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National Transmission Planning Arrangements – Issues Paper

esaa is pleased to provide the following comments on the Australian Energy Market Commission's (AEMC) Issues Paper on the proposed National Transmission Planning Arrangements.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of more than 40 electricity and downstream natural gas businesses. esaa member businesses own and operate some $110 billion in assets, employ over 40,000 people and contribute $14.5 billion dollars directly to the nation's Gross Domestic Product.

esaa's comments on the Issues Paper are informed by the following: esaa supports legislative and governance arrangements that enable the development of competitive energy markets, which in turn provide the most efficient and least cost energy services for consumers while also providing the least distorted signals for efficient and timely investment in new energy supplies. The national transmission system is an interconnected monopoly infrastructure with considerable interdependencies and impacts between regions and different owners, and the major elements therefore are centrally planned on a jurisdictional basis and funded by incentive based economic regulation. The national transmission system both complements and potentially substitutes for competitive generation activities. COAG's April 2007 decision to establish an enhanced national planning process for the national transmission network was based on "providing guidance to private and public investors to help optimise investment between transmission and generation across the power system." Given the monopoly regulated characteristics of transmission, its importance in supporting and enabling competitive generation and retail markets, and the COAG objective of optimising investment between transmission and generation, the implementation arrangements for the NTP should aim to provide effective guidance for investment in both transmission and generation services.

esaa, in its response to the AEMC's Scoping Paper in September 2007, supported the enhanced planning process for the national electricity transmission network as provided for in the decision on electricity transmission planning and regulation by the Council of Australian Governments (CoAG) in April 2007. esaa considers that in order to effectively implement the CoAG decision, the scope of the National Transmission Planner (NTP) and the level of coverage of the National Transmission Network Development Plan (NTNDP) should be defined broadly enough to give the planner adequate discretion in order to guide the most economically efficient outcome for the national power system.

In relation to an appropriate governance structure for the NTP, esaa considers that the significant work already undertaken to establish robust and transparent governance arrangements for the Australian Energy Market Operator (AEMO) are sufficient and that separate arrangements for the NTP would be duplicative and unnecessary.

Functions of the National Transmission Planner

The Issues Paper seeks views as to the appropriate boundary for the powers of the NTP and level of coverage the NTNDP in order to prescribe the functions of the NTP in the National Electricity Law and Rules.

The AEMC has interpreted the Ministerial Council for Energy's (MCE) direction to the CoAG decision to indicate a clear distinction between 'national' and 'regional' planning. The NTNDP in the AEMC's view should therefore not cover all transmission planning issues, 'but rather a sub-set of planning issues relating to elements of the network which have national significance'. This would entail a focus by NTP on either material interconnector flow constraints (subject to a materiality threshold) or on the capability of the currently defined National Transmission Flow Paths. The planning horizon envisaged by COAG is at least 10 years, indicating that a key part of the NTP's role is to ensure that a strategic approach to transmission planning is undertaken.

The AEMC also notes that the MCE direction makes reference to the 'power system' and not just the transmission system and raises the question as to whether the NTNDP should cover total power system planning (power generation, gas transmission and electricity distribution) or just electricity transmission network planning. The wider scope contemplated here appears necessary to establish credible development scenarios over the minimum 10 year planning horizon contemplated by COAG.

While the COAG commitment is explicit that the NTNDP process will not replace localised planning care needs to be taken that nationally significant transmission elements are not so tightly defined as to inhibit legitimate considerations of a local transmission nature by the NTP where these have clear implications for rational investment options for transmission and generation.

The COAG commitment states that the NTNDP will provide guidance to investors to help 'optimise investment between transmission and generation across the power system'. CoAG also stated that the NTNDP is not to be binding on TNSPs and the Australian Energy Regulator. Clearly the NTP has an advisory and information provision role that can assist investment decisions. It is not, however, charged with directing transmission, nor generation, investment. That is a matter for the individual companies involved, and in the case of transmission must be undertaken consistent with a range of regulatory requirements.

