

SUBMISSION

ENERGY SECURITY BOARD – CONVERTING THE ISP INTO ACTION

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INTRODUCTION

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and want to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

We recognise the many challenges faced by the ESB in mapping a pathway towards an energy system that is affordable, reliable and sustainable and we welcome the opportunity to make a submission to the Converting The Integrated System Plan (ISP) Into Action Consultation Paper.

The EUAA have made numerous submissions to issues associated with the ISP including submissions to the Coordination of Generation and Transmission and Investment (CoGaTI) Options Paper in October 2018, the AEMC CoGaTI Implementation Access and Charging Discussion Paper in April 2019 and provided input via submissions and in stakeholder consultation sessions on the Energy Connect and Project Marinus interconnector projects.

The key issue we raised in these (and many other) submissions, has been to challenge the assumption that consumers would continue to pay the full cost for network augmentation including for proposed Renewable Energy Zones (REZ) and interconnectors such as Energy Connect, Project Marinus and deep augmentation costs to facilitate Snowy 2.0.

To be clear, the EUAA are not opposed to new network assets being built to facilitate new generation or for interconnectors to be built that allow market participants and the market operator greater flexibility. Our concerns revolve around the costs of these investments being put in the Regulated Asset Base (RAB) of the network companies without the full rigor of application of the RIT-T process or without consideration of a more equitable cost and risk allocation.

Consumers accept the current process where a proposed transmission project is subject to the full rigors of the RIT-T with AER oversight. Due to the application of a rigorous process that includes significant stakeholder engagement, consumers are more likely to accept the demand and stranded asset risk of the new asset. What we do not support is the prospect implied in this Consultation Paper to water down these critical governance structures with the objective of getting the ISP investment built quicker. This will only increase the stranded asset risk above what consumers are prepared to bear.

We are supportive of a more centralised approach to whole of system planning that the ISP seeks to achieve. We believe the ISP is a useful investment guide that can shape investor decisions.

However, again we are concerned with what we perceive to be a desire to elevate the ISP above the existing regulatory checks and balances such as robust RIT-T assessment and the existing reliability standard.

As we have stated on many occasions, the tension that currently exists between the need to make the ISP “actionable” and consumer concerns over increasing energy bills can be somewhat alleviated with a more equitable sharing of the cost and risks associated with such long-lived assets being deployed in a rapidly changing market.

We note that AEMO is pursuing the next iteration of the Integrated System Plan (ISP) while the AEMC is running a parallel CoGaTI process. Both are important for consumers as they set the direction of energy market investment. While the ISP and CoGaTI may at times appear to be seeking to resolve the same problems we see the key distinction between the two being the ISP has a focus on what transmission we should build while the CoGaTI has a focus on who is best placed to manage the risks and costs associated with these new assets. The measures proposed in this Consultation Paper are insufficient to ensure this.

Regarding the governance and dispute resolution measures outlined in the Consultation Paper we would make the following suggestions:

1. The AER prepares
 - detailed best practice guidelines on how AEMO should undertake the ISP process covering forecasting and planning – these would be similar to the RRO Best Practice Guidelines
 - detailed guideline on how the cost benefit analysis for the ISP should be undertaken, drawing on the current RIT-T guidelines
2. The AER confirms that the Guidelines have been followed by AEMO; this is a similar role the AER will have with the AEMO decision on a reliability gap under the RRO – that is the AER is satisfied that AEMO has followed due process e.g. regarding stakeholder consultation.
3. The Guidelines should be binding on AEMO and any failure to follow them would be a breach of the Rules
4. We support retention of the existing Clause 5.16.5 disputes clause in its current form

This will give confidence to consumers that the proposed investment has been subject to rigorous evaluation and hence should be put in the RAB. This will give confidence to consumers that there is a high chance that the claimed benefits over the life of the long-lived asset will in fact be met or exceeded at the time of the investment decision.

BARRIERS TO CONVERTING THE ISP INTO ACTION

Rapidly Changing Energy Market

While we understand the urgency and desire to convert the ISP into action we are concerned that we are committing to a large, consumer funded spend on infrastructure at a time when the energy market is not only changing so rapidly but also in ways that we are yet to fully grasp. As we have highlighted in other submissions, the risks associated with the rapidly changing energy market have material impacts on the feasibility of a number of proposed transmission assets contained in the ISP.

