

**ENERGY SECURITY BOARD  
CONVERTING THE INTEGRATED  
SYSTEM PLAN INTO ACTION**

Consultation on Draft ISP Rules  
November 2019

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## Executive Summary

The Energy Security Board (ESB) has developed a set of changes to the National Electricity Rules to convert the Integrated System Plan (ISP) into action. The Draft Integrated System Plan Rule Changes (draft ISP Rules) take into account submissions to the May consultation paper.<sup>1</sup>

The reforms are intended to streamline the regulatory processes for key projects identified in the ISP whilst retaining a rigorous cost benefit assessment.

Under the draft ISP Rules, AEMO would conduct an extensive and transparent consultation process in order to publish an ISP at least every two years. The ISP modelling would be designed to meet a set of defined power system needs, including public policies that meet specified criteria. When selecting the optimal development path for the power system, AEMO would adopt a methodology that manages risk and uncertainty in the long-term interests of customers. AEMO will publish the net present value of market benefits of different options under a range of scenarios and explain which development path it considers to be optimal and why.

Stakeholders would be able to raise disputes in relation to the ISP, however there would be strict criteria that confine disputes to matters of process, rather than re-litigating technical matters. Where new information becomes available to AEMO that may materially change the outcome of an in-train RIT-T, AEMO would publish an update to the ISP.

The ISP provides the overarching cost benefit analysis and risk assessment that specifies the identified need and one or more credible options to be considered in the RIT-T. The role of the RIT-Ts would be to undertake a cost benefit analysis focussing on different technical solutions by looking in detail at engineering aspects, refining costs, considering alternate options, and staging.

The ISP replaces the Project Specification Consultation Report (PSCR), identifying the need that the investment should meet, together with an ISP candidate option that should be considered by the RIT-T. TNSPs will be required to publish a Project Assessment Draft Report (PADR) by the date set out in the ISP (not less than 6 months after the publication of the final ISP), unless the AER approves a request for an extension.

An ISP project that has passed a RIT-T would be able to commence a revised contingent project process that enables the AER to consider the revenue required for the ISP project.

The key changes to the Rules will be:

- Converting the requirement for AEMO to prepare the National Transmission Network Development Plan (NTNDP) each year into a new regime for AEMO to prepare an ISP at least every two years including a draft stage allowing consultation.
- Integrating the ISP with existing planning processes conducted under the NER by TNSPs, such as the production of Transmission Annual Planning Reports.
- Changing the RIT-T rules for ISP projects to streamline the process, recognising the work already done by the ISP and avoiding duplication of planning and modelling by the TNSPs.
- Enabling ISP projects that have passed the RIT-T to be able to commence a revised contingent project process.
- Rules to deal with transitional issues, including recognition of previous ISPs as meeting the new rules and application of the new rules to RIT-Ts currently underway.

Stakeholders are invited to provide comments on the proposed framework and draft ISP Rules by 17 January 2020.

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<sup>1</sup> Energy Security Board, Converting the Integrated System Plan into Action - Consultation Paper, May 2019. Available at: <http://www.coagenergycouncil.gov.au/publications/energy-security-board—converting-integrated-system-plan-action-consultation-paper>

# 1. Introduction

## Key points

- This document consults on draft ISP Rules to convert the Integrated System Plan into action.
- The ESB is undertaking this Rule change process in accordance with section 90F of the National Electricity Law (NEL). Under this process the ESB recommends Rule changes to the COAG Energy Council which can then recommend to the South Australian Minister that the amending Rule be made.
- The due date for submissions is 17 January 2020.

## 1.1 Purpose & context

The purpose of this document is to give stakeholders the opportunity to comment on draft amendments to the National Electricity Rules (Rules) to give effect to the Energy Security Board's (ESB's) proposed reforms to convert the Integrated System Plan (ISP) into action.

In August 2018, the COAG Energy Council asked the ESB to report on:

- how Group 1 projects in the ISP can be delivered as soon as practicable;
- how Group 2 and 3 projects should be progressed; and
- how the ISP would be converted into an actionable strategic plan.

At the December 2018 COAG Energy Council meeting, the ESB submitted its ISP Action Plan, which outlined 12 recommendations on how to convert the ISP into action. Ministers agreed that the ESB should develop measures to operationalise the ISP. To this end, in May 2019 the ESB released a consultation paper<sup>2</sup> that focused on implementing recommendations 8, 9 and 10 of the ISP Action Plan. These three recommendations are:

- Recommendation 8: Rule changes should be prepared and lodged by AEMO with the AEMC to have the NTNDP replaced by the ISP. Rule changes should also be lodged that require the ISP to be developed every 2 years with updates in between plans if there is a defined material event. AEMO should issue guidelines to stakeholders on how and when an update to the ISP would be done.
- Recommendation 9: The ESB should work with AEMO to ensure that refinements to the inaugural ISP suggested in the ISP Action Plan are included in future ISPs.
- Recommendation 10: The ESB should bring back to COAG Energy Council any rule changes, if required, to enable the ISP to identify the need and set of credible options to meet that need and replace the current Project Specification Consultation Report in the RIT-T.

Twenty-three submissions were received from generators, retailers, network companies, consumer groups and peak bodies.<sup>3</sup> They are summarised, together with the ESB's response, in an accompanying document. The ESB, AEMC, AER and AEMO have subsequently worked together to consider issues raised in submissions and develop a set of draft ISP Rules for consultation. This consultation paper summarises key aspects of the draft ISP Rules.

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<sup>2</sup> <http://www.coagenergycouncil.gov.au/publications/energy-security-board—converting-integrated-system-plan-action-consultation-paper>

<sup>3</sup> As above.

## 1.2 Legislative basis for this Rule change consultation process

The ESB is undertaking this Rule change process in accordance with section 90F of the National Electricity Law (NEL). The ESB may recommend rules to the COAG Energy Council if the following requirements are satisfied:

- the Rules are in connection with energy security and reliability of the NEM or long-term planning for the NEM;
- the Rules are consistent with the national electricity objective; and
- there has been consultation on the Rules in accordance with any requirements determined by the COAG Energy Council.

Any final Rules will be made by the South Australian Minister for Energy on the recommendation of the COAG Energy Council. The COAG Energy Council has provided guidance to the ESB in relation to consultation on draft ISP Rules via a “Rule Recommendation Process Guide”. The release of this Consultation Paper and the Draft ISP Rules is being carried out in accordance with that guidance which includes public consultation and responses to submissions.

