



21 June 2019

The Chairman  
Energy Security Board  
C/- CoAG Energy Council

Sent by: email to [info@esb.org.au](mailto:info@esb.org.au)

### **Converting the Integrated System Plan into Action Response to Consultation Paper**

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views on the Energy Security Board (ESB) consultation paper on converting the Integrated System Plan (ISP) into action.

The MEU and its regional affiliates have been advocating in the interests of energy consumer for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

The MEU has been a consistent respondent to the various ESB consultations since its inception.

As an overarching issue regarding the actioning of the ISP, the MEU has observed that the cost to consumers for the provision of the transport networks to deliver electricity to consumers has grown massively over the past decade, even when assessed in real relative terms. The cost of networks drives some 40-50% of the total cost of electricity delivered to end users and this means that further increases in the cost of networks needs to be prevented.

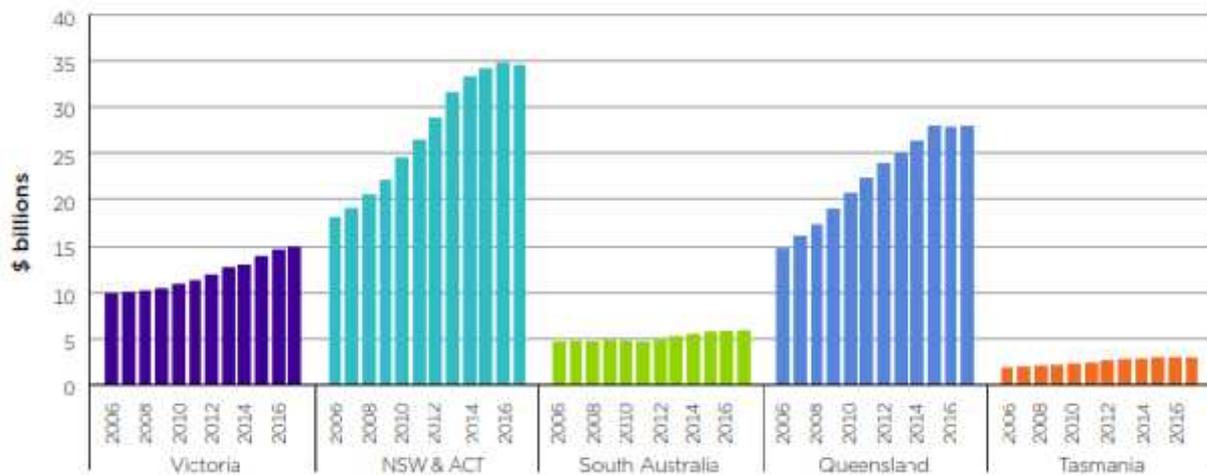
Of the total revenue granted to networks under the regulatory approach used to set allowed network revenues, some 50% of the revenue of is driven by the Regulatory Asset Bases (RABs) coupled to the cost of capital so further growth in the RABs needs to be minimised to limit network revenue growth.

This aspect was identified by the ACCC in its Retail Electricity Pricing Inquiry where it provided the following chart on the increases in for electricity transport in each state.