For example. In the case of Energy Connect there are two fundamental assumptions underpinning the consumer benefits of this project being:

- That the NSW region will continue to be in a state of “oversupply”, especially with the type of asset required to provide “firming” of variable generation and,
- Fuel savings that come about when 800 MW of gas fired generation retires in SA (2024) and a further 63 MW of generation fired by liquid fuels retires in 2027.

Yet according to the AEMO ISP, two NSW based coal fired assets in Liddell (in 2022) and Vales Point (2028) are assumed to retire removing some 3,320 MW of the type of dispatchable generation that is required in both NSW and SA. The assumption that you can continue to “borrow” dispatchable power from your neighbour will be progressively undermined by this paradigm shift in the energy market.

We also note that the cost of thermal coal continues to increase. When taken together, the likelihood of New South Wales providing cheap power to South Australia has been greatly diminished and can't necessarily be relied upon into the future.

Perhaps more importantly is that the fuel replacement assumption is already under serious threat. While replacing expensive gas fired power stations in South Australia with cheaper resources imported from another state is a key value driver for the Energy Connect project, we note that AGL are currently constructing the 210MW gas fired Barker Inlet Power Station¹ and the Federal Government have announced that Alinta's 300MW gas fired Reeves Point Power Station is on the short list for their Underwriting New Generation Investment initiative².

This is just one example of where a rapidly changing energy market could significantly impact the consumer benefit of this type of investment. Under the exiting approach, energy consumers would carry the entire risk. Therefore, we have serious concerns that some of the key assumptions underpinning the consumer benefits of many of the projects identified in the ISP can't be relied upon.

Equitable Allocation of Risk and Cost

Many of the assets identified under the ISP will help facilitate the introduction of new generation including variable renewable energy and access to firming capacity required to balance the system. This new generation, being privately owned and operated, is set to gain significant financial benefit from these assets while consumers cover the cost associated with this access.

The EUAA made a substantial submission to the AEMC CoGaTI process in October 2018 on this issue. It must be recognised that consumers have no control over the financial viability or operation of these assets but are currently expected to carry the cost, volume and technology risks. While consumers may receive some benefit from new transmission assets, given the fluctuating nature of the energy market and the risks involved, these benefits may be fleeting at best. In any case, the principle of only paying for that benefit that is reliably received should guide future cost and risk allocation in this area.

Therefore, we firmly believe these commercial entities should make a reasonable co-contribution to the cost and maintenance of these assets. We recognise that moving to a form of generator co-contribution could result in slightly higher contract prices (i.e. PPA's) as project proponents seek to recover these additional costs. So yes, while the customer will always pay we should not continue to be asked to absorb aspects of project risks and costs that we have no control over or be faced with paying “full weight” for underutilised assets.

Further, we contend that that exposing more network costs to open markets and competition will drive better outcomes for consumers compared to a regulated environment that, despite good intentions to deliver a result that replicates a competitive market outcome, has not always proven to be so.

¹ <https://www.agl.com.au/about-agl/how-we-source-energy/barker-inlet>

² <https://www.energy.gov.au/government-priorities/energy-supply/underwriting-new-generation-investments-program>

GOVERNANCE AND CONSUMER PROTECTION

General Comments

The EUAA have engaged with a number of member organisations and a range of other consumer advocates regarding the appropriate governance and consumer protection frameworks. These frameworks are critical to developing stakeholder trust in the ISP process and subsequent outcomes.

