

20 June 2019

Dr Kerry Schott AO
Independent Chair
Energy Security Board

Via email: info@esb.org.au

Dear Dr Schott,

RE: TasNetworks Response to Consultation Paper on Actionable ISP

TasNetworks welcomes the opportunity to make a submission to the Energy Security Board (**ESB**) on converting the Integrated System Plan (**ISP**) into action. TasNetworks is the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider (**DNSP**) and jurisdictional planner in Tasmania. TasNetworks is also currently assessing the feasibility of Marinus Link, a second Bass Strait interconnector between Victoria and Tasmania.

In discharging these obligations, TasNetworks is keenly focused on the prudent, safe and efficient management and development of the Tasmanian power system and its interconnection with the rest of the NEM. TasNetworks is therefore supportive of the ESB's continuing efforts to integrate the ISP within the regulatory framework. TasNetworks supports Energy Networks Australia's (**ENA**) submission and provides the following comments for additional consideration.

Timing Deadlines

TasNetworks considers that the Australian Energy Market Operator (**AEMO**) should be required to publish an ISP at least every two years. TasNetworks suggests that this be supplemented with a requirement to publish an earlier ISP or additional consultation paper in the event of a material and/or unexpected change occurring. For example, from an unexpected closure of coal plant or a significant change in government policy such as the introduction of a carbon tax. TasNetworks suggests principles for updating the ISP be set out in the National Electricity Rules (**NER**) to provide transparency and predictability to stakeholders.

TasNetworks also considers there must be enough flexibility in the timeline for AEMO to appropriately incorporate other interdependent elements of the planning framework. That is, from TNSP annual planning reports and the joint planning process. Similarly, sufficient time must also be granted post publication of the ISP to allow TNSPs to complete any Project Assessment Draft Reports (**PADRs**). Lacking such flexibility places efficient transmission investment at risk.

Governance Framework

TasNetworks supports the proposed governance framework outlined in the consultation paper. This includes development of the suggested Cost Benefit Analysis (**CBA**) Guideline and the development of an ISP methodology. However, TasNetworks considers that the Forecasting Best Practice is better covered through a mix of principles, the current Retailer Reliability Obligation Forecasting Guideline and/or the ISP methodology in order to avoid a proliferation of new Guidelines.

Consistent with the existing arrangements for the National Transmission Network Development Plan (**NTNDP**), TasNetworks suggests the principles governing the Guidelines are codified in the NER. A formal Australian Energy Regulator (**AER**) consultation should then occur to develop the final Guidelines. TasNetworks considers the Guidelines should include requirements covering:

- consultation timeframes;
- risk frameworks;
- interactions with the RIT-T and the ESB Adjustment Fund; and
- how projects will be assessed for inclusion as part of ISP core development pathways.

Subordinate Guidelines

As indicated above, TasNetworks supports a requirement within the NER for AEMO to prepare an ISP methodology. TasNetworks considers this methodology should set out how:

- AEMO intends to develop the ISP;
- AEMO will apply and adhere to other relevant Guidelines such as the CBA Guideline;
- Renewable Energy Zones (**REZs**) are to be identified and incorporated within the ISP; and
- a proposed timeline.

TasNetworks considers the Guideline should be subject to review and refinement following a transparent stakeholder consultation process.

Contingent Project Mechanism

TasNetworks considers it essential that the AER determination on contingent project funding occurs as quickly as possible in order to facilitate timely transmission investment. In theory, TNSPs may progress transmission projects before the AER determination has been finalised. However, in practice, lack of a revenue certainty often times precludes projects being advanced. This is due to reticence amongst investors to provide funding without regulatory certainty and the low regulated Weighted Average Cost of Capital (**WACC**) precluding networks from taking on additional funding risk on their own balance sheets. TasNetworks therefore supports the proposal to remove the 5.16.6 determination on whether the preferred option assessment satisfies the RIT-T. As noted in the Coordination of Generation and Transmission Investment (**CoGaTI**) final report, this would:

- harmonise the RIT-T process with that of the Regulatory Investment Test for Distribution (**RIT-D**);
- streamline the RIT-T process;
- provide greater investment certainty, and thereby;
- facilitate more timely transmission investment.

It might appear that this change would reduce the AER's time to assess the economic efficiency of ISP RIT-T projects. However, the AER's current 5.16.6 assessment does not consider the costs of the project. This is the subject of the contingent project revenue application which would remain part of the RIT-T process.

In this respect, TasNetworks notes that the AER can already extend the contingent project revenue assessment from 40 to 100 days for complex projects. Along with the increased consultation opportunities afforded through the draft ISP process, this means the AER should still have sufficient time to assess the efficiency of planned transmission investment. TasNetworks therefore disagrees with the suggestion that a longer timeframe will be necessary for the AER to determine contingent project revenue post removal of the 5.16.6 determination.

Dispute Resolution Framework

TasNetworks supports the proposal that parties should not be able to dispute a RIT-T if it is consistent with the ISP. The one exception being those cases where a material change in circumstances has occurred since the publication of the last ISP that would cast doubt upon a RIT-T

Project Assessment Conclusions Report (**PACR**). As above, this is likely to result in the most efficient and timely transmission investment occurring.

TasNetworks agrees with the ESB that concerns over individual elements of the ISP are best addressed as part of the ISP rather than separately in the RIT-T process. TasNetworks agrees there may also be merit in allowing stakeholders to raise concerns to the AER for formal assessment. However, given the interdependencies within the ISP, the risk is that any dispute relating to one element of the ISP could see the entire ISP delayed. TasNetworks therefore suggests that the threshold for lodging a dispute must be sufficiently high to discourage methodological 'tyre-kicking'. For example, by limiting the circumstances in which a dispute might be raised to cases of material error or where AEMO has not followed applicable guidelines. TasNetworks also suggests that where a dispute has been raised in the ISP process, a similar dispute should not be able to be raised within the RIT-T process.

Last Resort Planning Function

The consultation paper proposes that a notice may be issued by the AER to the TNSP specifying the options(s) it must consider if the TNSP is not progressing the RIT-T in a timely fashion. However, TasNetworks notes that the proposed ESB model already includes a requirement on TNSPs to undertake a PADR post ISP publication. In this sense, it would seem that the Last Resort Planning function is redundant. TasNetworks suggests that if the intention of the notice is to allow the Planner of Last Resort to direct a TNSP to consider another option where the TNSP prefers one inconsistent with the ISP, then this should be further clarified.

ISP Scope

The ESB suggests that AEMO's ISP should maximise the net economic benefit on a system-wide basis across the NEM under a range of scenarios. However, the ESB also suggests the ISP should meet NEM obligations and public policy objectives as well as consider broader interactions with other systems. For example, transport and gas distribution systems.

TasNetworks notes that this scope extends far beyond AEMO's current obligation to have regard to the National Electricity Objective (**NEO**) when carrying out its planning functions. It also goes beyond criteria considerations in the RIT-T. TasNetworks considers that these will need to be made consistent if an actionable and robust ISP is to result. TasNetworks therefore suggests that further consideration be given to the ISP scope definition and its relationship with other elements of the regulatory planning framework.

TasNetworks would welcome the opportunity to discuss this submission further with you. Should you have any questions, please contact Tim Astley, Team Leader NEM Strategy and Compliance, via email (tim.astley@tasnetworks.com.au) or by phone on (03) 6271 6151.

Yours sincerely,



Chantal Hopwood
Leader Regulation