## 1.3 How to make a submission and next steps

The ESB invites comments from interested parties in response to the draft ISP Rules and this consultation paper by 17 January 2019. Submissions will be published on the COAG Energy Council’s website, following a review for claims of confidentiality. All submissions should be sent to [info@esb.org.au](mailto:info@esb.org.au).

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<b>Submission close date</b>	<b>17 January 2019</b>
<b>Lodgement details</b>	Email to: <a href="mailto:info@esb.org.au">info@esb.org.au</a>
<b>Naming of submission document</b>	[Company name] Response to Consultation on Draft ISP Rules - Actionable ISP
<b>Form of submission</b>	Clearly indicate any confidentiality claims by noting “Confidential” in document name and in the body of the email.
<b>Late submissions</b>	Late submissions will not be accepted.
<b>Publication</b>	Submissions will be published on the COAG Energy Council’s website, following a review for claims of confidentiality.

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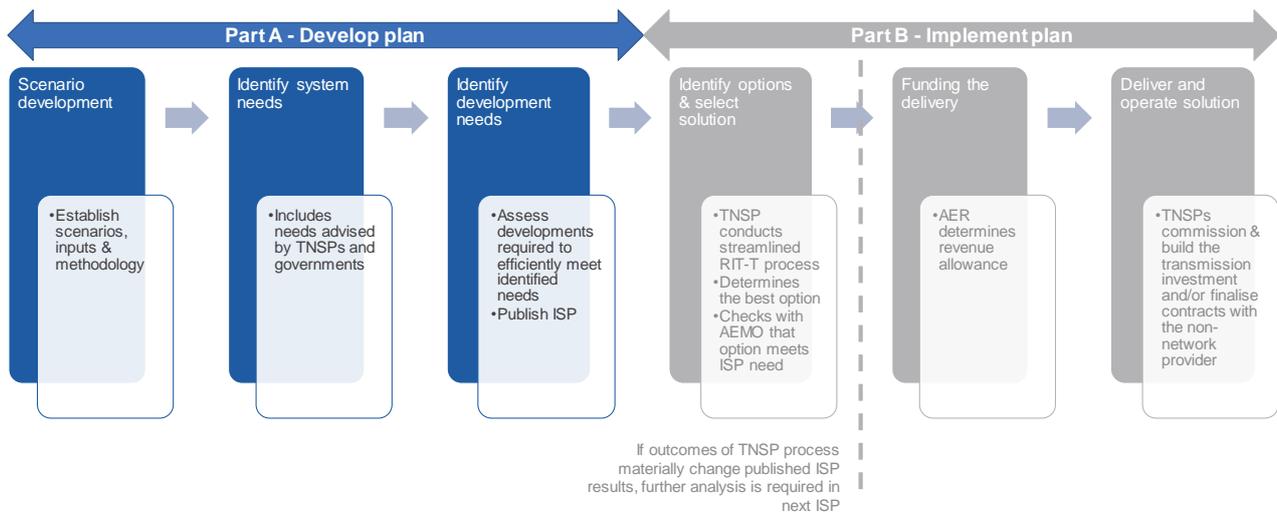
A public forum will be held in Sydney on 5 December 2019. Further information about how to participate will be published on the COAG Energy Council website shortly, however interested parties are requested to indicate their interest in participating in the forum by email to [info@esb.org.au](mailto:info@esb.org.au).

Following consideration of submissions made to the consultation on draft ISP Rules, the ESB’s recommended Rule changes will be finalised and presented to the COAG Energy Council.

<b>Deliverable</b>	<b>Indicative timing</b>
Publish draft ISP Rules for consultation	19 November
Public forum	5 December
Submissions due	17 January
Final ISP Rule change package provided to the COAG Energy Council	Early 2020

If the COAG Energy Council approves the making of the ESB’s recommended Rules, it is expected that the ISP Rules will be made and commenced prior to the release of the 2020 ISP in mid-2020. The ESB does not intend for the ISP rules to apply in the Northern Territory.

## 2. Developing the ISP



### Key points:

- AEMO will publish an ISP every two years no later than 30 June.
- The objective of the ISP is to identify the optimal development path, which is the suite of power system developments that efficiently meets a defined set of power system needs including public policy needs.
- The ISP will be actionable in relation to transmission projects (termed 'actionable ISP projects' in the draft ISP Rules). For other types of projects (termed 'ISP development opportunities' in the draft ISP Rules), such as new generation developments, the role of the ISP will be to inform market participants and policy makers.
- AEMO will conduct a comprehensive stakeholder engagement process for the development of the ISP, including a consultation on the inputs, assumptions and methodology that underpin the ISP, followed by a consultation on the draft ISP results.
- The AER will be responsible for making two sets of guidelines that govern how AEMO develops the ISP and how TNSPs carry out RIT-Ts in relation to actionable ISP projects: Best Practice Forecasting Guidelines and Cost Benefit Analysis Guidelines.
- The ISP optimal development path will be required to have a positive net benefit for the central case, but it need not have the highest net benefit in the central case. AEMO will have some flexibility in its approach to scenarios, modelling and therefore choice of optimal development path.
- For transmission projects, the ISP will specify the identified need, an ISP candidate option and the date by which a PADR for that identified need is required to be published by the relevant TNSP.
- Proponents of non-network options will have the opportunity to submit their proposals in response to the draft ISP.
- Stakeholders will have the opportunity to raise disputes in relation to the ISP process.
- Where new information becomes available, AEMO may publish an update to the ISP that highlights the new information and the impact on the ISP development path.
- In recognition of the interactions between the ISP process and the TNSP's annual planning process, the ESB proposes to change the annual deadline for the Transmission Annual Planning Reports to 31 October.

## 2.1 Scope of ISP

Location in draft ISP Rules: clauses 5.22.2 and 5.22.13

Consistent with feedback from stakeholders, the ESB considers that the ISP purpose and content should be set out in the Rules. The scope of ISP would reflect AEMO's National Transmission Planner functions under the National Electricity Law. TNSPs would retain the ability to conduct RIT-Ts outside the ISP framework using the current Rules. The draft ISP Rules specify that the ISP is a National Transmission Planner function, which also has the effect that AEMO's National Electricity Law information gathering powers apply.

The ESB notes that the AEMC is currently considering how to improve the coordination of generation and transmission investment, including options for the efficient development of renewable energy zones<sup>4</sup>. Reforms arising as a result of the COGATI process should complement, and potentially enhance, the actionable ISP reforms.

