interconnectors remain as both a physical and financial boundary between the States, the development of efficient pricing signals and the establishment of meaningful market benefits associated with relieving network constraints will remain extremely difficult.

8. Other Roles Undertaken by TNSPs and Jurisdictional Planning Bodies (JPBs)

In considering the structural issues associated with the new National Planner, the AEMC will need to consider a range of other tasks currently being performed by TNSPs and JPBs and whether they are best performed by the new body or are retained within the jurisdiction in some form. Such tasks include: Coordination of Emergency Response and Communication under the Responsible Officer Role; maintenance of Load Shedding Schedules and Sensitive Loads; provision of independent technical advice to jurisdictional regulators and governments; etc.

I would welcome the opportunity to discuss any of the matters raised above with you or your staff.

Yours sincerely,

Braden Cowain
CORPORATE SECRETARY