***2-3 Parkhaven Court, Healesville, Victoria, 3777***

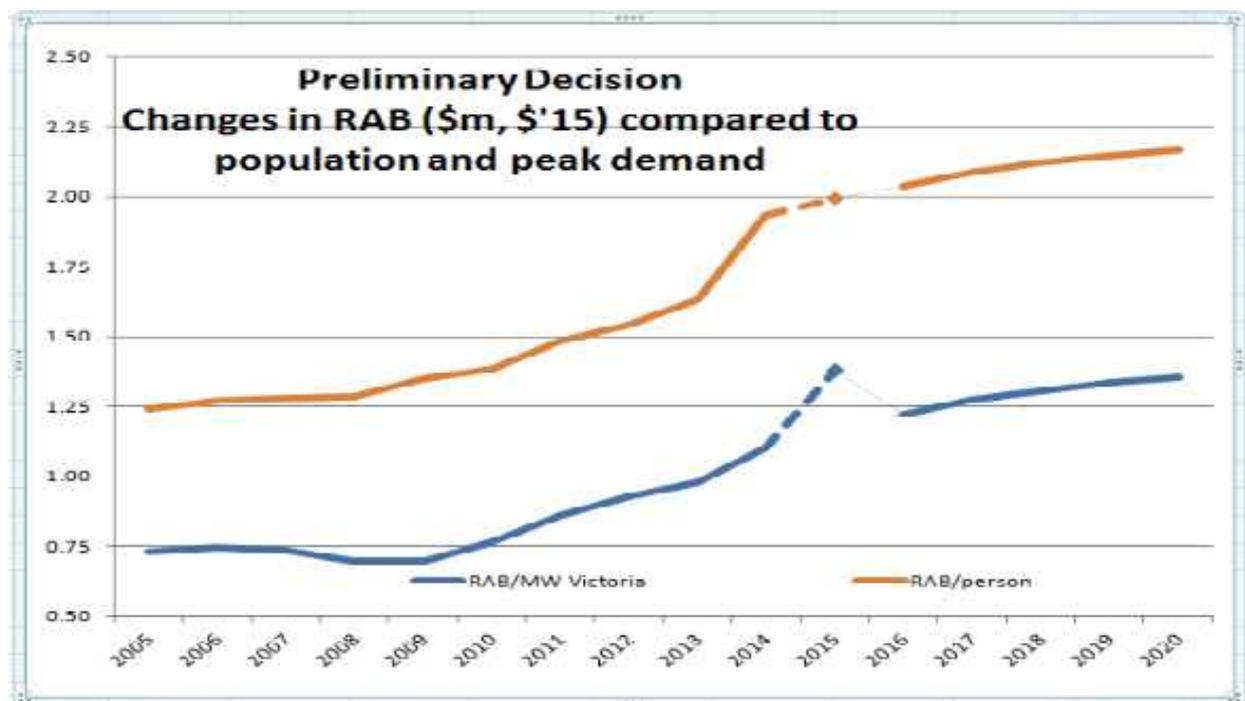
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Figure D: Regulatory asset base from 2006 to 2017, by NEM region, real \$2015-17



Source: ACCC, Restoring electricity affordability and Australia's competitive advantage, p159

This issue was also highlighted by the AER Consumer Challenge Panel (CCP3) in its response to the Victorian electricity distribution networks review in 2015 where CCP3 identified the growth in the networks relative to peak demand and customer numbers. The CCP3 published the following chart:



Source: RIN data, DNSP proposals, CCP3 analysis

The MEU notes that the charts are typical across the NEM and what they show is that the cost of providing the assets in the electricity networks has grown considerably and that steps are required to minimise this growth so that the supply of electricity to consumers can be made more affordable.

The MEU also points out that the utilisation of the assets has fallen over time. This is particularly observable in the case of distribution networks (where utilisation is required to be detailed in economic benchmarking Regulatory Information Notices (RINs) but it can be, to some extent, seen in transmission networks through the amounts of spare capacity seen in transformer capacity provided in transmission economic benchmarking RINs.

While the ACCC review discusses the issues of both RABs and network utilisation without coming to a final conclusion, the fact that the ACCC recommends that significant write-downs of network asset values should be considered is indicative of its concern that RABs are too high for the service they provide. The ACCC makes the observation that the decisions made that led to the overinvestment in the electricity networks were probably made in good faith but implies that the excess growth in the RABs was attributable to deficiencies in the rules and that they consider that rule changes subsequently made have since mitigated excess growth in the RAB.

The MEU considers that what has led to over-investment is that decisions were made that were from deficiencies in the rules and were not required to be sufficiently subject to detailed analysis. So what is now seen quite widely is an increase in electricity network RAB values (including on a relative basis) coupled to a reduction in utilisation of the assets. Consumers cannot afford to continue allowing growth in the networks where such growth adds to costs without providing a clear and efficient long term benefit.

