

16 January 2020

Dr Kerry Schott AO  
Independent Chair  
Energy Security Board

Tasmanian Networks Pty Ltd  
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Via email: [info@esb.org.au](mailto:info@esb.org.au)

Dear Dr Schott,

## **RE: CONVERTING THE INTEGRATED SYSTEM PLAN INTO ACTION**

TasNetworks welcomes the opportunity to make a submission to the Energy Security Board (**ESB**) on the actioning the Integrated System Plan (**ISP**).

TasNetworks is the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider (**DNSP**) and Jurisdictional Planner (**JP**) in Tasmania. TasNetworks is also the proponent for Marinus Link, a proposed new National Electricity Market (**NEM**) interconnector between Tasmania and Victoria. The focus in all of these roles is to deliver safe, secure and reliable electricity network services to Tasmanian and NEM customers at the lowest sustainable prices. TasNetworks is therefore appreciative of the ESB's efforts to consult on draft Rules to action the ISP.

TasNetworks supports Energy Networks Australia's (**ENA**) submission and would like to make several further comments with a particular focus on the Tasmanian context. The key points in this submission are:

- TasNetworks broadly supports the framework set out in the draft Rules but considers one critical matter not contemplated in the draft Rules is the status of 'shovel-ready' works. TasNetworks suggests these be considered actionable ISP projects for the purposes of both the ISP and RIT-T with all cost recovery and transitional arrangements applying.
- TasNetworks supports the proposed joint planning framework provisions and suggests the intent behind them could be further strengthened with requirements on the Australian Energy Market Operator (**AEMO**) to:
  - consult with TNSPs prior to publishing and/or updating its ISP timetable;
  - take TNSPs' Transmission Annual Planning Reports (**TAPRs**) into account in formulating the ISP;
  - base its estimate of the costs for actionable ISP projects on the cost estimate provided by the relevant TNSP; and
  - run economic modelling for TNSPs for Regulatory Investment Test for Transmission (**RIT-T**) assessments where requested.
- TasNetworks also supports ENA's proposed amendment to the draft ISP Rules that would see any cost increases to TNSPs as a result of increased ISP joint planning activity subject to specific pass-through arrangements.

- Given the more detailed understanding of local network characteristics and related experience that TNSPs can provide in assessing the feasibility of Non-Network Options (**NNO**), TasNetworks considers that TNSP involvement in identifying and setting the technical requirements that NNO will have to meet should be mandated as part of the draft ISP engagement.
- TasNetworks agrees that using a probability weighted approach to select the optimal development pathway will likely underweight the future risks associated with the current energy transformation. TasNetworks therefore supports AEMO being granted methodological flexibility to choose the optimal development pathway so long as the same freedom is granted to TNSPs as part of the RIT-T analysis. This is to ensure consistency between ISP and RIT-T outcomes.
- TasNetworks supports the two month extension to the deadline for publishing the Project Assessment Draft Report (**PADR**) following the release of the final ISP. TasNetworks considers this will result in more robust and rigorous PADR analysis.
- TasNetworks agrees with the proposal for actionable ISP projects to be automatically defined as contingent projects. However, TasNetworks considers the criterion in 5.16A.5(a)(1) may be too inflexible to support the streamlined process envisioned by the ESB. TasNetworks suggests AEMO be granted flexibility to consider materiality issues to avoid unnecessary analysis and ISP iterations.
- TasNetworks also suggests the efficiency and streamlining benefits of 5.15A.3 might be enhanced with a further change. That is, where there is only one option that meets the ISP identified need, alternatives to the option should not have to be considered in the PADR.
- TasNetworks acknowledges and supports the consultation paper statement that TNSPs will be able to apply the old or new RIT-T processes for actionable ISP projects where a RIT-T for an actionable project has already commenced. However, TasNetworks notes that this is not clearly reflected in the drafting. TasNetworks suggests that drafting is clarified so that the flexibility intended by the ESB is actually reproduced in the draft Rules.
- TasNetworks supports the proposal to limit ISP disputes to matters of process and avoid re-litigation of issues in the RIT-T when they have already been previously considered in the ISP. In conjunction with the increased consultative requirements on AEMO, TasNetworks considers this strikes an appropriate balance between transparency and ensuring requisite network investment is delivered in a timely manner.

TasNetworks' detailed responses to the consultation paper are provided below and we welcome the opportunity to discuss this submission further with you. Should you have any questions, please contact Chantal Hopwood, Leader Regulation, via email ([chantal.hopwood@tasnetworks.com.au](mailto:chantal.hopwood@tasnetworks.com.au)) or by phone on (03) 6271 6511.