## 2.2 Stages in developing the ISP

### 2.2.1 ISP purpose

Location in draft ISP Rules: clause 5.22.2

The purpose of the ISP is to develop a whole of system plan for the efficient development of the power system that achieves power system needs in the long-term interests of customers, and to:

- trigger the regulatory investment test for transmission (RIT-T) process for actionable ISP projects; and
- inform decisions in relation to ISP development opportunities.

The ISP identifies the optimal development path, which is the suite of projects that efficiently meets a defined set of power system needs. The ESB proposes that the power system needs are:

- the market reliability standard<sup>5</sup>
- relevant transmission reliability standards
- power system security
- public policy needs.

These needs must be achieved having regard to economic efficiency and good electricity industry practice. With respect to public policy needs, AEMO may incorporate State and Federal government environmental and energy policies into its central case where there is a current policy commitment with clear articulation of when and how it impacts the power system, and one of the following sets of criteria are met:

1. commitment has been made in an international agreement;
2. the policy has been enacted in legislation;
3. there is a regulatory obligation in relation to a policy;
4. there is material funding allocated in a State or Federal government budget;
5. the COAG Energy Council, or the SCO has advised AEMO to incorporate the policy.

<sup>4</sup> <https://www.aemc.gov.au/market-reviews-advice/coordination-generation-and-transmission-investment-implementation-access-and>

<sup>5</sup> Under NER 3.9.3C, the reliability standard for generation and inter-regional transmission elements in the national electricity market is a maximum expected unserved energy (USE) in a region of 0.002% of the total energy demanded in that region for a given financial year. In simple terms, the reliability standard requires at least 99.998 per cent of forecast customer demand to be met each year in each region.

In addition, AEMO may prepare sensitivities showing the impact of State and Federal government environmental and energy policies where a participating jurisdiction has advised AEMO to model the policy.

### 2.2.2 Consultation process

Location in draft ISP Rules: clauses 5.22.7 - 5.22.11

Under the draft ISP Rules, the development and implementation of the ISP is subject to a governance framework that balances the need for rigorous stakeholder consultation engagement to deliver accountability with the need for timely decision making.

Commencing with the 2020 ISP, AEMO will publish and consult on a draft ISP prior to publishing the final ISP. AEMO also conducts a full consultation process on the inputs and assumptions (such as fuel costs) that feed into the ISP as required by AER guidelines. These are also relevant for other publications such as the Electricity Statement of Opportunities.

In establishing a publication timetable for the ISP, the ESB has sought to strike an appropriate balance between the need for timely updates and the need for in-depth consultation. To incorporate the latest available forecasts (which are based on analysis of outcomes during the peak summer period) the ESB proposes that the final ISP will be published at least every two years by 30 June. AEMO will publish and maintain a timetable of key consultation dates.

#### ISP Panel

Several stakeholders suggested that AEMO should establish an ISP Panel to advise AEMO in preparing the ISP. AEMO has agreed that for future ISPs, it will establish an ISP Panel to help it engage with stakeholders, in particular customers, during the ISP development process. The Panel would have an advisory role rather than a decision-making role.

### 2.2.3 Credible options

Location in draft ISP Rules: clause 5.22.10

The ISP Action Plan recommended that for ISP projects, the ISP will replace the first stage of the RIT-T; the Project Specification Consultation Report (PSCR). The PSCR is currently the mechanism by which TNSPs identify the set of credible options to be considered in the RIT T.

To give effect to the ISP Action Plan, the draft ISP will describe credible network and non-network options identified by AEMO during development of the ISP, together with options identified in the TNSPs' planning processes that are communicated to AEMO via the joint planning process. Stakeholders will have the opportunity to put forward alternative credible options, including non-network options, in response to the draft ISP. The draft ISP will describe the identified need, and the technical characteristics required of any non-network option.

Proponents of non-network options must submit their proposal within 12 weeks of publication of the draft ISP. This means that they will have a longer consultation period than for other types of submissions to the draft ISP.<sup>6</sup>

If a stakeholder puts forward a non-network credible option in response to the draft ISP, the final ISP will set out AEMO's preliminary view of whether the alternative credible option is reasonably likely to meet the identified need, and therefore whether the TNSP should include an assessment of the alternative credible option in its Project Assessment Draft Report (PADR).

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<sup>6</sup> Other types of submissions on the draft ISP will be subject to a consultation period of at least 30 business days.

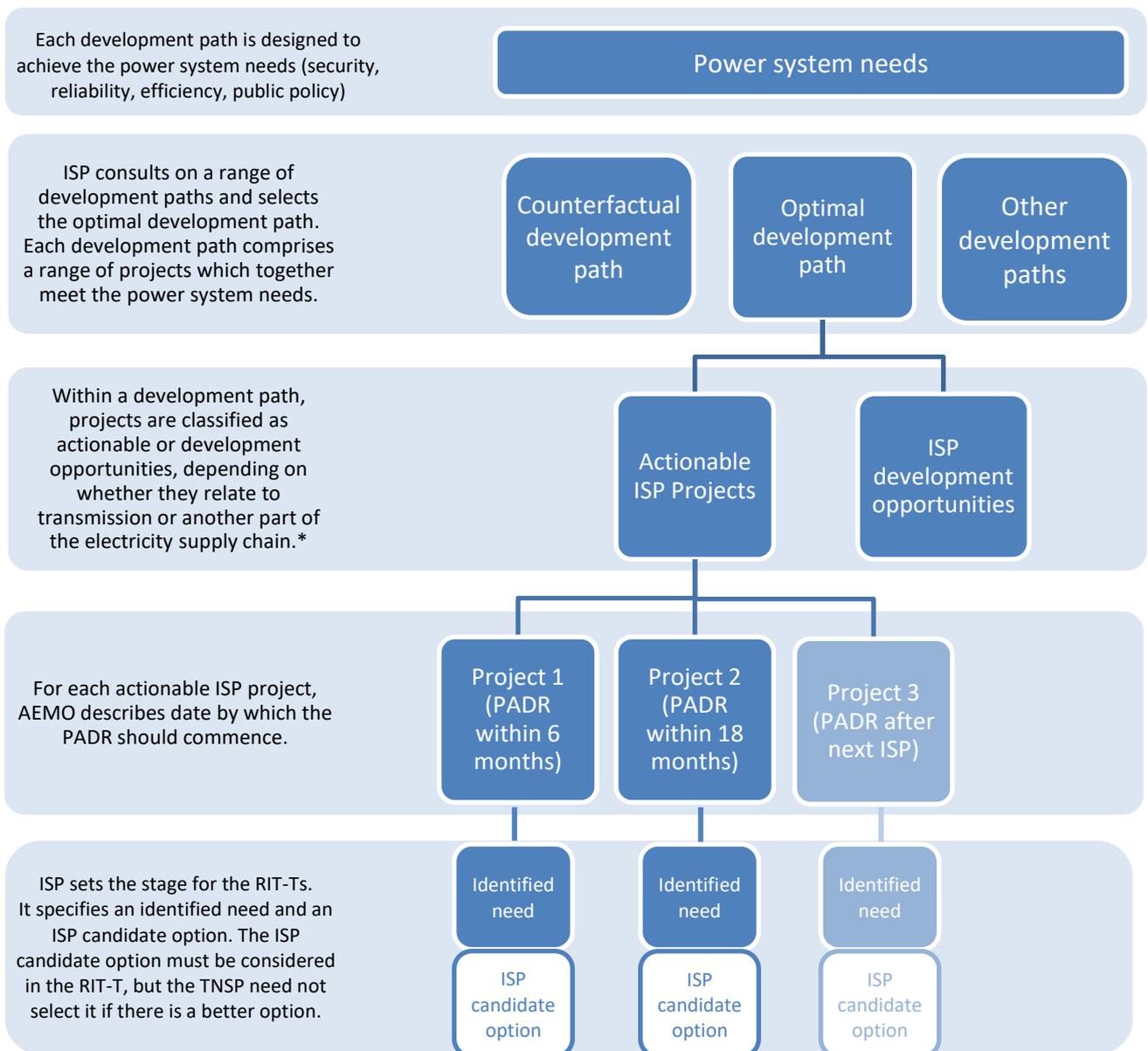
## 2.2.4 Selecting the optimal development path