While the MEU does accept that the network rules have been changed to limit the extent of excess investment in the networks, it highlights the importance of ensuring that any new rule that might arise from the ESB assessment, must reflect the importance of limiting incentives for excess investment and that close control and analysis of new augmentations arising from the ISP are strongly reinforced with appropriate independent verification, an ability to question proposals and for there to be an appeal process should stakeholders not be satisfied with what is proposed.

It is with this overarching view that the MEU makes the following observations regarding the proposals to “action” the ISP.

### **1. Consultation and cost benefit analyses**

As a prime concern, the MEU does not consider that the requirement for a detailed cost benefit analysis with the ability for strong stakeholder input should be jeopardised in the slightest from how the current arrangements operate.

The implication of the ISP action plan is that; when AEMO prepares the ISP, the ISP reflects the best solution to resolve a perceived need in the network. The MEU does not consider that this is appropriate unless there is wide consultation about the need and options to address the need, as it is clear from other planning work carried out by

AEMO, AEMO has not always carried out sufficient evaluation to reflect the needs of an augmentation<sup>1</sup>.

The MEU accepts that AEMO will have used its skills to identify a need and to develop its preferred solution to that need but under the Regulatory Investment Test – Transmission (RIT-T) process, a detailed consultation process is required to identify whether there is a need, what the various options for addressing the need might be and to eliminate those options which are not cost effective; such a process clearly needs inclusion of a cost to benefit analysis. Once a preferred option is identified, costed and benefits calculated, this decision must be subject to a review by an independent body.

The proposed ISP process does not specifically require that AEMO will be required to consult widely when identifying if there is a need and in developing its preferred option, but the process for finalising the RIT-T process by regional transmission networks assumes that the ISP provides a de facto conclusion that ISP assessment provides the best solution to the perceived need. What is lacking in the proposed approach to making the ISP “actionable” is that there needs to be a clear requirement that AEMO consult widely at all stages and that there must be a process for consumers and other stakeholders to appeal the AEMO conclusions in terms of:

- ) Identifying a perceived need
- ) Developing potential solutions
- ) Analysis of the costs and benefits for the potential solution
- ) Selection of the preferred solution
- ) Inclusion in the ISP

The MEU considers that the preferred solution to a perceived need must be subject to wide consultation, significant analysis and cost benefit assessment, and that this analysis must be transparent with detailed documentation made publicly available so that consumers and other stakeholders can be satisfied that there really is a need and that the best solution has been identified.

## **2. An appeal or disputes process is needed**

The decisions of AEMO for the ISP can have wide reaching impacts and result in considerable costs to consumers. This means, as noted above, that the process undertaken by AEMO must be subject to wide consultation and cost benefit analysis.

The MEU notes that the AER is currently required to assess the work carried out by networks in relation to the RIT processes so it would be appropriate for the AER to be the party to whom consumers and other stakeholders can appeal if they are

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<sup>1</sup> For example, in the recent PSCR process carried out by AEMO for the augmentation of the Victoria NSW Interconnector (a project identified as a “group 1” project in the ISP), the MEU highlighted a aspect which had not been addressed by AEMO and which subsequently AEMO undertook to include in its further analysis.

dissatisfied with extent of consultation for the ISP decisions, the preferred option decision itself and any cost benefit analysis carried out by AEMO.

The MEU also notes that the AEMC (in its role as the planner of last resort) should also be subject to having its decision making subject to wide consultation and review of its cost benefit analysis by an independent body.

The MEU considers that the AER is the appropriate body for such an appeal for the ISP and AEMC decisions for planning decisions for their network investment proposals, both to ensure there has been adequate and appropriate consultation and about the conclusions reached.

### **3. Guidelines – planning and forecasting**

The MEU notes that the proposed changes will require the development and implementation of Best Practice guidelines. The MEU supports this but is concerned that there needs to be a differentiation between planning of the transmission network from the forecasting inherent in the development of the Statement of Opportunities (ESoO) and implementing the Retailer Reliability Obligation (RRO). The MEU is a member of the AEMO Forecasting Reference Group and its involvement has clearly highlighted that the process of forecasting for the needs of the ESoO and the RRO are (and need to be) different to the role of planning the growth of the transmission network, even though the forecasting process would provide input into the planning function.

