



17 January 2020

Dr Schott AO
Chair
Energy Security Board

Lodged by email: info@esb.org.au

Dear Dr Schott,

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

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in renewable energy and energy storage along with more than 6,500 solar and battery installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to provide comment on the Energy Security Board's (ESB) Converting the Integrated System Plan (ISP) into action – consultation on the draft ISP rules document. The CEC supports the Australian Energy Market Operator's (AEMO) ISP process and remains supportive of the subsequent ESB's draft rules to action the ISP.

The CEC supports the streamlining of the regulatory processes for actionable projects identified in the ISP while retaining the necessary balance between the need for efficient and timely investment to support the transitioning power system and ensuring undue risk is not placed on consumers. It is important to note that timely investment in replacement generation and the required network augmentation are critical to replace the expected retirement of thermal generation. Delays to this investment would represent a significant risk to consumers that must be considered. The 2020 draft ISP anticipates that 15 GW of coal-fired generation is expected to close between now and 2040. To replace this, over 30 GW of new large-scale renewables is needed in all but the slow change scenario. Under the central scenario, 34 GW of large-scale renewables and approximately 10 GW of utility-scale energy storage is required by 2040¹. Ensuring that the network investment necessary to support this required investment happens in a timely fashion is critical.

We are pleased to see the majority of CEC comments raised in our previous submission have been accepted in the draft ISP rules. In particular, the CEC notes and supports the decision for the Transmissions Network Service Providers (TNSP) to retain the role of undertaking the detailed assessment of the technical design, through the Regulated Investment Test for Transmission (RIT-T), following the establishment of the candidate option in the ISP. It is important that the TNSPs retain this responsibility, provided the final solution meets the ISP identified need.

Please find outlined below specific comments relating to elements of the consultation paper for the ESB to consider.

¹ AEMO, Draft 2020 ISP, December 2019, available at https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2019/Draft-2020-Integrated-System-Plan.pdf

ISP optimal development path

The CEC supports the identification of the optimal development path in the ISP as the suite of projects that efficiently meets the defined set of power system needs. The ESB suggests the power system needs are:

- The market reliability standard
- Relevant transmission reliability standards
- Power system security
- Public policy needs²

We agree with the above outlined power system needs. Further, we strongly support the rules explicitly recognising the power system needs and suggest that 'public policy needs' is expanded from government environmental and energy policy to include emissions commitments and/or goals at both the State and Federal level. While this may be implicit within the current drafting, directly stating it is clearer and sends more accurate signals to the market in the context of the rules governing a 20-year system plan.

The CEC supports the ISP optimal development path setting the most cost-effective path for meeting the power system needs through the three tiers of actionable ISP projects and outlining the ISP development opportunities. With the ISP outlining these development opportunities it will provide the industry with the requisite information for the market to respond to these opportunities in the most optimal way. This will ensure generation investment occurs in the areas that AEMO has identified best meets the power system needs for the future.

We support the ability for stakeholders to respond to the draft ISP with non-network options. If these options meet the identified need it will allow AEMO to provide a directive to the TNSP to consider the non-network option in their RIT-T process. We note that stakeholders will not be given the opportunity to comment on AEMO's assessment of the non-network option as it will be published in the final ISP, however stakeholders would have the opportunity to comment via the Project Assessment Draft Report (PADR) consultation, provided the non-network option has met the identified need. We suggest the final ISP should address the submitted non-network options and if they do not meet the identified need, provide justification for the decision. We believe this is a reasonable balance between a streamlined process and appropriate consultation. It will also grow industry understanding of the criteria for non-network options that will be useful should stakeholders have future non-network options suggestions.

Dispute resolution and feedback loops

The CEC supports the proposed dispute resolution process and criteria to raise a dispute as they ensure a balanced process allowing for legitimate procedural disputes to be raised and encourages stakeholders to engage in the consultation process but ensures a limited scope for delays at the final ISP stage. Similar to above, stakeholders will have an opportunity to provide comment on the project assessment detail via the TNSP PADR. We recognise it is important that stakeholders have the ability to raise concerns throughout the process, and in particular have AEMO respond to those concerns. The combination of the 2-year consultation in the drafting of the ISP, the draft ISP consultation period itself and the TNSP RIT-T process should present stakeholders with ample opportunity to raise disputes and will ensure the ISP process remains streamlined.

² ESB, Converting the ISP into Action – Consultation on Draft ISP Rules, November 2019, p 8, available at http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Actionable%20ISP%20-%20Consultation%20on%20Draft%20ISP%20Rules_0.pdf

We support the feedback loop proposed under clause 5.16A.5 however we suggest that it could be made more transparent for the benefit of stakeholders. As currently proposed, the TNSP will seek written advice from AEMO to ascertain if:

- 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 ISP³

AEMO will run the ISP model to confirm the above and provide advice back to the TNSP or update the ISP as required. As currently drafted, the rules indicate that this process will not be transparent, meaning that the industry will not be aware of the AEMO processes being run, the modelling results and unless an update is made to the ISP, no information will be publicly released until the final Project Assessment Conclusions Report (PACR) report. The CEC suggests there is a public facing element to this process to allow stakeholders to understand the feedback loop, the decision-making process and AEMO's assessment of the RIT-T preferred option. This should also include the publishing of the data sets from the modelling, irrespective of whether AEMO decide to publish a revision to the ISP. This will increase transparency and provide further information and justification to stakeholders, without adding significant delays. We also suggest that if the RIT-T preferred option has not changed from the ISP candidate option it may not be time effective for AEMO to run their full modelling assessment to provide confirmation.