Location in draft ISP Rules: clause 5.22.6

AEMO will assess and compile a range of development paths, each comprised of a set of credible options that together meet the power system needs. From the range of development paths, AEMO selects the optimal development path, which is the development path that efficiently achieves power system needs in the long term interests of customers. The optimal development path, will comprise:

- actionable ISP projects, which relate to a transmission asset or a non-network option relating to a transmission service; and
- ISP development opportunities, which do not relate to a transmission service, such as a distribution, generation, storage or demand response service.

**Figure 1 Overview of actionable ISP terminology**



\* Transmission projects may include non-network options, as per the current RIT-T framework.

The ISP involves a cost benefit analysis of the development paths, where each development path reflects a group of transmission, generation, storage and other developments that together meet the power system requirements.

However, the scale of the current energy transformation brings a high level of uncertainty to long term planning. Utilising a probability weighted approach (as required under the current RIT-T framework) will tend to obscure the risks of not being prepared for a range of different worlds that may be faced.

In light of this uncertainty, AEMO will have some flexibility in its approach to scenarios, modelling and therefore choice of optimal network development path (including a least regrets approach or an alternative). The ISP will not be required to apply a probability weighted approach to prepare a single net benefit number across all scenarios. Rather, AEMO will transparently consult on the net market benefits associated with each development path under each scenario.

The approach to looking at a cost benefit analysis needs to adequately capture the spread of potential future worlds and the value that having optionality in the system can bring for consumers. In this context, “optionality” means the ability to respond flexibly to future developments without being locked into a specific path. For instance, this could involve the purchase of easement rights that could expedite the construction of a new transmission line to maintain reliability if a certain event occurs (such as an earlier than anticipated coal generator closure), but does not require customers to bear the full costs of constructing the line until there is greater clarity about when, or if, it will be needed.

An assessment of the costs and benefits of the various candidate development plans across a range of scenarios will still be required, using the classes of costs and benefits that are consistent with the RIT-T. The optimal development path will be required to have a positive net benefit for the most likely scenario, but it need not have the highest net benefit in the most likely scenario.

### **2.3 Governance framework**

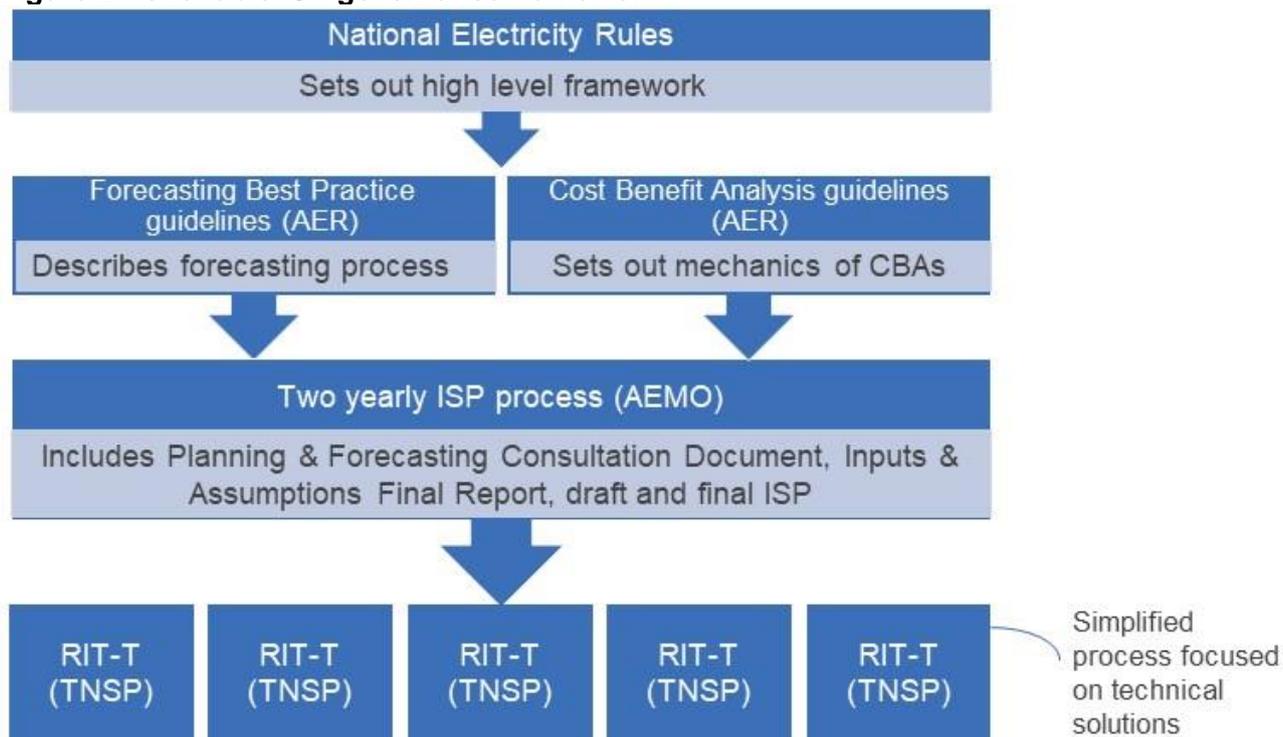
Most stakeholders were broadly supportive of the proposed governance framework, including the proposed Cost Benefit Analysis Guidelines and Forecasting Best Practice Guidelines. A number of submissions, including those from network businesses, suggested that the draft principles outlined in the consultation paper should be set out in the National Electricity Rules, with more detail contained in the AER guidelines. The draft ISP Rules adopt this approach.<sup>7</sup>

The high level features of the governance framework are outlined in Figure 2.

