Converting the Integrated System Plan into Action: Consultation on Draft ISP Rules

Response to Energy Security Board

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Energy Networks Australia

Contents

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Key messages

- Energy Networks Australia supports the general framework set out in the draft Rules for actionable Integrated System Plan (ISP) projects as a pragmatic approach to progressing the key transmission investments necessary to underpin the energy market transition and ensure reliable and affordable electricity supply to consumers. Transmission Network Service Providers (TNSPs) will remain accountable for making the investment decisions.
- However, Energy Networks Australia does have some specific concerns with the proposed Rules, and has outlined a number of concerns and opportunities to improve and refine the rules below, along with suggested drafting revisions. Notwithstanding these proposed arrangements,
- It will be important for Australian Energy Market Operator (AEMO) and TNSPs to work closely together across all stages of the combined ISP/Regulatory Investment Test – Transmission (RIT-T) processes, to maximise the opportunities for the framework to work well in practice and for the outcomes of the ISP to be effectively progressed through the RIT-T stages.
- Energy Networks Australia supports the role envisaged for the ISP in replacing the current first-stage of the RIT-T process (the Project Specification Consultation Report) and the confirmation that TNSPs should be able to rely on the ISP assumptions and analysis in progressing their RIT-Ts (unless there are demonstrable reasons to vary from these assumptions).
  - Energy Networks Australia also supports the removal of the Australian Energy Regulator (AER) 5.16.6. determination process and the Australian Energy Market Commission's (AEMC's) Last Resort Planning power, as well as the more focussed dispute process for both the ISP and subsequent RIT-Ts. These changes will result in a more streamlined and timely process for progressing key transmission investments.
- Consistent with the central role of the ISP in the draft Rules, it is important that the approaches and assumptions adopted by AEMO in identifying the ISP optimal development path are transparent and tested through effective engagement with stakeholders, including consumers who ultimately are the beneficiaries of the plan and also bear the costs and risks associated with the investments. Energy Networks Australia supports requirements being set out in both the Rules and the AER ISP Guidelines to ensure full and effective consultation is undertaken for future ISPs.
- For a given need, the assessment framework within which AEMO identifies the optimal network development path needs to be mirrored in the provisions for the TNSPs' RIT-T assessments for actionable ISP projects, in order for the end-to-end assessment between the ISP and the RIT-T to be consistent and provide consumers with confidence that the process has robustly identified the optimal investment.
  - Energy Networks Australia suggests this is included as a principle in the Rules which then needs to be reflected in the AER's Cost Benefit Analysis (CBA) guideline.

  - Energy Networks Australia notes that the AER Issues Paper on the ISP guidelines raises the prospect of inconsistency in the ISP and RIT-T approaches. Energy Networks Australia has responded to this issue in its separate submission on the AER's Issues Paper.
- It is important that the Rules provide for reasonable cost recovery for material costs incurred by TNSPs who are required to progress both RIT-T assessments and preparatory works as determined by AEMO in the ISP, which are then subsequently deferred or halted as a consequence of new information (or resolution of an ISP dispute) leading to an ISP update or new ISP.
- Energy Networks Australia considers the reallocation of the costs of AEMO's National Transmission Planner (NTP) functions to TNSPs is not required under the 'reflective of involvement' criterion but it does create significant costs that consumers will ultimately fund, without delivering any material benefits for consumers. Hence this change should not proceed.
  If AEMO costs are reallocated to TNSPs this must be coupled with a specific cost pass-through mechanism in the Rules that ensures that TNSPs are able to recover the actual costs that are imposed on them (which are outside of TNSPs' control), as well as transparency and accountability arrangements that ensure that the costs incurred by AEMO are prudent and efficient.
- Whilst supporting the proposed automatic contingent project provisions relating to actionable ISP projects, Energy Networks Australia suggests that:
  - if the option is the same as the candidate actionable ISP option and the cost is within a specified range from that in the ISP, then the written advice required from AEMO should be limited to confirmation that this is the case, with no application of the feedback loop.
  - if the option differs from the ISP candidate option or if the costs are more than the specified range, then AEMO's 'feed-back loop' assessment should be based on re-running the ISP model, rather than on any broader considerations by AEMO on the preferred option. TNSPs must retain the ability to identify the appropriate technical solution via the RIT-T to meet the obligations they face.
- Finally, Energy Networks Australia has also proposed changes to ensure the proposed treatment of contingent projects which span more than one regulatory period remains consistent with incentives under the Capital Expenditure Sharing Scheme (CESS).

Overview

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Energy Networks Australia supports the general framework set out in the draft Rules for actionable ISP projects as a pragmatic approach to progressing the key transmission investments necessary to underpin the energy market transition and continue to ensure reliable electricity supply to consumers. This includes the proposal

that the ISP replace the current 'first stage' in the RIT-T process (the Project Specification Consultation Report).

However, Energy Networks Australia does have some specific concerns with the proposed Rules and has outlined a number of opportunities to improve and refine the rules below and with suggested drafting revisions.

Energy Networks Australia has summarised its key concerns within this submission and provided a mark-up to the draft Rules that addresses the points raised. Energy Networks Australia welcomes continued engagement with the Energy Security Board (ESB) and its Transmission Working Group as these ISP Rules are progressed to ensure a robust framework is in place by mid-2020.

Need for close collaboration between AEMO and TNSPs, which should be reflected in the Rules

Within the framework set out in the draft Rules it will be important for AEMO and TNSPs to work closely together at all stages of the combined ISP-RIT-T processes, to maximise the opportunities for the framework to work well in practice and for the outcomes of the ISP to be effectively progressed through the RIT-T stage.

TNSP planning activities will remain substantial and has increased in complexity, as well as having interdependencies with AEMO's functions. As a consequence, Energy Networks Australia considers that as well as highlighting obligations on TNSPs to coordinate with AEMO's ISP process, the Rules should also clearly set out AEMO's obligations to coordinate with TNSPs on their RIT-T and regional planning processes. This includes:

- a requirement on AEMO to consult with TNSPs prior to publishing (or updating) its ISP timetable, so that the timing of interactions between the ISP and local planning activities can be taken into account;
- a requirement on AEMO to take into account TNSPs' Transmission Annual Planning Reports (TAPRs) in formulating the ISP;
- a requirement on AEMO to base the estimate of ISP project costs on those provided by TNSPs, unless they have a valid reason to diverge; and
- a requirement on AEMO to run modelling where requested by TNSPs for their RIT-T assessments.

Energy Networks Australia also suggests that the list of obligations on TNSPs be expanded to include a requirement on TNSPs to identify the technical characteristics that a non-network proponent would be required to deliver in order to meet the identified need, to inform the draft ISP.

TNSPs will also retain an important role through their local planning activities in progressing RIT-Ts outside of the ISP (both for replacement expenditure and augmentations not covered by the ISP) in a manner that continues to meet jurisdictional obligations. Energy Networks Australia considers that this role should be explicitly recognised in the Rules.

Streamlining of the overall ISP and RIT-T process

Energy Networks Australia supports the role envisaged for the ISP in replacing the current 'first-stage' of the RIT-T process (the Project Specification Consultation Report (PSCR)).

Energy Networks Australia notes that under the draft Rules the ISP will become the key engagement platform for exploring non-network options (NNO), with TNSPs supporting AEMO with the assessment of NNO. As noted above, Energy Networks Australia suggests the inclusion in the Rules of a role for TNSPs to identify the required characteristics of non-network options as part of the draft ISP. This is to conform with joint planning requirements, incorporate the local expertise of TNSPs, and to ensure that the detailed assessment of NNO (which Energy Networks Australia understands under the current draft Rules would be primarily undertaken by TNSPs at the RIT-T stage) runs smoothly.