Given the primary advisory role these limitations imply, the value that the NTP function can add to the National Electricity Market (NEM) will be greatest where the scope of the planning function enables a well-informed and comprehensive overview of the national transmission system that supports investment and regulatory decision making in the market. This would allow the planner, in providing guidance, sufficient discretion to determine which elements of the power system should be included in the NTNDP, both inter and intra regionally, in order to advise on the most economically efficient outcome for the power system from a national perspective.

CoAG has also indicated that the NTNDP is to replace the current Inter Regional Planning Committee (IRPC) and the Annual National Transmission Planning

Statement (ANTS). The main focus of these mechanisms is identifying opportunities for national transmission flow paths augmentation. The CoAG decision that the national transmission planning function should enhance planning processes in the National Electricity Market (NEM) implies that the planning function should not just replace these mechanisms but improve upon them. Implementing the Issues Paper's proposed focus for the NTP on material interconnector flow constraints or the capability of national transmission flow paths would constrain the NTP's functions to largely those of the existing IRPC / ANTS processes and therefore seems inconsistent with the broader CoAG objective for the NTP.

The success of the planning function will be facilitated by ensuring it has flexibility and is sufficiently resourced with access to adequate market information and technical expertise to be able to provide sound planning guidance on the overall development of a national power system. Over time, given the appropriate scope and resourcing, the NTP should deliver planning material that is sufficiently authoritative to guide the options for the efficient development of the power system with rational choices enabled between transmission and generation investment.

Governance Arrangements

The Issues Paper suggests that the governance structure for the AEMO must be determined before a detailed implementation plan can be finalised. Two potential models for the relationship between the NTP and proposed Australian Electricity Market Operator (AEMO) are highlighted. In the first model, the NTP is implemented within and has its functions carried out by the AEMO. In the second model the NTP is a separate entity not accountable to the AEMO but able to draw upon its resources and expertise.

esaa supports the first model as outlined above and considers that this is consistent with the CoAG intent that the NTP be located in the AEMO. Currently, governance arrangements for the AEMO are being comprehensively developed by the Ministerial Council for Energy's Market Operator Working Group (MOWG).

esaa considers that there is nothing inherent about the NTP that would require provisions in addition to those the currently proposed for the AEMO through the MOWG process. The AEMO will be responsible for the operation and administration of the power system and the wholesale spot market in the NEM as well as for gas. It will be required to effectively manage the interests of a wide range of stakeholders with differing regulatory and commercial incentives to deliver an efficient service in the long term interest of consumers. The governance arrangements for the AEMO will by necessity have to be sufficiently comprehensive in order to manage any conflicts of interests and as such should be more than adequate to oversee the NTP.

esaa supports the proposed AEMO governance arrangements that have been developed to date by an MCE working group and endorsed by the MCE on 13 December 2007 as robust and with sufficient safeguards to ensure appropriate levels of independence, transparency and accountability. Undertaking a further separate governance process for the NTP would be unnecessarily duplicative and resource intensive. Furthermore, the direction from CoAG did not require the AEMC to consider separate governance arrangements for the NTP.

esaa agrees with the Issues Paper that there are substantial benefits to be derived from placing the NTP within the AEMO including improving access to market information and technical and operational expertise as well as delivering overall efficiency in management costs. The issues paper raises a number of perceived disadvantages which relate largely to managing potential conflicts of interests among

planning and operation aspects of the AEMO and with industry and the potential diversion of resources and/or focus away from the NTP to the AEMO.

esaa considers that all of these largely management issues will be mitigated by the appointment of an independent, skills based AEMO Board with the appropriate expertise to manage the inherent trade-offs between the different roles and functions of the NTP and AEMO. The Issues Paper notes that the AEMO governance proposals developed to date provide for the appointment of a board independent of any one sector to ensure any conflicts of interest are appropriately managed.

The introduction of a National Transmission Planning function is an important step in the ongoing efficient development of Australian energy markets. The effectiveness of the planner providing investment supporting information to the market will depend on the adequacy of its discretion on the transmission elements that can be included in its planning activities and documents, and appropriate resourcing with adequate access to information and expertise in order to provide sound guidance. Ensuring the NTP's governance arrangements are aligned as closely as possible to those of the AEMO will avoid unnecessary duplication and allow for greater consistency in the management of both functions.

Yours sincerely

Brad Page
Chief Executive Officer