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<sup>7</sup> See clause 5.22.5 and clause 4A.B.5 of the Rules

**Figure 2 Actionable ISP governance framework**



The AER will shortly commence a consultation on the CBA guidelines and Best Practice Forecasting Guidelines, with a view to issuing a final determination by the middle of 2020.

### 2.3.1 Forecasting Best Practice Principles and Guidelines

Location in draft ISP Rules: clause 5.22.5

The role of the Forecasting Best Practice Guidelines is to describe at a high level the process that AEMO must apply when preparing the scenarios, inputs and assumptions that feed into the ISP, as well as the methodology for the ISP. These guidelines already exist and apply to AEMO in the context of the Retailer Reliability Obligation, however their scope will be expanded to include forecasting used to develop the ISP.

### 2.3.2 Cost Benefit Analysis Principles and Guidelines

Location in draft ISP Rules: clause 5.22.5

The CBA Guidelines, to be prepared and maintained by the AER, would be used to ensure that there is alignment between the ISP and RIT-T. The mandatory guideline would set out how:

- AEMO approaches the cost benefit analysis and market modelling used to identify the ISP optimal development path; and
- TNSPs conduct RIT-Ts for ISP projects (see Chapter 3).

In terms of the development of the ISP, the CBA Guidelines would cover the following matters:

- the objective that AEMO should seek to achieve when:
  - characterising the counterfactual development path
  - selecting a set of development paths for assessment
  - describing the identified need to be examined by TNSPs in their RIT-T.

- the framework used to select the optimal development path, including the quantitative cost benefit analysis that should be undertaken.

Given the diversity of potential energy futures, the ESB wishes to avoid an unduly prescriptive or formulaic approach to the CBA Guidelines and selection of the optimal development path (see section 2.2.4).

In preparing the CBA Guidelines, the AER would be required to recognise the risks to customers associated with uncertainty including risks associated with over-investment, under investment and investment that is too early or too late.

### 2.3.3 Dispute resolution on ISP

Location in draft ISP Rules: Rule 5.23

Nearly all consultation respondents expressed support for some form of dispute resolution mechanism. The ESB's decision recognises the need for appropriate checks and balances but also the difficulties of re-opening a complex, interlinked decision that has been the subject of a two-year consultation process. On this basis, the ESB has adopted the suggestion put forward by some stakeholders (including AGL and Energy Consumers Australia) to limit disputes to matters of process.

Stakeholders will be able to raise a dispute within 30 days of the publication of the final ISP, subject to the following criteria:

- a disputing party should have made a submission to a prescribed ISP process, which includes the process to prepare an Input, Assumptions and Scenarios Report, an ISP methodology and a Draft ISP.
- the disputing party must demonstrate a prima facie case of the failure of process and that the dispute is not misconceived, lacking in substance or vexatious.
- if a process failure has occurred, the AER may determine that no remedial action is required, or if it considers it necessary, direct AEMO to remedy the process failure. This may include consideration by AEMO whether an ISP update is necessary.
- the raising of a process dispute or the making of a determination by the AER does not affect the validity or stay the operation of the ISP.

The ESB considers that stakeholders are best served by opportunities for active engagement throughout the ISP process to identify and debate issues when decision making is occurring. This provides a meaningful, contemporaneous opportunity to participate in AEMO ISP decision making during the 2 years of development

The process dispute is an additional safeguard that AEMO has adhered to processes required by the Rules and AER guidelines in relation to preparation of key elements of decision making.

### 2.4 Updates to the ISP

Location in draft ISP Rules: clause 5.22.12

Where new information becomes available to AEMO that may materially change the outcome of a RIT-T that is either commenced, or due to be commenced prior to the publication of the next ISP, AEMO may publish an update to the ISP that highlights the new information and the impact on the ISP development path.

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. If there is a significant change to the optimal network development path, AEMO would conduct a round of consultation

on the draft result. In making a decision 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.

## **2.5 Interactions with TNSP planning processes**

### **2.5.1 Joint planning framework**

Location in draft ISP Rules: clause 5.14.4

Engagement between AEMO and TNSPs in the development of the ISP is a key part of the ISP regime. This engagement is not linear or one sided, but a two-way, ongoing engagement throughout the ISP development process. This can ensure that the most up to date information is shared. The draft ISP Rules include new provisions that require TNSPs and AEMO to engage with each other as part of the transmission planning process.

### **2.5.2 Interactions with Annual Planning Reviews**

Location in draft ISP Rules: clause 5.12.2

The current regulatory framework establishes linkages between the Transmission Annual Planning Reports (TAPRs) and the National Transmission Network Development Plan, in that TNSPs must report on how their plans compare with the NTNDP. These linkages will be maintained in the new framework.

As the ESB proposes that the ISP should be subject to a 30 June deadline, there is a timing issue since TAPRs are also currently required to be published by 30 June each year. To give the TNSPs a reasonable amount of time to prepare their TAPRs, the ESB proposes to move the TAPR deadline to 31 October. The TAPRs should report on how the TNSP's plan compare with the projects in the latest available ISP or ISP update.

## **2.6 System security reports**

Location in draft ISP Rules: new Rule 5.20

The draft ISP Rules replace the current requirements of the old NTNDP (Rule 5.20) with a regime that allows for stand-alone documents for annual "System Security Reports", NSCAS Reports, System Strength Reports and Inertia Reports, rather than these being incorporated into the ISP itself (since this would entail that the reports are published only every second year).

The content requirements for each report are the same as under the NTNDP framework, and these reports will continue to be published at least annually on the ISP database. This allows AEMO to be more agile in issuing NSCAS gaps, system strength shortfalls and inertia shortfalls as power system conditions change.