Energy Networks Australia understands that under the draft Rules, AEMO in the draft ISP will assess at a high level whether NNO satisfy the identified need, before TNSPs assess the costs and benefits of identified NNO in detail at the RIT-T level. Energy Networks Australia considers that it would be preferable for AEMO (with the support of TNSPs) to conduct a more substantive analysis at part of the final ISP of whether an NNO would form part of the optimal development path, to ensure a smoother and more robust analysis of actionable ISP projects. However, it recognises that there may need to be some reconsideration of consultation timeframes in order to provide sufficient time for conducting this assessment.

Energy Networks Australia supports the confirmation that TNSPs can rely on the ISP assumptions and analysis in progressing their RIT-Ts (unless there are demonstrable reasons to vary from these assumptions), and that disputes on the RIT-T outcome cannot be raised if the assessment has proceeded on the basis of the inputs and assumptions adopted in the ISP. Energy Networks Australia supports the proposal that TNSPs need not re-examine options in their Project Assessment Draft Report (PADR) that AEMO has already assessed in the ISP and rejected.

Energy Networks Australia also supports the removal of the AER 5.16.6. determination process and the AEMC's Last Resort Planning power, as well as the more focussed dispute process for both the ISP and subsequent RIT-Ts. These changes will result in a more streamlined and timely process for progressing key transmission investments.

Transparency and effective consultation are key

Consistent with the central role of the ISP in the draft Rules, it is important that the approaches and assumptions adopted by AEMO in identifying the ISP optimal development path are transparent and tested through effective engagement with stakeholders, including consumers who ultimately are the beneficiaries of the plan and also bear the costs and risks associated with the investments.

Energy Networks Australia supports requirements being set out in both the Rules and the AER ISP guidelines to ensure effective consultation is undertaken for ISPs, and

suggests that minimum consultation timeframes are specified in the Rules for both the draft ISP and also the earlier input and assumptions report.

The ESB transitional provisions provide for the 2020 ISP to be deemed to have complied with the new Rules. It is important that the transitional provisions provide confidence to consumers that the investments progressed via the actionable ISP framework for the 2020 ISP represent the efficient investments needed for NEM transition. Energy Networks Australia notes that AEMO is engaging closely with the other market bodies regarding its 2020 ISP process so that the ESB can be satisfied that it meets an appropriate standard. However, it is not clear whether there is any dispute opportunity for stakeholders which may represent a gap in the process in these transitional circumstances. Energy Networks Australia suggests the ESB's position should be clarified.

Need for consistency between the ISP and RIT-T assessment approaches

For a given need, the assessment framework within which AEMO identifies the optimal network development path needs to be mirrored in the provisions for the TNSPs' RIT-T assessments for actionable ISP projects, to ensure coherency between the outcome of the RIT-T and the ISP assessment approach so that consumers can have confidence that the end-to-end process has robustly identified the optimal investment. This includes extending the flexibility afforded in the draft Rules for AEMO to consider outcomes of its scenario analysis on a basis other than probability weighting, where it considers that relevant and has consulted with consumers, to the RIT-T framework, so that TNSPs can mirror the AEMO approach.

Energy Networks Australia suggests that the Rules make clear that the flexibility afforded to AEMO in developing the ISP should also apply to TNSPs for their RIT-T assessments. Currently the discussion in the AER's Issues Paper on its Cost Benefit Analysis (CBA) Guideline suggests this principle is not taken as given.

Energy Networks Australia considers this is important because, notwithstanding that the actionable Rules will allow the TNSPs' RIT-T assessment to build on the ISP analysis, the assessment at the RIT-T stage is still likely to be substantive. If the TNSP RIT-T assessment is run under a different framework to the ISP there is a real risk that a project required under the ISP as important could not satisfy a RIT-T because it is being assessed differently.

At several points in the Consultation Paper the ESB refers to the RIT-T as focussing on 'technical solutions'. Energy Networks Australia understands that at the RIT-T stage the assessment will focus on variants of the ISP candidate option, rather than on a broader set of potential credible options. However, the scope of the variants considered in the RIT-T is likely to be broader than only those due to 'technical differences', and to include the potential staging of options as well as any non-network solutions that have been identified. There is a need for these option variants to be robustly considered through the RIT-T, as they will not have been examined as part of the ISP. For these reasons, along with local considerations (ie constraints,

potential spot loads) not captured in the ISP modelling, market modelling is still likely to be required for the PADR and may not always be able to be based on the assessment AEMO has undertaken for the ISP.

AEMO's NTP costs should not be allocated to TNSPs. If they are, the Rules must accommodate cost recovery mechanisms to recognise these costs are out of TNSPs' control

Allocating the costs that AEMO incurs as part of its NTP functions to TNSPs provides little if any benefits to consumers, while creating significant initial setup and ongoing administration costs that this change. No evidence has been presented as to why, under the 'reflective of involvement' criterion, it is acceptable to allocate current NTP costs to retailers, but AEMO's growing NTP costs need to be allocated to TNSPs in future. In fact, the move from the National Transmission Network Development Plan (NTNDP) to the ISP is largely caused by the significant changes to the generation mix and location of new generation to meet customer demand in the transition to a low emissions economy. This change would fail a basic consumer cost-benefit test and hence it is in consumers' interests to not allocate these costs to TNSPs.

If, however, this does proceed, Energy Networks Australia note AEMO's NTP costs are completely outside the control of TNSPs and hence must be subject to a specific pass-through arrangement in the Rules.

If required, Energy Networks Australia has proposed mechanisms in the Rules that would allow a pass through of the actual costs TNSPs are required to pay to cover AEMO's NTP functions, in the event that these costs are reallocated to TNSPs.

The ongoing administrative cost burden that will be created by allocating these costs to TNSPs is clear evidence of why they should not be.

It is also important that there is a framework that provides adequate accountability and transparency on AEMO to ensure the costs it incurs as part of its NTP functions are efficient, and that there is adequate oversight of these costs as AEMO's NTP functions (including its demand forecasting activities) expand.

Rules need to accommodate cost recovery mechanisms to recognise that some TNSP planning obligations will now be directed by AEMO

It is important that the Rules provide for cost recovery for TNSPs who are required to progress RIT-T assessments and preparatory works as determined by AEMO in the ISP, which may subsequently be deferred or halted as a consequence of new information (or resolution of an ISP dispute) leading to an ISP update or new ISP.

Currently these costs are recovered by TNSPs either through being included as part of the costs of the investments resulting from the RIT-T or, in those cases where a RIT-T does not progress through to a project, via opex. However, under the actionable ISP

framework the ability for TNSPs to determine whether to start a RIT-T (based on the likelihood of it resulting in an investment) and whether to undertake further preparatory works is no longer at their discretion , but is required by the ISP.

Energy Networks Australia has proposed a mechanism that would allow TNSPs to recover the costs associated with RIT-Ts and preparatory works that they are required to start as a consequence of the ISP but which are subsequently halted due to a change in the ISP. This mechanism would apply cumulatively over a regulatory control period.

However, there is also a significant issue of cash flow regardless as to whether a project is subsequently halted as revenue could take a significant time to arise given that TNSPs are required to commence the required works 2 years prior to the due date for the PADR and would like further discussion on this issue with the ESB.