Yours sincerely,



Wayne Tucker

General Manager, Regulation, Policy and Strategic Asset Management

## Developing the ISP

### *Scope, Purpose and Governance Framework*

TasNetworks agrees the Integrated System Plan (**ISP**) scope and purpose should be set out in the National Electricity Rules (**NER**). To the extent that economic efficiency and good electricity industry practice must also be observed, TasNetworks supports the proposed power system needs which the ISP will seek to address. TasNetworks also supports the policy commitment criteria that will inform which public policies will be included in the central ISP case. TasNetworks also agrees that the scope of the ISP be limited to long term optimal system development planning. In this way, more timely stand-alone reports can be used to deal with emerging system security concerns such as inertia and system strength.

TasNetworks notes that the scope of the ISP would reflect the Australian Energy Market Operator's (**AEMO's**) National Transmission Planning function under the National Electricity Law (**NEL**). TasNetworks also notes that the draft Rules propose shifting some of this functionality and cost to Transmission Network Service Providers (**TNSPs**) as part of the enhanced joint system planning arrangements (see further discussion below). Given this, and the fact that TNSPs will continue to undertake the majority of Regulatory Investment Test for Transmission (**RIT-T**) applications both inside and outside of the ISP, TasNetworks suggests these TNSP functions are explicitly recognised in the NER. This is to avoid any confusion on ISP roles, responsibilities and obligations.

TasNetworks supports the proposed governance framework and agrees that including the Cost Benefit Analysis (**CBA**) principles in the rules rather than the guidelines will support transparency and independence. However, it is crucial that the CBA approach for ISP projects is consistent for TNSPs and AEMO. This includes the use of consistent input assumptions and definitions. Without these, there is the risk that ISP projects considered part of the optimal development path will not pass the RIT-T with the consequential loss in economic efficiency.

On this point, TasNetworks notes one matter not contemplated in the draft Rules is the status of projects to progress a development to a 'shovel-ready' stage. These are projects which:

- address an identified need specified in the ISP;
- form part of the optimal development path in the ISP;
- thereby meet the definition of an actionable ISP project under the draft Rules; but
- only with respect to certain project elements such as design and approvals works.

Marinus Link is the prototypical example in the draft 2020 ISP. However, TasNetworks notes that other projects could fall into this category. For example, as a result of optimal timing changes in response to different ISP scenarios playing out.

As noted by AEMO in the draft 2020 ISP, shovel-ready works are highly recommended as a prudent approach to maintain ISP optionality and flexibility whilst the project is further assessed. Given this, TasNetworks suggests works to progress a development to 'shovel-ready' status be considered actionable ISP projects for the purposes of both the ISP and RIT-T with commensurate cost recovery and transitional arrangements applying.

### *Consultation and Timing*

TasNetworks supports a biennial ISP publication timetable but notes that this will have substantial impact on TNSP planning activities. TNSP Transmission Annual Planning Report (**TAPR**) deadlines are proposed to be moved to 31 October so that they can take account of ISP developments. Moreover, and as highlighted above, the enhanced joint planning function required to facilitate the ISP will see some of the National Planning function fall to TNSPs. This includes the need to evaluate Non-Network Options (**NNO**) submissions to the draft ISP. Given these impacts, TasNetworks considers that consultation with TNSPs on the ISP timetable be a rules requirement for AEMO.

TasNetworks also suggests that further consideration be given to mandating the date by which the ISP inputs and assumptions must be developed. TasNetworks notes that this is the first stage in the development process. Without any firm deadline attached to it, there is a risk that subsequent stages are unduly compressed. This could lead to less or rushed consultation and result in poorer ISP outcomes.

TasNetworks supports a full and rigorous consultation process so that all stakeholders, particularly customer advocates, can help shape the ISP. TasNetworks therefore supports an ISP Panel being established to help advise AEMO in preparing the ISP.

#### *Non-Network Options and the Optimal Development Pathway*

In order to give effect to the ISP Action Plan, it is proposed that the ISP will replace the first stage of the RIT-T. As part of this, it is proposed that AEMO will have sole responsibility for identifying credible NNO during development of the draft ISP. However, this seems at odds with the intention behind the enhanced ISP joint planning framework expressed in clause 5.14.4. Given the more detailed understanding of local network characteristics and related experience that TNSPs can provide in assessing the feasibility of NNO, TasNetworks considers that TNSP involvement in identifying and setting the technical requirements that NNO will have to meet should be mandated as part of AEMO's draft ISP engagement.

TasNetworks considers this should only occur as part of the initial ISP analysis, however, with no new NNO included as part of the Project Assessment Draft Report (**PADR**) analysis. This is in keeping with the stated aim of the actionable ISP framework to streamline and speed up ISP project delivery.