Therefore, if the ISP is to be made “actionable” the following must be addressed:

- We must see a continuation of robust, independent assessment of ISP projects and the ISP itself by the AER, including RIT-T assessment.
- The RIT-T itself should not be diluted in any way. This includes resisting the inclusion of other “public policy objectives” as part of the RIT-T or ISP assessment. For example, we would be concerned if climate change (i.e. future value of abatement activities) was included as part of a RIT-T or ISP assessment. This issue of abatement value is not only dealt with externally via other state and federal mechanisms (i.e. renewable energy targets) but its inclusion would likely lead to inflated benefit assumptions being used to justify significant infrastructure expansion. Currently, all of this would be paid for by consumers.
- We must see a revised cost recovery method developed where all stakeholders, customers through to new entrant generators, pay their fair share of the costs of “re-wiring” the grid.
- The ISP must be consistent with achievement of the existing, independently established, reliability standard. In planning for the future grid, we must avoid a round of ISP inspired “gold plating”.
- In developing the ISP, AEMO must improve the quantity and quality of stakeholder engagement. If the ISP is to replace the existing Project Specification Consultation Report of the RIT-T process, then AEMO take on a new role as de-facto project proponent. In doing so they need to replicate the approach, methods and processes that would normally be carried out by the TNSP. Failure to do so will lead to stakeholder suspicion with the end result and dissatisfaction with the process and proponent.

Consultation Paper - Section 2

We are supportive of the ESB’s views that have been as set out in Section 2 (Regulatory Governance Framework) of the Consultation Paper.

We agree that development of the ISP and the recommendations for network expansion in it must be subject to a suite of robust, transparent guidelines as developed by the Australian Energy Regulator (AER) in consultation with stakeholders in the areas of:

- Forecasting best practice;
- Cost benefit analysis application; and
- Planning best practice.

This follows a similar approach currently being developed for the Retailer Reliability Obligation. As with the role of the AER in approving an AEMO proposed reliability gap under the RRO, it is crucial that the AER approves that the ISP Guidelines have been followed by AEMO. This is not a merit review of what AEMO has done, it is a review by the AER to satisfy itself that AEMO has followed due process e.g. regarding stakeholder consultation. The Guidelines should be binding on AEMO and any failure to follow them would be a breach of the Rules.

The EUAA have engaged with the AER on the development of a number of guidelines as part of the Retailer Reliability Obligation and have recently made submissions on the “Draft Interim Forecasting Best Practice Guidelines”.

We recognize the challenges faced by AEMO in building credible modeling for a future NEM when so many key assumptions are changing, in some cases dramatically. This makes the need for a robust, transparent and inclusive suite of best practice guidelines critical to building stakeholder trust and ensuring, to the extent it is possible in such a dynamic situation, that the right assets are built in the right location at the right time.

The issues presented by such a dynamic environment are most acute when assessing the Forecasting Best Practice Guideline, it's relationship with Electricity Statement of Opportunities (ESOO) and the subsequent compliance obligations that will now be driven by its outcomes.

The ESOO was recognized as a reasonable guide to investment but was inadequate if it was to be used as a trigger for compliance. As a result, a significant amount of work has been put into improving ESOO forecasting, first through the Reliability Guarantee and now the Retailer Reliability Obligation. This continues to be a crucial work area that will most likely require additional resources to be deployed by AEMO.

While supportive of the overall approach to the Cost Benefit Analysis Application Guideline we would like to raise a number of concerns.

The following statement appear on page 6 of the Consultation Paper:

“The proposed ‘Cost Benefit Analysis Application Guidelines’ are intended to be an expanded version of the existing RIT-T application guidelines; amended to create the linkages with the ISP to provide a foundation for the TNSP’s investment test.”

We seek clarification of the intended outcome implied by this statement. Our concern is the perception that the ISP and the Cost benefit Analysis Application Guidelines could be used to usurp the RIT-T process whereby if a project is included in the ISP (having regard to the guidelines) it is almost assured of approval. While we are in favour of coordination and alignment of certain aspects of the ISP process and RIT-T approval process that remove duplication and reduce the time taken for approval, we not in favour of due process of regulatory approval being weakened in any way.