Energy Networks Australia has also proposed a cost recovery mechanism for a contingent project to be triggered where a TNSP is required to proceed with an unforeseen investment in the ISP without a RIT-T.

In forming its position on cost recovery provisions, the ESB should also ensure that such arrangements do not adversely impact incentive schemes for operating or capital expenditure in particular.

Contingent project provisions for Actionable ISP projects

Energy Networks Australia supports the proposed automatic contingent project provisions relating to actionable ISP projects.

Energy Networks Australia notes that under the draft Rules, where the preferred option under the RIT-T is the same as the ISP candidate option and the costs are less than or equal to that assumed by AEMO, the TNSP needs to obtain written advice from AEMO that the project is the same as the ISP candidate option.[1] Energy Networks Australia suggests that AEMO bases its estimates of ISP project costs on those provided by the relevant TNSP, to ensure that the cost estimates used in the ISP are realistic.[2]

Energy Networks Australia also notes that it is almost inevitable that the costs of projects at the stage of a contingent project application will vary from those used in the ISP and the RIT-T, reflecting the additional detailed design and planning work specific to the RIT-T 'preferred option' that will have been undertaken by that time. Further, the efficiency of these proposed costs will be assessed by the AER as part of the contingent project process.

Currently the wording of the draft Rules does not make clear what provision applies if the preferred option under the RIT-T is the same as the ISP candidate option, but the

[1] Draft Rules, 5.16A.5(a)(1).

[2] See above, as well as Energy Networks Australia's separate submission on the AER ISP Guidelines Issues Paper.

costs of that option are above those assumed in the RIT-T. Energy Networks Australia assumes that in this case the requirement for AEMO to apply the 'feedback loop' on 5.16A.5(a)(2) (ENA proposed rule 5.16A.5 (b) (1)) would apply and suggests that this is clarified in the Rules. Energy Networks Australia further notes that where the cost difference is non-material, AEMO may be able to provide this confirmation without needing to re-run the ISP model.

Where a different option is found to pass the RIT-T and AEMO is required to confirm via the feedback loop that this option meets the identified need and is consistent with the optimal development path, this assessment should be based on re-running the ISP model, rather than any broader considerations. It is important that TNSPs retain the ability to identify the appropriate technical solution via the RIT-T to meet the obligations they face.

Finally, Energy Networks Australia has proposed changes to existing clause 6A.6.7 relating to the treatment of contingent project capex that spans two periods, so that the incentives provided remain consistent with those under the Capital Expenditure Sharing Scheme (CESS).

1 Objective and scope of the ISP

1.1 Purpose and scope of the ISP

The ISP is defined as a:[3] "whole of system plan for the efficient development of the power system that achieves power system needs for a planning horizon of at least 20 years for the long-term interests of the consumers of electricity".

Overall, Energy Networks Australia considers that the scope of the ISP - as limited by the defined power system needs in clause 5.22.3 – is appropriate. Energy Networks Australia supports draft clause 5.22.3(b) which limits 'public policy requirements' to those that impact the electricity sector.

Energy Networks Australia considers that it is important to clearly recognise that TNSPs will continue to have a role in the application of the RIT-T as part of their local planning activities, both for replacement capex as well as augmentation expenditure and other market benefit investments outside of the scope of the ISP. Energy Networks Australia suggests recognising this role explicitly in the Rules.

Energy Networks Australia supports the approach proposed in the draft Rules of a continuing requirement to publish an annual assessment of NSCAS, System Strength and Inertia, but in annual reports rather than the biennial ISP.

1.2 Proposed content of the ISP

Draft clause 5.22.6 sets out the proposed content of the ISP, comprising items that *must* be included (such as the optimal development path) and other items that *may* be included (such as information on renewable energy zones).

Energy Networks Australia's understanding is that generation at a renewable energy zone would be included in the ISP as an 'ISP development opportunity' while the transmission investment associated with a renewable energy zone would be an 'actionable ISP project'.

While Energy Networks Australia broadly supports the proposed content of the ISP, it is of the view that if ISP development opportunities have been identified, then they 'must' be included in the ISP (rather than the wording of the draft Rules that suggests that they 'may' be included).[4] This would be consistent with the objective of the ISP being to provide information for the market to evaluate such opportunities.

Energy Networks Australia also suggests that the ISP be required to provide information on the optimal timing and scale for connection of renewable energy and/or storage in the areas identified.

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[3] Draft clause 5.22.2.

[4] Draft clause 5.22.6(b).

1.3 Timetable for ISP and Transmission Annual Planning Reports

The draft Rules require AEMO to publish and maintain a timetable of key consultation dates, within three months of the publication of the most recent ISP. AEMO will be able to modify its ISP timetable but must provide an explanation for any changes. The deadline for Transmission Annual Planning Reports (TAPRs) will be changed to 31 October.

Given the interactive nature of the joint planning required between AEMO and TNSPs in relation to both the ISP and TNSPs' local planning, the timetable for the ISP will have a significant impact on TNSP planning activities. This includes the need to evaluate any non-network submissions to the draft ISP and the need for the TAPRs to need to take account of the draft ISP.

Energy Networks Australia recognises that the final decision on the ISP timetable rests with AEMO. However, given the impact of the ISP process on the planning activities of TNSPs, Energy Networks Australia proposes that there should be a requirement in the Rules on AEMO to consult with TNSPs in developing its timetable - and on any proposed changes to the timetable - ahead of publication.

1.4 Re-allocation of cost recovery for AEMO's national transmission planning services to TNSPs

The costs that AEMO incurs as part of its NTP functions are currently paid by Market Customers (ie, retailers). The draft Rules propose a change to clause 2.11.1(c)(5A) so that these costs are allocated to TNSPs instead, with the 'reflective of involvement' criterion identified as the reason for this change.

In fact the move from the National Transmission Network Development Plan (NTNDP) to the ISP is largely caused by the significant changes to the generation mix and location of new generation to meet customer demand in the transition to a low emissions economy.

There is also no doubt Market Customers will be far more involved in the ISP than they have been in past NTP work.

More fundamentally, Energy Networks Australia believes the benefits to consumers of allocating these costs to TNSPs are negligible and certainly far lower than the initial setup and ongoing administration costs that this change will create. This change would fail a consumer cost-benefit test and hence, regardless of the interpretation of the 'reflective of involvement' criterion, it is in consumers' interests to not change clause 2.11.1(c)(5A) to allocate these costs to TNSPs.

If, however, this does proceed, Energy Networks Australia notes that reallocation of AEMO's NTP costs to TNSPs would meet the standard required for a 'regulatory change event', as it would result from a change in the Rules. As a consequence, TNSPs would be able to apply for a cost pass through amount where this change is first introduced, where the additional costs exceed the materiality threshold set out in the

Rules. Following this, the costs would be reflected in TNSPs' opex proposals for the regulatory determination period.

It is critical to note AEMO's NTP costs are completely outside the control of TNSPs. AEMO's costs will be subject to material variations on a year on year basis, with AEMO currently forecasting a 30% increase every year for the next five years. These costs will be particularly difficult to forecast at the start of the regulatory period. Energy Networks Australia therefore considers that such costs, if allocated to TNSPs, must be subject to a specific pass-through arrangement in the Rules (similar to that that currently applies for network support payments under 6A.7.2), which trues-up the amount that can be recovered by TNSPs on the basis of the actual costs they are required to pay AEMO. Energy Networks Australia has proposed a cost pass-through mechanism that achieves this as part of its proposed mark-up on the draft Rules (see proposed new clause 6A.7.2A).