The content of the NSCAS 'methodology' (NSCAS description and NSCAS quantity procedures relocated from clause 3.11.4) is unchanged. Similarly, the System Strength Requirements Methodology and the Inertia Requirements Methodology are unchanged. For each of the system security methodologies, AEMO must develop changes in accordance with the Rules consultation procedures.

AEMO is still required to consider power system security as part of its ISP analysis, and the system security reports will form part of the supporting materials that are published with the ISP.

## 2.7 Allocation of planning costs to TNSPs

Location in draft ISP Rules: Amendment to clause 2.11.1

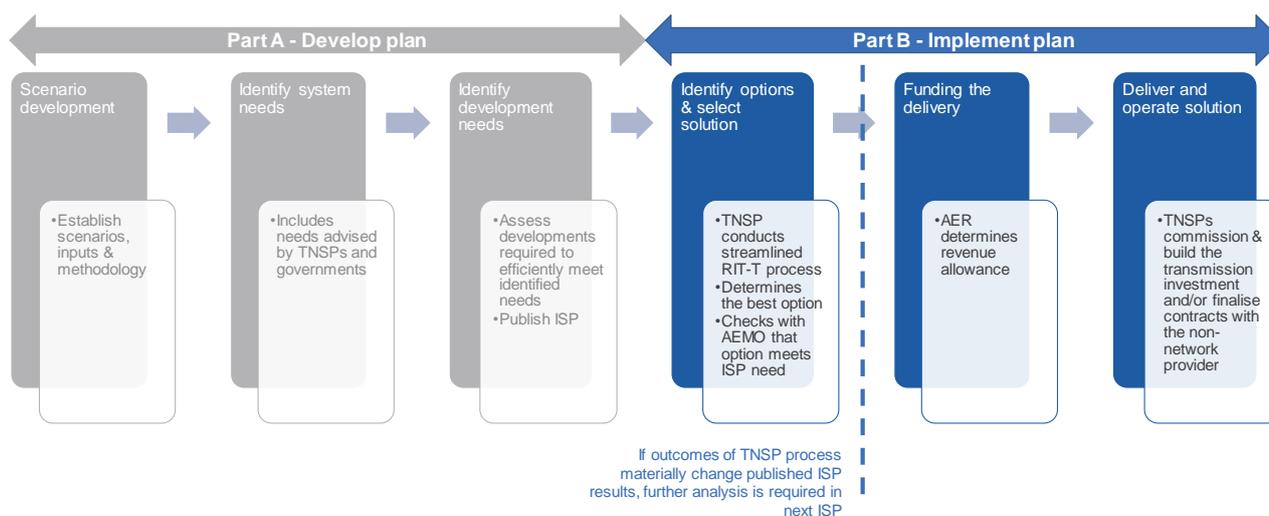
The ESB has included in the Draft ISP Rules for consultation a proposed amendment to clause 2.11.1 to enable the allocation of the costs for National Transmission Planner (NTP) services provided by AEMO to TNSPs.

The NTP costs are currently paid by Market Customers (retailers) under the existing participant fee determination. The proposed amendment would allow the allocation of the costs of NTP functions to TNSPs. This is consistent with the key 'reflective of involvement' criterion under the Rules for allocating AEMO's budgeted revenue requirements.

The ISP regime means that many current RIT-T obligations of TNSPs are partially replaced by the ISP in order to avoid duplication of planning and modelling by the TNSPs. Under the revised 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.

AEMO proposes to undertake a consultation process, prior to this Rule becoming effective, to determine how the NTP costs are to be allocated to the individual TNSPs from 1 July 2020.

### 3. Implementing the ISP



#### Key points:

- For actionable ISP projects, TNSPs will be required to publish a Project Assessment Draft Report (PADR) by the date specified in the ISP (not less than 6 months after the publication of the final ISP) unless the AER approves a request for an extension.
- RIT-Ts for ISP projects will be streamlined, recognising the work already done by the ISP and avoiding duplication of planning and modelling by the TNSPs.
- The ISP would replace the Project Specification Consultation Report (PSCR), specifying the identified need and an ISP candidate option that should be considered by the RIT-T proponent.
- The role of the RIT-Ts would be to focus on different technical solutions by looking in detail at engineering aspects, refining costs, considering alternate options, and staging.
- TNSPs may rely on the ISP for the key modelling inputs to be used in the RIT-Ts, as set out in the Cost Benefit Analysis Guidelines.
- There is a feedback loop whereby the TNSP obtains written advice from AEMO as to whether RIT-T preferred option aligns with the ISP.
- A mechanism would be created that has the effect of allowing an actionable ISP project that has passed a RIT-T to be able to commence an amended contingent project process.
- The ESB proposes to remove the Last Resort Planning Power as it will be superseded by the actionable ISP framework.

#### 3.1 Scope of RIT-Ts for actionable ISP projects

Location in draft ISP Rules: Rule 5.16A

The current Rules for the RIT-T will remain largely unchanged for non-ISP projects. Therefore, there will be two types of RIT-T assessment. The proposed changes to the RIT-T framework for actionable ISP projects are described in more detail in section 3.2.1.

The ESB proposes that the ISP should provide the overarching cost benefit analysis that identifies the development needs, and the RIT-Ts for actionable ISP projects would examine the costs and benefits of different technical solutions. RIT-Ts for actionable ISP projects would be assessed under a different process from the current RIT-T framework, and instead, a streamlined version of the RIT-T would be set out in a new clause of the Rules, with further detailed requirements set out in the Cost Benefit Analysis Guidelines.

The new form of the RIT-T would involve a detailed assessment of specific project implementation options and their costs and benefits, including routes, technology options, and construction options. The RIT-Ts would also explore the potential for option value arising from a staged approach to investment decision making.

### 3.1.1 Ensuring alignment with the ISP

Location in draft ISP Rules: Clauses 5.15A.3, 5.16A.5

The Rules framework will be designed to prevent misalignment between the ISP and RIT-T.

For each actionable ISP project, the ISP will describe the identified need, together with a proposed credible option that meets the identified need known as the ISP candidate option. In the RIT-T, the TNSP will consider options for meeting the identified need, including the ISP credible option, non-network options put forward following the publication of the draft ISP, and any new credible options not previously identified that meet the identified need.<sup>8</sup>

The identified need that each actionable ISP project addresses needs to be adequately described to protect the integrity of the whole of system plan, yet sufficiently broad to enable the TNSP to consider alternatives to the ISP candidate option. The CBA Guidelines will describe the objective that AEMO must seek to fulfil when describing an identified need in the ISP.

