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Dear Ms Falcon

## **AEMO 2019 Planning and Forecasting Consultation Paper**

Energy Networks Australia welcomes the opportunity to provide a submission to the Australian Energy Market Operator (AEMO) on the 2019 Planning and Forecasting Consultation Paper. This consultation for the development of the 2020 Integrated System Plan (ISP) covers; scenarios, inputs, assumptions, methodology and timeline which will be a significant driver of the draft 2020 ISP due for consultation in December 2019. Energy Networks Australia understands that there will be a further consultation to update this data late in 2019, any updated data will be reflected in the final 2020 ISP published around April 2020.

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

This submission is a high level response, our transmission members will provide more detailed comments in their submissions. Energy Networks Australia supports the improvements AEMO is seeking to make to the data inputs and in the level of stakeholder engagement and consultation.

### ***Alignment of ISP PSCR with the TNSP PADR and PACR given the strong stakeholder support on the RIT-T process***

The AEMC issued a final report in December 2018 on the Coordination of Generation and Transmission Investment (COGATI). A key outcome of this report is the development of an actionable ISP framework to be implemented in the National Electricity Rules by around August 2019. This next ISP is being developed with an eye towards this new actionable ISP framework which will alter some of the AEMO national transmission planning framework. Under the new framework it is intended that, for ISP projects, the ISP will constitute the project specification consultation report (PSCR) which is the first step of the Regulatory Investment Test for Transmission (RIT-T) normally conducted by the TNSP. The TNSPs will continue to undertake the second and third steps of the RIT-T, the project assessment draft report (PADR) and the project assessment conclusions report (PACR). It is important that the end to end RIT-T process is aligned in the new framework and still operates to provide assurance to customers that the investment has a positive benefits test. Consultation of the detailed policy and rules to implement the changes has yet to commence.

Energy Networks Australia is aware that there was stakeholder support for the RIT-T process in 2018 COGATI to ensure that only needed investments proceed, that investments are efficient and there is a significant level of transparency and consultation to provide confidence in the RIT-T processes. Where projects are undertaken to deliver market benefits they must have a positive net benefits case to proceed. Given the support for the RIT-T processes and efficient investment, it is important that the ISP does not create conflicts with these processes.

***ISP should be aligned with RIT-T framework, commercial discount rate should be used***

AEMO's 2019 Planning and Forecasting Consultation Paper proposes to:

- » use the same weighted average cost of capital (WACC) (6.25%) to derive annualised capital costs for market-driven generation and regulated transmission investments; and
- » use a lower social discount rate (4.0%) for the purposes of the NPV assessment.

The earlier 2018 ISP used a WACC value (6.0%) to derive the annualised capital costs for generation and transmission investments, and a social discount rate (7.0%) in the NPV assessment.

Energy Networks Australia is concerned with the proposed approach and provides more detail in the Attachment to illustrate the issue:

- Using a different discount rate for the NPV assessment to the WACC used to determine the annual cost of network developments and generation can lead to non-intuitive outcomes as the NPV will be above the initial cost of investment; and
- Using a different discount rate for NPV assessment in the ISP compared to that required under the RIT-T may lead to inconsistent outcomes where an investment with a positive NPV that forms part of the optimal ISP network development path, may not be found to pass a subsequent RIT-T.

The AER RIT Application Guidelines state:

“While the regulated cost of capital reflects the network business's opportunity cost of capital, it is still important to evaluate how credible RIT-T options perform under a commercial discount rate. Using a commercial discount rate to evaluate transmission related benefits (a) is consistent with aiming to measure benefits in a market environment, (b) promotes competitive neutrality since commercial discount rates would apply to electricity generators, and (c) is consistent with how network users fund network investments and bear the risk of benefits not eventuating.<sup>1</sup>”

To avoid inconsistencies between the ISP and RIT-T for the same project, the same discount rate should be used across both analyses. Moving from a commercial discount rate to a lower social discount rate is a significant change to a substantive part of the regulatory framework. The social discount rate being lower, creates higher NPVs with a potential outcome of more network investment than may be necessary.