Further, Energy Networks Australia notes that the complications outlined in the previous two paragraphs highlight the ongoing administrative cost burden that will be created by allocating these costs to TNSPs, clear evidence of why they should not be.

It is also important that there is a framework that provides adequate accountability and transparency on AEMO to ensure the costs it incurs as part of its NTP functions are efficient, and that there is adequate oversight of these costs as AEMO's NTP functions (including its demand forecasting activities) expand.

2 Importance of consultation in developing the ISP

Given that the inputs and assumptions form the foundation for the ISP analysis, it is important that stakeholders are given adequate time for consultation, and that there is effective engagement - particularly with consumers who are less well resourced.

Energy Networks Australia considers that ultimately the timing of the various consultation steps that AEMO must follow in developing the ISP is a matter for AEMO discretion. However, Energy Networks Australia supports minimum timeframes for consultation being set out in the Rules, including for the inputs and assumptions report and the methodology underlying the ISP, as well as for the draft ISP.

Energy Networks Australia recognises that, in developing the ISP timetable, there is an important balance for AEMO to strike between allowing sufficient time for consultation with stakeholders and allowing sufficient time to conduct the analysis. Given that the expected publication date for the Draft ISP is towards the end of the year holiday period, it is important that AEMO remains mindful of ensuring effective engagement during this time.

Energy Networks Australia also notes that the draft Rules provide a 12 week consultation period for non-network proponents to respond to the draft ISP. This is consistent with the timeframe currently allowed under the RIT-T arrangements for non-network proponents to respond to the PSCR. It may be worth the ESB

considering whether this timeframe could potentially be shortened (say to 8 weeks), in order to provide time for AEMO to consider NNO in a more substantive way as part of the final ISP (see section 3.4). This approach would be consistent with the overall streamlining of the timeframes and approach for the planning process for ISP projects.

Energy Networks Australia supports AEMO's proposal to establish a stakeholder advisory panel for future ISPs. It will be important to ensure there is adequate representation of stakeholders (including consumers) on the advisory panel.

3 Requirements of the ISP analysis

3.1 Quantification of costs and benefits

Clauses 5.22.8(c) and (d) of the draft Rules list the costs and benefits AEMO must consider as part of its assessment. Energy Networks Australia considers this list is appropriate, and consistent with the requirements of the RIT-T.

3.2 Optimal development path and the central case

The optimal development path includes actionable ISP projects and ISP development opportunities. AEMO will have some flexibility in its approach to scenarios, modelling and therefore choice of optimal development path (including a 'least regrets' approach). While the ISP development path must have a positive net benefit in the central case, it does not need to be the highest net benefit.

Energy Networks Australia supports the Rules giving AEMO flexibility in considering the outcome across different scenarios. This is consistent with allowing the 'least regrets' option to be chosen as the central case, rather than the option that maximises net benefits on a probability-weighted basis. It is important that AEMO transparently consults on each scenario and explains which development path it considers to be optimal and why.

It is also important that this flexibility also applies to the RIT-T assessment associated with these actionable ISP projects, so that the basis for the ISP assessment and the RIT-T assessment for actionable ISP projects are aligned. Without this flexibility there is a risk that the outcome of the RIT-T assessment does not reflect the investment that would have been identified as optimal by AEMO had the ISP also considered these option variants.

Energy Networks Australia notes that the ESB has previously indicated its agreement with this point,[5] and suggests that this principle is reflected in the Rules. This has implications for the AER's CBA guideline and the current RIT-T instrument

[5] ESB, *Converting the Integrated System into Action, Response to submission on consultation paper*, pp 5-6.

(highlighted in Energy Networks Australia's separate submission to the AER's Issues paper).[6]

3.3 Consideration of staging of options and option value

The ESB consultation paper suggests that 'the role of the RIT-Ts would be to focus on different technical solutions by looking in detail at engineering aspects, routing, refining costs, considering alternate options, and staging'.[7]

Energy Networks Australia considers that the staging of options should be taken into account by AEMO in identifying the optimal development path. In its Issues Paper on guidelines to make the ISP actionable, the AER also puts forward the view that 'AEMO should, where practicable, consider option value by considering the costs and market benefits of development paths that contain staging decisions'.[8]

Energy Networks Australia considers that the requirement in the draft Rules for AEMO to consider option value[9] in effect requires AEMO to consider the staging of options. If it is left solely to TNSPs to consider staging at the PADR stage, this could lead to inconsistencies with the ISP and a consequential need to re-start other RIT-T assessments where the selection of the staged option affects the overall optimal network development path.

3.4 Consideration of non-network options

The draft Rules require AEMO to publish a notice at the same time as it publishes the draft ISP, requesting submissions for non-network options, providing details on the technical characteristics the non-network option must meet, and describing the identified need that the actionable ISP project is addressing (clause 5.22.10). Energy Networks Australia suggests that the draft Rules could also include an elaboration as to what information on technical characteristics may be relevant, in line with the existing clause 5.16.4(b)(3).

Energy Networks Australia suggests the inclusion in the Rules of a role for TNSPs to identify the required characteristics of non-network options as part of the draft ISP. This is to conform with joint planning requirements, incorporate the local expertise of TNSPs, and to ensure that the detailed assessment of NNO at the RIT-T stage runs smoothly.

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[6] Energy Networks Australia, *Issues paper, Guidelines to make the Integrated System Plan actionable, Response to the AER*, 17 January 2020, p 13

[7] ESB, *Converting the Integrated System Plan into Action, Consultation on draft ISP Rules*, November 2019, p 16.

[8] Australian Energy Regulator, *Issues paper, Guidelines to make the Integrated System Plan actionable*, November 2019, p 31.

[9] Draft rule 5.22.8(c)(1)(ix)).

Energy Networks Australia's understanding of the draft Rules is that the consideration of NNO as part of the ISP is limited to AEMO identifying (with support from the relevant TNSPs) whether NNO could meet the identified need. This is consistent with discussion at the public forum that suggested that AEMO may act more as a 'post box' for receiving proposals from non-network proponents, which TNSPs would then assess as part of their RIT-Ts.

Energy Networks Australia would support more substantive consideration of potential NNO as part of the final ISP, rather than deferring this to the RIT-T. Energy Networks Australia recognises that the timeframes available for AEMO to conduct the analysis (supported by the TNSPs) may make this challenging. It may be appropriate to reconsider the timeframe allowed for potential NNO proponents to make a submission to the draft ISP (to, say, 8 weeks rather than 12 weeks), in order to allow more time for the assessment of those options as part of the ISP process.

Energy Networks Australia also suggests that the Rules should make clear that there is no expectation that TNSPs also need to call for non-network options as part of the preparation of the PADR. The AER's CBA guideline should also make this clear. Under the actionable ISP framework, engagement with the proponents of NNO occurs at the draft ISP stage, consistent with the ISP taking on the role of the PSCR. Engagement at the draft ISP stage is likely to be more effective than at the later PADR stage. Requiring TNSPs to actively solicit NNO at the PADR stage would risk duplication (which the actionable ISP framework is intended to avoid) and extend the time required to prepare the PADR.

Energy Networks Australia notes that an exception is if the final ISP identifies an actionable ISP project that was not identified in the draft ISP. This could be, for example, where there is a material change in circumstance between the draft and final ISPs. In this case, there would have been no consultation with NNO proponents as part of the draft ISP. One way of addressing this could be for the TNSP to consider NNO in the PADR, with the allowed timeframe for the PADR being extended in this instance to accommodate this additional consultation.