The proposed framework incorporates a feedback loop whereby the TNSP seeks advice from AEMO as to whether the results of the RIT-Ts align with the ISP. Prior to submitting a contingent project application to the AER, the TNSP must obtain written advice as to whether:

- the RIT-T preferred option is the same as the ISP candidate option, or
- if the RIT-T preferred option is not the ISP candidate option, the TNSP's preferred option:
  - addresses the identified need specified in the ISP and
  - forms part of the optimal development path set out in the most recent ISP.

AEMO will re-run its ISP model to check whether the preferred option selected by the TNSP is consistent with the optimal development path. If circumstances have changed such that the project is no longer part of the optimal development path (for instance, because the cost of the TNSP's preferred option is higher than the assumed cost of the ISP candidate option), then it will be necessary for AEMO to issue an update to the ISP using the new information.

If the TNSP's preferred option is not consistent with the optimal development path, then it will not be eligible for regulated funding as an ISP project (see section 3.3).

### 3.1.2 Consideration of non-network options

Location in draft ISP Rules: 5.15A.3, 5.16A.4

As outlined in section 2.2.3, stakeholders will have the opportunity to submit non-network options in response to the draft ISP.

Where the final ISP indicates that a non-network option meets or potentially meets the identified need, the TNSP must assess the non-network option in their PADR. If the final ISP indicates that a non-network option does not meet the identified need, the TNSP is not obliged to assess non-network option in their PADR.

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<sup>8</sup> The TNSPs would not be required to reassess alternate credible options if those options have already been considered and rejected under the ISP process.

PADRs should also consider any alternative credible options identified during the course of the TNSP's planning process.

### 3.1.3 Timing of RIT-Ts

Location in draft ISP Rules: Clause 5.16A.4

In their submissions to the consultation paper, TNSPs expressed concern that 4 months after the publication of the final ISP is insufficient time to prepare an acceptable quality Project Assessment Draft Report (PADR).

The ESB has subsequently refined its position. The deadline for the publication of the PADR for actionable ISP projects must be no earlier than 6 months after the publication of the final ISP. When AEMO determines the date by which the RIT-T for an actionable ISP project will commence, it will balance the urgency of the identified need with the benefits of giving the TNSP additional time to prepare its PADR. TNSPs may seek an extension from the AER if they require additional time. Where actionable ISP projects are not required until after the next ISP, the need and timing of these projects would be confirmed in the next ISP.

In forming this position, the ESB notes that TNSPs will be aware of the need for a RIT-T well before the formal publication of the final ISP, as a result of previous ISPs, the joint planning process and the draft ISP.

## 3.2 Governance framework

A number of revisions are required for the RIT-T Rules and application guidelines for projects coming out of the ISP changes.

### 3.2.1 Conduct of RIT-Ts for actionable ISP projects

Location in draft ISP Rules: Clauses 5.15A.3, 5.16A.4

Changes are required to establish a RIT-T framework for actionable ISP projects with the following features:

- the obligation to prepare a PSCR is removed,
- TNSPs are to adopt the identified need described in the ISP,
- TNSPs are to assess the ISP candidate option identified in the ISP, as well as any new credible options identified by the TNSP and any non-network options submitted in response to the draft ISP if, in AEMO's view, the non-network option is reasonably likely to meet the identified need,
- TNSPs are not obliged to consider credible options that have already been considered and rejected during the ISP process,
- TNSPs may rely on the ISP central case for their inputs, assumptions, transmission development path, and to the extent possible, modelling (unless circumstances have materially changed, in which case, AEMO would issue an update to the ISP).

The ESB proposes that matters relating to RIT-Ts for ISP projects should be set out in the CBA Guidelines, reflecting that these RIT-Ts form part of an integrated system planning process.

The AER will shortly commence a consultation on the required revisions to the RIT-T and RIT-T application guidelines, with a view to issuing a final determination by the middle of 2020.

### 3.2.2 Dispute resolution on RIT-Ts

Location in draft ISP Rules: Rule 5.16B

Under the ESB's proposed model, stakeholders may raise disputes in relation to RIT-Ts as per the current arrangements. Parties would not be able to dispute a RIT-T insofar as the RIT-T reflects outcomes that have been derived from the ISP in accordance with the Rules and CBA Guidelines.

### 3.3 Incorporating ISP projects into the TNSP's revenue determination

Location in draft ISP Rules: Clause 5.16A.5, Rule 6A.8

It is necessary to amend the economic regulation framework to establish a mechanism so that TNSPs receive funding to invest in actionable ISP projects.

The ESB proposes to create a mechanism that allows an ISP project that has passed a RIT-T to be able to commence an amended contingent project process where the following trigger events are met:

1. The ISP identifies the project as requiring a RIT T to be completed within the revenue determination period;
2. The TNSP completes a RIT T that satisfies the RIT T requirements; and
3. AEMO provides advice that the TNSP's preferred option as identified in the RIT T is consistent with the optimal development path.

Under the draft ISP Rules, the AER would no longer need to complete a preferred options assessment for ISP projects in order for the triggers set out above to be used. Consistent with the AEMC's recommendation in the 2018 Coordination of Generation and Transmission Investment final report<sup>9</sup>, the ESB proposes to remove preferred options assessments (clause 5.16.6) from the Rules. The time available to the AER for making a contingent project determination would be the same as under the current contingent project framework.

### 3.4 Last resort planning power

Location in draft ISP Rules: Old Rule 5.22 (deleted)

The Last Resort Planning Power (LRPP) confers on the AEMC the ability to direct a TNSP to undertake a RIT-T where the AEMC assesses that an expected inter-regional constraint is not being addressed by a TNSP.

The AEMC's COGATI 2018 final report proposed that the LRPP should be used as a safety net in the event that a TNSP declines to proceed with an ISP project (or does not proceed in a timely fashion). In practice, the LRPP is limited in scope because the regulatory framework does not compel a TNSP to make an investment.

The LRPP confers on the AEMC the ability to direct a TNSP to undertake a RIT-T where the project may have a significant impact on the efficient operation of the market. Under the new ISP framework, AEMO will consider power system needs, including the impact of inter-regional constraints, and identify an optimal development path that efficiently seeks to achieve those needs. In addition, TNSPs will have an obligation to conduct a RIT-T for actionable ISP projects and publish a PADR within specified timeframes. The ESB proposes to remove the LRPP, to

<sup>9</sup> AEMC, *Coordination of generation and transmission investment review*, final report, 21 December 2018, p.36.

direct a TNSP to undertake a RIT-T on inter-regional transmission investments, on the basis that it will be superseded by the actionable ISP framework.