The MEU considers that planning of the transmission network for the future needs of consumers has different drivers and controls to those needed for forecasting activities, especially in relation to the balancing of costs of augmentations to the benefits such augmentations might bring.

With this in mind, the MEU considers that the planning function should have its own Best Practice guideline and not rely on the Best Practice Forecasting guideline that is already being developed.

Further, the MEU considers there is a need for a guideline which provides clarity on how AEMO is to carry out its cost benefit analyses when deciding on identification of its preferred solution for inclusion in the ISP

### **4. Time frames**

The MEU is aware that the timeframes inherent if the ISP development and the RIT processes need to be as short as possible to allow the earliest development of needed infrastructure. Equally, these timeframes also need to be sufficiently long to ensure that there is adequate consultation and for detailed analysis to be undertaken and that all options are fully examined; these assets will be costly and long lived, imposing costs on future generations of consumers, so great care must be taken to ensure there is no

repeat of what has been seen in recent times regarding unnecessary augmentation of the NEM network.

The MEU is aware that some augmentation projects for the transmission network have been developed for implementation many years into the future. With the technology advances seen in recent years and new generation costs falling so rapidly at the moment, the MEU is very concerned that decisions made now to augment the network (eg in the ISP) but for building to commence many years hence, could result in outcomes being sub optimal by the time construction commences. The MEU considers that even if the ISP includes for future augmentation, subsequent ISP iterations must readdress these proposals using the same rigour that their inclusion was based on, and commencement of any RIT-T process must be delayed until the augmentation is demonstrably identified as needed in the near future.

## **5. Generator connection assets**

The MEU is very concerned that the changes contemplated for actioning the ISP can result in consumers providing assets which should rightly be the province of generators. The rules provide that consumers are required to fund the “shared assets” and that generators are required to pay for connection to these shared assets. However, the augmentation of the shared assets can be implemented in such a way that will lead to the minimisation of connection asset costs but significantly increase the infrastructure considered to be shared assets but where there is no net benefit to consumers for funding this augmentation.

For example, in 2010 a rule change was proposed that consumers should underwrite the building of scale efficient network extensions (SENE) to the shared network so that a group of generators in a similar location (such as in a renewable energy zone) could connect to the shared assets in a cost effective way. The import of the proposal was that the shared asset part of the network would be extended to such a common region at consumer expense until all of the generation planned for that region was built. This imposed considerable risk and cost to consumers and minimised the risks faced by the new generation. The proposed rule change was significantly modified to eliminate risk for consumers but effectively allowed generators to work together to minimise the overall connection assets needed by all.

As a matter of policy, the MEU considers that the ESB should require that there continues to be strong locational signals for generators such that a decision by generators to locate in the best resource location (to maximise the output of their generation assets) does not come at a cost to consumers by augmenting the shared assets.

The MEU considers there is a risk that in planning for network augmentations, there might not be sufficient controls in place to avoid consumer funded assets that should rightly be a cost to generation. This reinforces the MEU view, that there needs to be a strong consultation requirement and appeal provision built into the ISP

development so that consumers can prevent themselves being liable for the costs that should be the province of generators.

## 6. Summary of MEU position

While the MEU is generally supportive of the concept behind the consultation paper, it is very concerned that the approach proposed by the ESB leads to a reduction in the controls inherent in the current RIT-T requirements to ensure that any investment in the shared network delivers net benefits to consumers.

The MEU considers there needs to be an increase in the governance proposed for the ISP process to ensure that there is no augmentation of the shared transmission network that does not deliver clear benefits to consumers and that consumers are not liable for augmentation which should be paid for by others; by doing so, this will ensure that a continuation of RAB growth does not occur without delivering the best outcome for consumers overall.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at [davidheadberry@bigpond.com](mailto:davidheadberry@bigpond.com) or (03) 5962 3225

Yours faithfully



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