3.5 Updates to the ISP

Under draft clause 5.22.12, AEMO must assess the impact on the optimal development path when:

i. new information becomes available that in AEMO's reasonable opinion may materially change the outcome of the RIT-T for an actionable ISP project, where the RIT-T is either in-flight or expected prior to the next scheduled ISP; or

ii. an actionable ISP project does not satisfy the RIT-T.

Energy Networks Australia assumes that clause 5.22.12 is also intended to apply to circumstances where the RIT-T has been completed, but the actionable ISP project is not yet committed, consistent with the circumstances contemplated in clause 5.16A.4 (o)(3)(ii) (ENA rule 5.16A.4(r)(3) (ii)), although suggests that this is clarified by the ESB.

If AEMO determines that there is a material change in the need for, or the characteristics of a current actionable ISP project, AEMO must consult on the new information and the impact on the optimal development path. AEMO may publish an update to the ISP that highlights the impact on optimal development path.

In relation to point (ii) above, we suggest the intention of the reference to where 'an actionable ISP project does not satisfy the RIT-T' be clarified. For example:

- If an alternative project to the ISP candidate option passes the RIT-T, does this require AEMO to consider whether to issue an ISP update? Energy Networks Australia considers it should, as it may change the optimal timing of other projects. However, this has the potential to trigger frequent ISP updates, as each TNSP completes its RIT-T assessments.
- A successful dispute may be one of the causes of an ISP update - it may be clearer to explicitly note this in the Rules.

The ESB's consultation paper suggests that: 'the update would simply apply the latest numbers to the existing ISP model. Any changes to the model itself would be consulted upon as part of the subsequent ISP. In deciding on whether an update to the ISP is required, and whether consultation on the update is required, AEMO would follow the AER Best Practice Forecasting Guidelines'.[10]

These provisions don't appear to be captured in the draft Rules.

Energy Networks Australia notes that any changes that may require changes to the modelling approach (for example, a new public policy announcement such as new environmental requirements) would trigger a new ISP (rather than an ISP update). It would be helpful if this was further clarified in the Rules.

Under the draft Rules, TNSPs do not have to complete a RIT-T if AEMO issues an ISP or an ISP update that does not contain the ISP project in the optimal development path. If a TNSP has issued a project assessment conclusions report (PACR), and there is a material change in circumstance (including an update to ISP assumptions) that the TNSP expects to change the preferred outcome, or if AEMO issues an updated ISP that does not have the ISP project in the optimal development path, then the TNSP must reapply the RIT-T.[11]

Given that under the proposed arrangements TNSPs may be required to stop or redo a RIT-T if a new ISP or an ISP update is released, Energy Networks Australia submits that a cost recovery mechanism needs to be introduced to recover costs incurred in these situations, which are beyond the control of the TNSP. Furthermore, there needs to be a clear point where the actionable ISP project is considered committed and would not be affected by an ISP update. It would be helpful for the Rules to set out some principles for when an actionable ISP project is considered committed for the

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[10] ESB, *Converting the Integrated System Plan into Action, Consultation on draft ISP Rules*, November 2019, p 13.

[11] Draft Rules, clause 5.16A.4 (o)(ii).

purpose of an ISP update. The definition of a 'committed project' in the current RIT-T instrument may provide a useful basis for considering the appropriate principles, although would likely need to be adjusted to be fit for purpose.[12]

3.6 Obligations on TNSPs for joint planning for the ISP

The draft Rules set out provision for TNSPs and AEMO to engage with each other to enable preparation of the ISP or ISP update. This includes:[13]

- providing and consulting on the TAPR prior to publication;
- providing information relating to the development of the TAPR required for developing the ISP or ISP update;
- conducting a preliminary review of non-network options submitted to AEMO following the draft ISP;
- sharing a draft optimal development plan to be included in the draft or final ISP or ISP update, before publication; and
- considering whether a credible option in a draft optimal development path is a reliability corrective action.

In addition, draft clause 5.22.14 provides a general requirement for jurisdictional planning bodies to provide assistance AEMO reasonably requires in connection with performance of its network transmission planning functions (which include preparation of the ISP).

Energy Networks Australia proposes that the obligations in draft clause 5.14.4 should also require TNSPs to identify the required characteristics of non-network options, as part of the draft ISP, as TNSPs' detailed knowledge of their local network requirements are likely to be key to this identification.

It will be important for AEMO and TNSPs to work closely together at all stages of the combined ISP/RIT-T processes, to maximise the opportunities for the framework to work well in practice and for the outcomes of the ISP to be effectively progressed through the RIT-T stage. This implies that the scope of TNSP planning activities is likely to remain substantial and has increased in complexity, as well as interdependent with AEMO's functions, and obligations on AEMO to coordinate with TNSPs on their RIT-T and regional planning processes should also be explicitly reflected in the Rules.

In particular, the Rules should establish:

- a requirement on AEMO to consult with TNSPs prior to publishing (or updating) its ISP timetable, so that the timing of interactions between the ISP and local planning activities can be taken into account;

[12] Regulatory Investment Test for Transmission, para 18.

[13] Draft clause 5.14.4.

- a requirement on AEMO to take into account TNSPs Transmission Annual Planning Reports (TAPRs) in formulating the ISP;
- a requirement on AEMO to base its estimate of the costs for actionable ISP projects on the cost estimate provided by the relevant TNSP; and
- a requirement on AEMO to run modelling where requested by TNSPs for their RIT-T assessments.

TNSPs have jurisdictional responsibilities regarding reliability, which may lead to a reliability corrective action being required. Feedback between the TNSP and ISP planning processes is required in both directions. The Rules need to clarify that AEMO will consider the TNSPs TAPRs in developing the ISP, especially where reliability corrective actions are required.

Energy Networks Australia also notes that the substantial obligations proposed for TNSPs as part of the joint planning process will impose costs on TNSPs, although there may be changes in TNSP costs relating to RIT-Ts, these may not necessarily offset the additional costs imposed by the proposed joint planning arrangements. Under current arrangements for TNSPs some planning activities are capitalised and others are expensed. One issue is whether the change in the scope of obligations will be recognised by the AER as a 'step-change' for the determination of operating expenditure.

3.7 Last resort planning power will be removed

Energy Networks Australia supports the proposal to remove the last resort planning power, as this has been superseded by the revised arrangements.

4 Application of the RIT-T by TNSPs for actionable ISP projects

4.1 Timeframe to publish the PADR

Energy Networks Australia notes that the draft Rules have extended the minimum timeframe that can be specified for a TNSP to produce a PADR to six months, with flexibility to vary for each transmission project (and which can be extended by application to the AER.

Energy Networks Australia supports the extension of the timeframe for the preparation of the PADR (compared with that proposed in the earlier ESB consultation paper) and the proposal for the timeframe to be considered by AEMO on an investment-by-investment basis. Energy Networks Australia notes the view expressed by the ESB that PADR timeframes can be shortened because the modelling exercise will be much simpler under the revised framework. However, Energy Networks Australia notes that this will not always be the case, and relies on the ability for the TNSP to use the ISP modelling or situations in which modelling is not required, which may not be realistic in many cases (see section 4.3).

Energy Networks Australia considers that the Rules should provide some guidance on the factors that the AER should consider in deciding whether to approve an extension to the PADR timeframe, and has proposed drafting in relation to this point.