The CEC suggests that AEMO be required to incorporate transparent feedback loops to stakeholders throughout each stage of consultation. For example, in response to stakeholder comment on the inputs and methodology consultation, AEMO should publish responses to comments received to inform stakeholders of their response.

Coordination of generation and transmission investment

The consultation paper notes that the AEMC is currently considering generator access reforms through its coordination of generation and transmission investment (COGATI) review and that any reforms that arise through this process should complement or enhance the actionable ISP rules. The CEC strongly supports this statement. Transmission investment is critical to continue the investment in renewable generation necessary as the system transitions away from centralised fossil fuel generation.

The proposed COGATI reforms will add additional layers of complexity through complex wholesale market reforms and a complex new hedging product. Generally, complexity can lead to increased risk premiums for investors and seriously risks stalling much needed new generation investment. In the most recent AEMC COGATI update paper the AEMC stated that the majority of investors and generators were not in favour of the access model. Ensuring the actionable ISP reforms are prioritised and that the COGATI reforms do not negatively impact this process is critical.

ISP panel, transitional arrangements and scope of the ISP

The CEC supports the establishment of an ISP panel to provide advice during the consultation process for each ISP development process. We believe an ISP panel would assist AEMO to engage thoroughly with a wide variety of stakeholders and ensures the consultative process is robust. We

³ ESB, Converting the ISP into Action – Consultation on Draft ISP Rules, November 2019, p 17, available at http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Actionable%20ISP%20-%20Consultation%20on%20Draft%20ISP%20Rules_0.pdf

would welcome further information from the ESB and/or AEMO on what the ISP panel's role would encompass, how the panellists would be selected and who would be eligible. We suggest that the establishment of this panel and the process undertaken should be transparent and open so that industry understands the selection of panellists and interested stakeholders can easily nominate should they choose to. The panel should also seek a balanced representation of the different segments of the sector and should not detract from any requirement for thorough stakeholder consultation on the ISP.

The CEC supports the transitional arrangements as proposed in the consultation paper. There is potential for the 2020 ISP process to differ from the actionable draft ISP rules in some instances due to both processes running concurrently. However, in the interest of ensuring both processes are completed in a timely manner we are comfortable with the AEMO consultation process and the draft rules for them to apply to the final 2020 ISP. The CEC supports the decision to allow TNSPs the flexibility to decide to apply the streamlined RIT-T or the current RIT-T process for projects identified in the 2020 draft ISP that have already commenced a RIT-T. The CEC suggests that the rules contain a provision to review the ISP process in 5 years to ensure it is still fit for purpose.

It is important that the TNSPs retain the ability to continue to assess the system and identify worthwhile non-ISP projects for development. While the draft ISP rules intention is for this to continue, they would benefit from explicit recognition that despite a project not being identified in the ISP, it does not automatically mean it is not worth a TNSP progressing.

National Electricity Objective

The 2020 draft ISP recently published by AEMO states that the ISP is an actionable roadmap for eastern Australia's power system that maximises market benefits through the potential complexities and uncertainties of the next 20 years⁴. It seeks to achieve the reliability, security and public policy needs of the power system, in the long-term interests of electricity consumers.

The 2018 ISP received widespread support from industry, stakeholders and consumer groups, and endorsement from the COAG Energy Council as a critical document to efficiently guide the system developments required over the next 20 years. Given the NEM system plan for the next 20 years includes the ability for AEMO to factor in public policy needs, the CEC strongly suggests the ESB consider if the National Electricity Objective (NEO) remains fit for purpose. It is concerning that the 20 year system plan factors in the public policy needs of the states and federal government but the framework that the Australian Energy Market Commission (AEMC) must use to assess changes to the rules that govern the same system do not need to consider the same public policy needs. We argue that modifying the NEO to include the consideration of these public policy needs would strengthen the NEO and be in the long-term interest of consumers.

Over the next 20 years the electricity system will change dramatically as the system transitions away from centralised fossil fuel generation to a decentralised, low emission, renewable generation dominated grid. The CEC supports AEMO retaining flexibility within the rules to continuously adjust the optimal development pathway to best meet the system needs. We also suggest that AEMO continue to be afforded the flexibility to continue to streamline the ISP process to the best of their ability in order to support the timely transition of the energy system.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact Tom Parkinson, Policy Officer, on (03) 9929 4156 or tparkinson@cleanenergycouncil.org.au or myself, as outlined below.

⁴ AEMO, Draft 2020 ISP, December 2019, available at https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2019/Draft-2020-Integrated-System-Plan.pdf

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lillian Patterson', written in a cursive style.

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