Energy Networks Australia is mindful of costs to consumers and that many stakeholders supported the RIT-T approach and the safeguards this provided, particularly consumers groups in the 2018 COGATI process. Given the strong support for the RIT-T approach by

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<sup>1</sup> AER Final decision, Application Guideline for the RITs, Dec 2018, p44

COAG and AEMC, where possible approaches and parameters underlying the ISP should align with the RIT-T approach.

As noted above we are aware that the policy framework for the actionable ISP is being developed, however the fundamental shift from a commercial discount to a social discount rate was not envisaged in the 2018 COGATI final report and deserves far broader consultation than introducing the change directly in the 2020 ISP or in a streamlined actionable ISP rules development.

In the absence of consultation of this nature in the RIT-T framework, AEMO should adopt a commercial discount rate in the ISP, with some scenario testing that would be consistent with the most recent updated rates that a TNSP would use in the RIT-T.

The RIT-T process enables efficient investment to be considered including the ability to stage infrastructure delivery to ensure the most efficient outcomes for consumers. The ISP outcomes need to be mindful of sensible staging of infrastructure and not lead to short term piecemeal identified needs.

Where the 2020 ISP identifies likely benefit in progressive staging of augmentations it should explicitly enable the staging as constituent parts of an overall development. Labelling progressive stages as separate projects with independent drivers for investment may unnecessarily complicate or even frustrate the later RIT-T process.

### ***Supportive of improvements***

Energy Networks Australia commends AEMO for the improvements being made to this next ISP. The joint planning process between AEMO and TNSPs is important given that the ISP will take over a part of Regulatory Investment Test process, the Project Specifications Consultation Report (PSCR). The TNSPs' Transmission Annual Planning Reports also provide important information on emerging constraints and network expenditure for both AEMO and for any non-network solution providers. It is important that these process are well aligned and streamlined to ensure that robust ISP outcomes are progressed through the safeguards in the RIT-T process. Given the second consultation for inputs assumptions, any late changes in data inputs, scenarios etc should be sense checked with TNSPs prior to the final ISP publication in April 2020. This is particularly the case where TNSPs are likely to need to use all of the ISP assumptions in the final ISP in the ISP project RIT-Ts or provide justification for any variance.

Energy Networks Australia is supportive of the improvements and efforts AEMO is making to improve the ISP as outlined in Chapter 5 of the Consultation Paper – including coal generator retirements and revenue sufficiency, uptake of DER, resilience etc.

The year on year variability and lack of transparency in the marginal loss factors (MLFs) creates uncertainty for generators and connection proponents. Energy Networks Australia is supportive of AEMO's efforts to improve MLF transparency to more directly reflect the impact of MLFs on REZ selection in a more iterative approach.

The impact of committed transmission projects should also be reflected in the input assumptions for the development of the following ISP. It would also be useful for the initial consultation version of the ISP inputs assumption worksheet and a further final ISP inputs worksheet which reflects the inputs used in the final published ISP to be separately kept on the AEMO website as the final ISP inputs will be a key feed in to the TNSP RIT-T work.

Energy Networks Australia is supportive of incorporating improvements for greater realism in the modelling of transmission impacts to REZ expansion over the proposed

'transmission limited total build limit' and 'indicative transmission expansion cost'. The current methodology fails to recognise:

- a) available transmission capacity as dispatch adjusts with market changes (new entrants, retirements, etc) with the added complication of interaction between REZs;
- b) the potential for scale efficient transmission solutions to unlock generation capacity; and
- c) the lumpiness of transmission investment does not allow for a proportion of a transmission build to provide a proportion of its ultimate capacity.

Energy Networks Australia recommends an approach where transmission connections and intra-regional congestion and expansion are explicitly considered as part of the planning process to converge to an overall least cost power system which incorporates a realistic set of transmission projects. For example, this may involve iterations where scale efficient transmission connection costs and intra-regional expansion are introduced subsequent to an optimised generation expansion, repeating until the generation expansion and scale of transmission projects are consistent.

Should you have any queries on this response please feel free to contact Verity Watson, [vwatson@energynetworks.com.au](mailto:vwatson@energynetworks.com.au).

Yours sincerely,



Andrew Dillon  
Chief Executive Officer

Houston Kemp Attachment