4.2 Consideration of alternative options in the PADR

The ESB states that 'RIT-Ts for actionable ISP projects will be streamlined, recognising the work already done by the ISP and avoiding duplication of planning and modelling by the TNSPs'.[14]

Energy Networks Australia notes the intention under the draft Rules that there is no obligation on TNSPs to reconsider options at the RIT-T stage that have already been considered in the ISP (including non-networks options).[15] Energy Networks Australia supports this approach. In order to streamline planning processes and ensure that critical infrastructure is built in a timely manner, it is important that options which have been considered previously and excluded from the ISP are not re-prosecuted, unless there are sound reasons for doing so. There is a danger that re-prosecuting options which have already been considered could frustrate the planning process and lead to unwarranted delays to building critical infrastructure.

Energy Networks Australia has proposed re-drafting of the proposed Rule provision to make this intent clearer.

The ESB goes on to suggest that 'the role of the RIT-Ts would be to focus on different technical solutions by looking in detail at engineering aspects, routing, refining costs, considering alternate options, and staging'.[16]

Energy Networks Australia expects that the options considered as the ISP stage will generally be variants of the ISP candidate option. However, it notes that the options considered at the RIT-T stage based on local planning considerations may be reasonably different to the ISP candidate option and require robust analysis (including market modelling) to evaluate. The role of the RIT-T is to ensure that the most appropriate investment option is identified, with this assessment occurring at a more granular level than is likely to be possible for the ISP assessment. As an example, Energy Network Australia notes that the different routings for the 'VNI West' actionable ISP project in the recent PSCR represent substantively different options, whose benefits can be expected to differ across different scenarios.

In addition, Energy Networks Australia suggests that the Rules should make clear that, where there is only one option that meets the identified need, alternatives to the ISP candidate option do not have to be considered in the PADR. Although this situation is

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[14] ESB, *Converting the Integrated System Plan into Action, Consultation on draft ISP Rules*, November 2019, p 16.

[15] Draft clause 5.15A.3(b).

[16] ESB, *Converting the Integrated System Plan into Action, Consultation on draft ISP Rules*, November 2019, p 16.

not likely to arise frequently, the actionable ISP framework does increase the prospect that such a situation could arise.

4.3 TNSPs may rely on ISP for key modelling inputs for RIT-Ts

The draft Rules require that, in relation to actionable ISP projects, TNSPs must adopt the most recent ISP parameters in the RIT-T, or can depart from these assumptions if they provide demonstrable reasons why this is necessary (draft clause 5.15A.3(b)(7)(iv)). TNSPs must also adopt the market modelling from the ISP 'in so far as practicable' (draft clause 5.15A.3(b)(7)(vi)). TNSPs must include all market benefits included in the ISP assessment (and may include others, in accordance with the CBA guideline).

In its consultation paper the ESB states that under the draft Rules, 'the TNSP has a more limited obligation whereby the RIT-T examines detailed technical solutions. Market modelling will be drawn from AEMO's work on the ISP and TNSPs will be able to rely on that modelling'.[17]

Energy Networks Australia has previously raised the issue of the differences between the modelling conducted by AEMO and by TNSPs, and the value from considering the outcomes from different modelling perspectives. Given the obligations on TNSPs with respect to power system outcomes, it will be difficult to rely on AEMO modelling unless TNSPs have been involved in the process. As a result there will need to be close co-operation between AEMO and TNSPs throughout the ISP planning process, including on the detailed modelling.

Furthermore, it is likely to be necessary for additional modelling to be required at the PADR stage. Even if AEMO's model can be used for this, AEMO will need to be available and willing to conduct the modelling required by TNSPs for their PADRs. This needs to be reflected in an obligation in the Rules.

Energy Networks Australia also notes that the ability for TNSPs to rely on the ISP modelling inputs and assumptions substantively reduces the timeframe required for the RIT-T modelling (as a smaller range of inputs needs to be considered than if this was not the case), as well as reducing the scope for disputes. The market modelling for the RIT-T is therefore likely to be a more contained exercise, whilst providing benefits in terms of ensuring the robustness of the final investment decision.

4.4 Preparatory activities

Under the draft Rules, TNSPs are required to commence preparatory activities for actionable ISP projects at least 24 months ahead of the due date for that ISP project, or 'as soon as practicable' if the due date is less than 24 months from the publication

[17] ESB, *Converting the Integrated System Plan into Action, Consultation on draft ISP Rules*, November 2019, p 15.

of the ISP. Preparatory activities are defined as detailed engineering design, route selection and easement assessment work, cost estimation based on route selection and engineering design, preliminary assessment of environmental and planning approvals and council and stakeholder engagement.

These works and the associated costs are more expansive than the activities that would typically be undertaken to inform a RIT-T, and reflect those activities that are typically taken once the RIT-T has been completed and the preferred option identified.

Energy Networks Australia recognises that the requirement for TNSPs to undertake such pre-emptive activities, driven by the ISP, in part reflects the current situation in which early works are being undertaken to fast-track investment following completion of the RIT-T.

Energy Networks Australia suggests that once the actionable ISP framework is bedded down and key Group 1 and 2 investments are in place, the rationale for requiring pre-emptive works may fall away. It is therefore not clear that this should be hard-wired into the Rules. Energy Networks Australia suggests that instead AEMO should have discretion to identify in the ISP whether preparatory works are required with respect to any of the actionable ISP projects.

In addition, Energy Networks Australia submits that there needs to be a mechanism to ensure that the costs of these early works can be recovered if a RIT-T is not completed (eg, due to an ISP update). There is a risk that the AER will not allow revenue to cover these costs through the revenue determination, as they are uncertain, and driven by AEMO, rather than TNSPs.

4.5 Projects meeting an urgent need

Under draft clause 5.16A.3, an actionable ISP project that is required to address an urgent and unforeseen network issue does not require a RIT-T to be undertaken. In this situation the relevant TNSP must progress preparatory activities to make an investment decision within the timeframes set out in the ISP.

Energy Networks Australia notes that this is a similar provision to that in the existing Rules and does not envisage that it will be used often (if at all). However, for completeness, Energy Networks Australia considers that the Rules should include a contingent project trigger that allows cost recovery of investments that are required as a consequence of this provision. Energy Networks Australia has included drafting for such a mechanism as part of the draft Rule mark-up.

4.6 Cost recovery provisions where an inflight RIT-T is no longer required

Energy Networks Australia is concerned about the interaction of the above provisions with the RIT-T activities undertaken by the TNSP prior to an ISP update. There are no clear provisions for TNSPs to recover the costs of any activities undertaken prior to an ISP update, where the RIT-T is not then finalised (and there is therefore no project and

no contingent project application). It is possible that the combined total of all such costs could become material over a regulatory period.

It is important that there are reasonable cost recovery arrangements for any RIT-T activities the TNSP has been required to undertake prior to the ISP update. This should cover circumstances where:

- An ISP update or a new ISP delays the timing for a PADR/PACR or determines a PADR/PACR is no longer required or that the ISP project is no longer required (even where the PACR has been completed)
- An ISP dispute outcome delays the timing for a PADR or determines a PADR/PACR is no longer required
- An ISP update/new ISP/ISP dispute outcome determines that an ISP project for which 'preparatory activities' were required to be progressed is no longer required.

Energy Networks Australia has suggested drafting that would give effect to such a cost pass-through mechanism.