This means that if a TNSP declines to invest in an ISP project, it will be necessary to pursue the matter outside the Rules framework.

## 4. Transitional arrangements

Location in draft ISP Rules: Chapter 11

It is necessary to establish transitional arrangements to implement the new framework.

The ESB considers that the transitional arrangements should:

1. include deeming provisions that deem the 2020 ISP process to have met the new requirements;
2. apply the new RIT-T framework to projects identified in the 2020 ISP; and
3. apply the streamlined post RIT-T regulatory arrangements (e.g. removal of preferred options assessment) to all RIT-Ts following the making of the final ISP Rules.

The supporting AER guidelines are being developed in parallel with the 2020 ISP, which means that TNSPs may find it difficult to progress work on a PADR using the new framework. In these circumstances, the ESB proposes that if a RIT-T has already commenced for a project identified in the 2020 ISP (for instance, the PSCR has been issued but not the PADR), then the TNSP will be able to choose whether to apply the new streamlined RIT-T process or the current process.

As the actionable ISP Rules have been developed over the same period of time as the 2020 ISP, the ESB recognises that AEMO's process for the 2020 ISP is not necessarily identical to the process described in the draft ISP Rules. 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.

## 5. Assessment framework

Under the National Electricity Law, the ESB may recommend rules to the COAG Energy Council if the following requirements are satisfied:<sup>10</sup>

- the Rules are in connection with energy security and reliability of the NEM or long-term planning for the NEM.
- the Rules are consistent with the national electricity objective; and
- there has been consultation on the Rules in accordance with any requirements determined by the COAG Energy Council.

The national electricity objective is “to promote efficient investment in, and efficient operation and use of, electricity services for the longer term interests of consumers of electricity with respect to (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system.”<sup>11</sup>

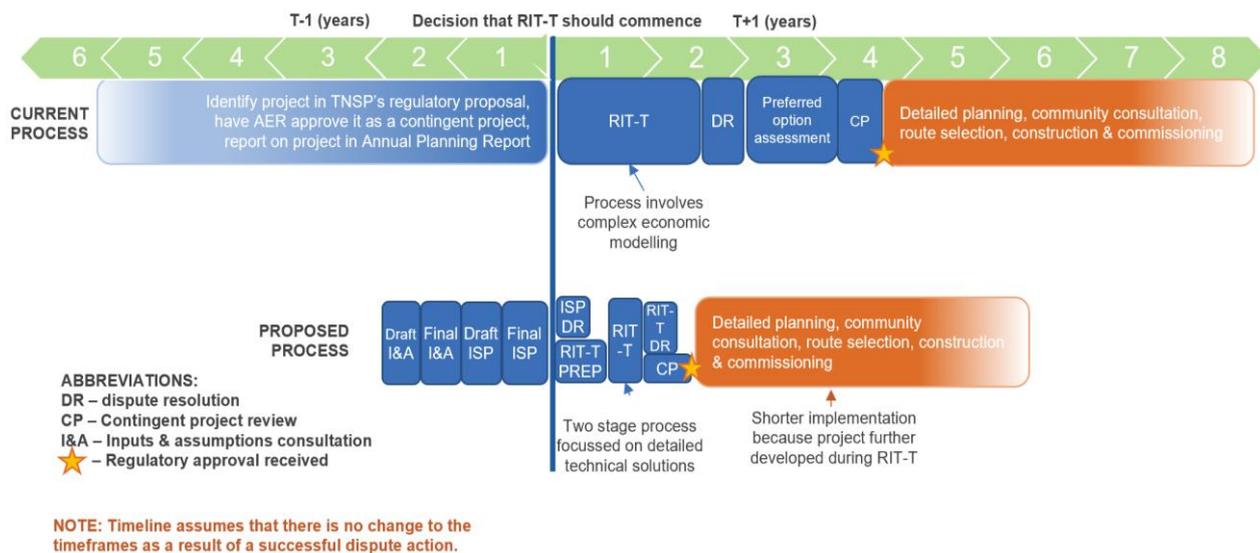
Having considered issues raised in submission to the consultation paper, the ESB’s view is that the draft ISP Rules are consistent with the NEO for the following reasons:

- It gives effect to a whole-of system plan for the efficient development of the power system, taking into account efficiency, reliability, security, and public policy;
- It reduces the administrative burden associated with the RIT-T process
- It establishes a clear path for timely transmission investment decisions, whilst retaining a rigorous and independent cost benefit analysis framework.

The proposed framework is designed to deliver an orderly transition as technological and market factors transform the energy supply mix. The actionable ISP framework will allow significant investment decisions to be informed by a NEM-wide perspective, taking into account factors arising as a result of increasingly complex and distributed power system.

The actionable ISP framework will promote the NEO by creating a more timely and effective regulatory process, which will lead to more efficient transmission planning. When implemented the expected time savings are highlighted in the timeline below.

**Figure 3 Target timeframes under proposed framework**



<sup>10</sup> Section 90F of the National Electricity Law.

<sup>11</sup> Section 7 of the National Electricity Law.

There will be a clear path for the efficient development of the transmission system on a whole-of-NEM basis rather than the current regional approach. The new framework will also support efficient investment decisions by market players as they will have greater clarity regarding the future development of the power system, including information about where and when opportunities will arise.

In preparing the ISP, AEMO will be required to conduct an extensive and transparent consultation process. By giving AEMO a stronger role in transmission planning, the proposed framework is more independent and impartial than a TNSP-led process.

The ESB is required to consider whether the draft ISP Rules promote the objectives of the Strategic Energy Plan. The draft ISP Rules are directly concerned with putting in place a long-term planning framework to deliver a secure and reliable NEM. They promote several of the high-level outcomes set out in the Strategic Energy Plan, including:

- system planning and development is informed by clear and transparent rules; and
- electricity and gas sectors efficiently deliver at least their share of emissions reduction target/s while ensuring reliable supply
- markets operate safely, securely and efficiently, under full range of operating conditions, with minimal intervention.

**The draft ISP Rules are published in an accompanying document. Stakeholders are invited to provide comments on whether the draft ISP Rules are consistent with the NEO.**

## **A Draft ISP Rules**

[See attached document.]

## **B Abbreviations and Technical Terms**

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CBA	Cost Benefit Analysis
COAG EC	Council of Australian Governments Energy Council
ECA	Energy Consumers Australia
ESB	Energy Security Board
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
NSCAS	Network Support and Control Ancillary Services
NTNDP	National Transmission Network Develop Plan
RIT-T	Regulatory Investment Test for Transmission
TNSP	Transmission Network Service Providers

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