This concern is further heightened by the following statement on Page 7 of the Consultation Paper:

“It will be important to ensure that the regulatory framework contains enough flexibility to enable AEMO’s approach to be accommodated within the regulatory framework and to ensure that risk and uncertainty in the preparation of the ISP is managed”

For instance, AEMO could require additional flexibility to:

- *Manage uncertainty given the broader scope of the ISP*
- *Have regard to the resilience of the power system (for instance if there is a high impact low probability event) in accordance with an agreed risk framework that considers the level of resilience that should be paid for by consumers*
- *Meet identified system needs arising as a result of public policies as instructed by NEM Participating Jurisdictions, and potentially consider broader interactions with other systems (such as the gas system, transport system, distribution system etc)*
- *Report on the range of benefits and contemplate allowing multiple objective decision making to demonstrate risks and assess the utility of various candidate plans.*

We are particularly concerned with references made to High Impact Low Probability (HILP) events being a potential consideration of the ISP. HILP events are already a consideration of the existing Reliability Standard and are currently part of an AER review into the Value of Customer Reliability (VCR). Energy users have voiced a strong opinion that HILP events are already adequately addressed via these independent assessments that have also included strong consumer and stakeholder engagement.

Our recommendation would be for AEMO to develop the ISP in accordance with these existing processes and outcomes, not develop another process to potentially by-pass what has been a robust, independent assessment.

We are also concerned with references made to “needs arising as a result of public policies as instructed by NEM Participating Jurisdictions” and that the ISP should “Take a broader definition of NEM obligations than the current RIT-T application”.

Quite frankly our concern is this could open the floodgates to a new round of ISP inspire gold plating, resulting in significant costs being borne by consumers to facilitate a policy agenda by any state or federal government without due process or proper

assessment. For example, we would be concerned if climate change (i.e. future value of abatement activities) was included as part of a RIT-T or ISP assessment.

The issue of abatement value is not only dealt with externally via other state and federal mechanisms (i.e. renewable energy targets) and its inclusion would likely lead to inflated benefit assumptions being used to justify significant infrastructure expansion.

KEY ISSUES FOR CONSULTATION

Extent to which ISP deadlines are prescribed in the Rules

The ISP process should be clearly defined in the Rules to provide clarity for AEMO with regards to their obligations and for stakeholders to clearly understand the process to be undertaken in the preparation of the ISP. We agree with the ESB's view that the ISP will form part of the integrated planning process, as such, it is critical that the scope and purpose of the ISP be clearly defined within the Rules.

Where AEMO is afforded some flexibility in complying with the provisions of the Rules with regards to the ISP, suitable transparency provisions must be in place to ensure that AEMO's decision making in this area conforms to the Rules and guidelines. This will also be crucial to building stakeholder trust in the ISP and process.

We believe the ISP should be published every two years but be accompanied by a process of constant stakeholder engagement in the same way as many network service providers are progressively undertaking.

Governance of ISP

As per our comments regarding Section 2 of the Consultation paper.

Scope for further subordinate documents

We support the ESB's proposal that requires AEMO to prepare an ISP preparation methodology document which details the framework of how AEMO will comply with the Rules and Guidelines in the development of the ISP. As already identified, AEMO should make use of a range of existing analysis in areas such as the Reliability Standard and VCR and not seek to replicate or dilute these important, independent inputs to the ISP.

AER revenue approval

The EUAA are of the firm view that the AER remain as the regulatory approval body rather than AEMO as a market operator. The AER is best placed to perform the final review that the proposed network augmentation satisfies the regulatory test. This is crucial to sound governance and to stakeholder confidence that appropriate checks and balances are in balance.

Regarding Clause 5.15.6 "*Determination that preferred option satisfies the regulatory investment test for transmission*". This provides a critical step in the RIT-T process where the AER formally considers that the proponent has correctly applied the RIT-T process, that the preferred option satisfies the RIT-T and that consumer interests are best served by the construction of the proposed network assets. Removing this step from the current process will not be in the long-term interest of consumers and therefore the EUAA does not support its removal from the Rules.

Dispute resolution

We support the retention of the existing Clause 5.16.5 as the dispute process for RIT-T investments.

Safety net

The EUAA supports the retention of the AEMC's last resort planning power as set out in clause 5.22 of the Rules. However, currently subclause 5.22 (f) of the Rules only allows the consideration of a limited list of specific trigger events in considering whether or not to exercise a last resort planning power. We believe that this current list is too narrow and should include the ability for stakeholder to refer a specific project to the AEMC for consideration based on an identified need. This will allow increased input on a last resort basis by informed stakeholders where it is demonstrated a gap in the planning process may have occurred.