Whilst Energy Networks Australia has proposed a cost recovery mechanism, we are mindful that the costs of these preparatory works may accumulate across a number of projects and has the potential to significantly impact TNSP cashflow across a number of regulatory years or across regulatory periods. This is a practical issue for TNSPs. Energy Networks Australia would welcome further engagement with the ESB and the AER to discuss other options which may also be able to address the cashflow impacts.

5 AER cost benefit analysis guideline and best practice forecasting guideline

The draft Rules require the AER to make two guidelines on how AEMO develops the ISP and how TNSPs conduct the RIT-T for actionable ISP projects, ie:

- Best practice forecasting guideline; and
- Cost benefit analysis (CBA) guideline.

Energy Networks Australia supports the requirement for a separate CBA guideline - in addition to the RIT-T guideline - to be applied to both AEMO and the TNSPs for ISP projects. As discussed earlier, we consider it important for the cost benefit analysis approach to be consistent across the ISP and the subsequent RIT-T. This includes the flexibility to select an option based on considerations other than maximising the probability-weighted net market benefit across scenarios.

Energy Networks Australia also supports the principles for the cost benefit analysis being set out in the Rules – as proposed in the draft Rules - rather than included in guidelines.

Under the draft Rules, AEMO is required to publish (and consult on) a draft methodology, rather than preparing a guideline. Energy Networks Australia supports this approach, provided consultation is transparent and fit for purpose.

6 Disputes

Under the draft Rules (clause 5.23) stakeholders will be able raise a dispute within 30 days of publication of the final ISP, provided they have made an earlier submission to the ISP process. Disputes are limited to matters of process.

In addition, a dispute cannot be raised in relation to a RIT-T for an actionable ISP project, in so far as the RIT-T relies on the ISP in accordance with the Rules and CBA guideline (clause 5.16B).

Energy Networks Australia recognises the importance of a process which provides transparency and allows for effective stakeholder input, including consumers who ultimately are beneficiaries of the plan but who also bear the costs and risks associated with the investments. Energy Networks Australia recognises that the draft Rules and the AER ISP guidelines together set out requirements to ensure effective consultation.

At the same time there is a need to draw a line under disputes to ensure that critical infrastructure investment is not frustrated. For that reason, Energy Networks Australia supports the provisions preventing re-litigation of issues in the RIT-T process when they have already been considered as part of the ISP process.

Under the draft Rules the raising of a dispute does not halt the operation of the ISP, and TNSPs must continue with the PADR. There is a need to explicitly confirm that TNSPs can recover their costs where a dispute is upheld and this stops the PADR process. Energy Networks Australia has proposed a mechanism that achieves this (discussed in section 4.2).

7 Contingent project process for ISP projects

7.1 Actionable ISP project trigger event and the 'feedback loop'

The draft Rules provide that actionable ISP projects which meet an identified trigger event are automatically defined as contingent projects in relation to a revenue determination (clause 6A.8.1A). The trigger event must meet the following criteria (ENA proposed rules 5.16A.5(b)):

- The PACR identifies the project as the preferred option;
- AEMO provides written advice that:
  - if the RIT-T proponent's preferred option is the same as the ISP's, its expected cost is less than or equal to that assumed in the ISP; or

- if the proposed option is different to that in the ISP, the preferred option meets the RIT-T and is consistent with the optimal development path.

» No dispute has been raised on the RIT-T (or, if raised, has been resolved).

If the option no longer forms part of the optimal development path (eg, because costs have increased), the ESB envisages that AEMO will have to issue an update to the ISP using the new information.[18] Furthermore, if the project does not form part of the optimal development plan then the option will not be eligible for regulated funding.[19]

The ESB proposes the removal of clause 5.16.6 of the Rules, so that the AER is no longer required to make a determination that the preferred option satisfies the RIT-T. Energy Networks Australia supports the removal of clause 5.16.6.

The ESB consultation paper notes that to qualify as a contingent project, the TNSP must complete a RIT-T that satisfies the RIT-T requirements. Given the proposed removal of clause 5.16.6, Energy Networks Australia assumes that whether the RIT-T satisfies the RIT-T requirements is now determined by the AER in accepting a contingent project application, rather than via a separate process. There may be a benefit in the Rules clarifying if this is the case.

Energy Networks Australia is generally supportive of the automatic contingent project trigger approach, which allows actionable ISP projects to be defined as contingent projects if they meet defined criteria, without needing a determination by the AER.

» Energy Networks Australia suggests that AEMO bases its estimates of ISP project costs on those provided by the relevant TNSP, to ensure that the cost estimates used in the ISP are realistic.

» Energy Networks Australia notes that the ISP may also identify actionable ISP projects that are below the threshold for contingent projects, and has proposed drafting to cover this eventuality; and

» Energy Networks Australia assumes that actionable ISP projects which are anticipated at the time of a regulatory determination can still be included as part of the capex and opex forecasts determined by the AER at the time of the determination, rather than always needing to be treated as a contingent project and suggests that this should be clarified by the ESB.

In terms of the detailed Rules drafting, the drafting of the Rules is not clear for situations where the RIT-T preferred option is the same as the ISP candidate option, but the costs at the time of the contingent project application are higher. The ESB consultation paper implies that AEMO needs to provide written confirmation that, at

[18] ESB, *Converting the Integrated System Plan into Action, Consultation on draft ISP Rules*, November 2019, p 17.

[19] ESB, *Converting the Integrated System Plan into Action, Consultation on draft ISP Rules*, November 2019, p 17.

the higher cost, the project is consistent with the optimal development path.[20] However, the draft Rules are not clear on whether this is the case, and Energy Network Australia suggests that this is clarified. Energy Networks Australia further notes that where the cost difference is non-material, AEMO may be able to provide this confirmation without needing to re-run the ISP model.

Energy Networks Australia also notes that it is almost inevitable that the costs of projects at the stage of a contingent project application will vary from those used in the ISP and the RIT-T, reflecting the additional detailed design and planning work specific to the RIT-T 'preferred option' that will have been undertaken by that time.

Energy Networks Australia notes that where a different option to the ISP candidate options satisfies the RIT-T, the AEMO feedback loop should be based on re-running the ISP model, rather than any broader considerations. It is important that TNSPs retain the ability to identify the appropriate technical solution via the RIT-T to meet the obligations they face.

7.2 Incentives for contingent projects that span more than one regulatory period

Energy Networks Australia has identified an issue under the current Rules relating to the incentives on TNSPs for efficient capex expenditure, for contingent projects where capex is also expected to be incurred in the subsequent regulatory period. Specifically, the operation of the current Rules appears to have the effect of compounding the incentives and risks faced by a TNSP under the Capital Expenditure Sharing Scheme (CESS) when a contingent project spans more than one regulatory period.

Clause 6A.6.7(i) in the Rules stipulates that the AER must include in the capex forecast for the next regulatory period any unspent contingent project capex approved in the prior period.[21] The Rules define this unspent capex to be the difference between the total amount of capex approved by the AER in its contingent project decision (across both regulatory periods), and the actual amount of capex spent to date by a TNSP on the contingent project.[22]

These Rules pre-date the introduction of the capital expenditure sharing scheme (CESS) and were not updated to reflect the introduction of the CESS. The outcome of the combined incentive properties created by the CESS on the one hand, and the operation of the Rules for contingent projects that span more than one period on the other, differ from the incentives that apply if the contingent project is contained to a

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[20] ESB, *Converting the Integrated System Plan into Action, Consultation on draft ISP Rules*, November 2019, p 17.

[21] Clause 6A.6.7(i) of the Rules - The adjustments to capital allowances for contingent project expenditure in a subsequent regulatory period are set out in Clauses A.6.7 (g)-(k) of the Rules.

[22] Clause 6A.6.7(h) of the Rules - Where actual capex is not available for the current period, an estimate of capex should be used.

single period, or that apply for any other forecast capital expenditure. Appendix A to this submission provides a worked example of how Energy Networks Australia understands the current Rules may apply.

Energy Networks Australia considers that the Rule changes being implemented for the ISP process provide an opportunity to tidy up these provisions and ensure that they remain fit for purpose. Energy Networks Australia suggests that this can be achieved by changing the requirement to carryover the total forecast capex minus *forecast* capex for the first regulatory control period (rather than actual capex, and has provided drafting to this effect (see clause 6A.6.7 (h)).

Energy Networks Australia notes that this is also an issue under Chapter 6 for distribution network service providers.

7.3 Approach to addressing the 'deadzone' should not impact the overspending requirement

Energy Networks Australia notes the proposed approach in the draft Rules to addressing the so called 'deadzone' for contingent project applications made during the last 90 business days before the end of the penultimate year and any time in the final year. The draft Rules require the AER to consider and make a decision on such applications, and to amend its subsequent revenue determination with effect from the second year to include its contingent project determination on the capital and incremental opex costs, within 6 months of making that determination (and taking into account time value of money).

Energy Networks Australia generally supports this approach as a practical approach to addressing the deadzone issue, and notes that it applies to both contingent projects triggered as a result of the actionable ISP proposals as well as those triggered under the existing contingent project provisions. The proposed approach set out in the draft Rules represents a more preferable way of addressing the deadzone issue than the current arrangements (which simply prevent a contingent project application being considered during this period). As such, Energy Networks Australia proposes that this approach also be reflected in the equivalent Chapter 6 Rules applying to distribution network businesses.

It is however important that the change in the effective timing of when revenue is received does not have any unintended implications for the AER's assessment of whether the 'overspending requirement' in S6A.2.2A(a) of the Rules for capex has been met,[23] which could trigger an ex post review. Energy Networks Australia suggests that the ESB confirm with the AER that this is not the case.

[23] For example, because the proposed approach is considered to result in actual expenditure and forecast expenditure for contingent projects being captured in different periods for the purposes of the overspending assessment.

8 Transitional arrangements

The draft Rules set out transitional arrangements for the introduction of the new ISP framework (chapter 11). This includes deeming that the 2020 ISP has complied with the new Rules. It is important that the transitional provisions provide confidence to consumers that the investments progressed via the actionable ISP framework for the 2020 ISP represent the efficient investments needed for NEM transition. Energy Networks Australia notes that AEMO is engaging closely with the other market bodies regarding its 2020 ISP process so that the ESB can be satisfied that it meets an appropriate standard.

Energy Networks Australia notes that it is not clear whether there is any dispute opportunity for stakeholders in relation to the 2020 ISP, which may represent a gap in the process in these transitional circumstances. Energy Networks Australia suggests the ESB clarify the position.

Given that the 2020 ISP will have been deemed to have complied with the new Rules, Energy Networks Australia also assumes that the new Rules will not apply to the development of any ISP update for the 2020 ISP.

Energy Networks Australia also suggests drafting to include Project EnergyConnect as an 'existing actionable ISP project' under the transitional provisions and provide arrangements for the new ISP framework to apply to existing projects when a material change in circumstances occurs that requires the RIT-T to be reapplied.

Project EnergyConnect was identified as a 'Group 1' actionable ISP project in the Draft 2020 ISP. An AER determination under clause 5.16.6 of the Rules has not been made in respect of this project, but is expected shortly, and the project has not yet achieved 'committed status'. Consistent with other Group 1 ISP projects, Project EnergyConnect should be recognised as an existing actionable ISP project.

The draft transitional arrangements currently set out how the new ISP framework will be applied to existing actionable ISP projects. The extent to which the new framework applies to existing actionable projects differs depending on its advancement in the RIT-T process. Energy Networks Australia suggests that, in addition to circumstances contemplated by the draft arrangements, consideration be given to the treatment of an existing actionable ISP project where a material change in circumstances has occurred, both prior to and after the commencement of the new framework, that requires reapplication of the RIT-T.

Energy Networks Australia suggests that transitional arrangements should allow the AEMO feedback loop and actionable ISP project trigger event (as provided by clause 5.16A.5 of the Draft Rules) to apply when a PACR is republished in response to a material change in circumstances relating to an actionable ISP project. This allowance would be consistent with arrangements under the draft transitional provisions that allow clause 5.16A.5 to apply where a PACR has been published and a determination under clause 5.16.6 has not been requested (as provided by clause 11.xx.3(b) of the Draft Rules).

The ESB proposes in the consultation paper that where a RIT-T has commenced for a project identified in the 2020 ISP then the TNSP will be able to choose whether to apply the new streamlined RIT process or the current process.

For all projects identified in the 2020 ISP that have commenced the RIT-T process, Energy Networks Australia recommends:

- TNSPs be able to choose whether to apply the new streamlined RIT process or the current process.
- The removal of the AER's preferred option assessment for all RIT-Ts following the making of the final ISP rules as proposed by the ESB.
- The option of using the new automatic trigger process under draft rule 5.16A or the current process (excluding the AER's assessment of the preferred option under existing rule 5.16.6). The option to use the current contingent project process is required as a fall back given that these projects will have been commenced under a different framework.
- Enabling some flexibility for any projects with a re-published PACR.

Energy Networks Australia has proposed amendments to the drafting of the rules to clarify these arrangements and would welcome the opportunity to have a workshop with the ESB to discuss the amendments.

9 Appendix A: Example of impact of Clause 6A.6.7(i) on rewards and penalties under the CESS

The following example illustrates how Energy Networks Australia thinks that the current wording of Clause 6A.6.7(i) compounds the rewards and penalties faced by a TNSP under the CESS.[24]

	Overspend 5%	Underspend 5%
Period 1 forecast capex	$1,003 m	$1,003 m
Period 1 actual capex	$1,003 m * (1 + 5%) = $1,053.2 m	$1,003 m * (1 – 5%) = $952.9 m
Period 1 unspent allowance	$50.2 m overspend	$50.1 m underspend
Period 2 forecast capex	$173.0 m	$173.0 m
Period 2 adj. forecast capex	$173.0 m - $50.2 m = $122.9 m	$173.0 m + 50.1 m = $223.1 m
Period 2 actual capex	$173.0 m * (1 + 5%) = $181.7 m	$173.0 m * (1 - 5%) = $164.4 m
Period 2 over- or underspend	$181.7 m - $122.9 m = $58.8 m overspend	$164.4 m - $223.1 m = $58.8 m underspend
Total over- or underspend on project	($1003 m + $173.0) * 5% = **$58.8 m overspend**	($1003 m + 173 m) * 5% = **$58.8 m underspend**
Total over- or underspend subject to CESS penalty / reward in Period 1 & 2	**$50.2 m + $58.8 m = $109 m overspend**	**$50.1 m + 58.8 m = $109 m underspend**

The table shows that, with an overspend (underspend) of 5%, the Rules applying to contingent projects that span two regulatory control periods result in the calculation of a CESS overspend (underspend) of $109 million, as compared to the actual overspend (underspend) on the contingent project of $58.8 million.

[24] We note that if actual capex equates to forecast capex, no adjustment is required to forecast capex in future periods, thereby resulting in no rewards or penalties.