In terms of selecting the optimal development pathway, TasNetworks agrees that using a probability weighted approach will likely underweight the future risks associated with the current energy transformation. TasNetworks therefore supports AEMO being granted flexibility to choose the optimal development pathway. For example, opting for a pathway that is more resilient across a range of future possible worlds rather than simply maximising net economic benefits in only one scenario.

Despite this support, TasNetworks considers that it is critical that the same freedom be granted to TNSPs as part of the RIT-T analysis. This includes being able to alter those projects considered in the base case for the RIT-T where more accurate and/or up to date information on ISP projects and development opportunities is available. TasNetworks suggests this be reflected as a principle in the NER as part of the draft ISP changes.

Under clause 5.22.8(a)(5)(vi), AEMO must consider relevant intra jurisdictional developments and any incremental works that may be needed to implement the ISP. TasNetworks notes that there is no mention of inter jurisdictional developments except insofar as flows and losses on interconnectors are mentioned in 5.22.8(a)(5)(vii). If it is the intent that 5.22.8(a)(5)(vii) is to be the catch all for inter jurisdictional developments, TasNetworks suggests that this may instead be better accommodated by drafting that requires AEMO to simply have regard to all transmission projects that are being progressed.

Beyond these considerations, TasNetworks supports the proposed list of costs and benefits that AEMO must consider as part of its ISP analysis under clauses 5.22.8 (c) and (d) of the draft Rules.

#### *Joint Planning Framework*

The draft Rules lay out a number of provisions for TNSPs and AEMO to work together to ensure efficient and effective delivery of the ISP. For example, sharing of and consulting on both TAPRs and the draft optimal development plan prior to publication. TasNetworks supports these provisions and suggests the intent behind them could be further strengthened consistent with the comments above. That is, with requirements on AEMO to:

- consult with TNSPs prior to publishing and/or updating its ISP timetable so that the timing of interactions between the ISP and local planning activities can be appropriately considered;
- take TNSPs' TAPRs into account in formulating the ISP;
- base its estimate of the costs for actionable ISP projects on the cost estimate provided by the relevant TNSP; and
- run economic modelling for TNSPs for their RIT-T assessments where requested.

In terms of the national planning costs proposed to be allocated to TNSPs as part of the enhanced joint planning arrangements, TasNetworks notes that the Energy Security Board (**ESB**) has suggested overall costs to TNSPs will not rise. This is due to the expected savings TNSPs will benefit from with the first stage of the RIT-T, the Project Specification Consultation Report (**PSCR**), being undertaken by AEMO. TasNetworks considers these cost savings may not be as substantial as envisioned given the additional joint planning obligations and the fact that market modelling will still need to be undertaken by TNSPs in the second stage of the RIT-T, viz., the PADR. Given this, TasNetworks supports Energy Networks Australia's (**ENA's**) proposed amendment to the draft ISP Rules that would see any cost increases resulting from factors outside TNSP control subject to specific pass-through arrangements. For further information on the proposed amendment, please see the ENA submission.

#### *Disputes and Updates*

TasNetworks supports the proposals in the draft Rules to limit ISP disputes to matters of process and avoiding re-litigation of issues in the RIT-T when they have already been previously considered in the ISP. In conjunction with the increased consultative requirements on AEMO, TasNetworks considers this strikes an appropriate balance between transparency and ensuring requisite network investment is delivered in a timely manner.

TasNetworks notes that a legitimate dispute may stop an ISP project from going ahead. TasNetworks also notes that such an outcome may result from a rerun of the ISP stemming from a 'material change'. It is not clear in these cases how costs incurred in undertaking the RIT-T to that point will be reimbursed. Similar to the sentiment above, TasNetworks suggests that cost-pass through arrangements be considered for those situations where events outside the control of the TNSP result in the RIT-T being abandoned.

### **Implementing the ISP**

#### *RIT-T Scope, Timeframe and Alignment*

TasNetworks supports the proposed amendments in the draft Rules to streamline RIT-T assessments for ISP projects. This includes mandating that the deadline for PADR publication be no earlier than six months following the release of the final ISP. Although an increase from the earlier proposed four month deadline, TasNetworks considers this will be more conducive to robust and rigorous TNSP PADRs. That is, PADRs that are consistent with delivering the optimal system plan in the long term interests of customers and that are less likely to lead to dispute.

The draft Rules propose allowing actionable ISP projects to be automatically defined as contingent projects, without needing an Australian Energy Regulator (**AER**) determination so long as they meet certain criteria. TasNetworks supports this approach but considers that the criterion in 5.16A.5(a)(1) may be too inflexible to support the streamlined process envisioned by the ESB.

Section 5.16A.5(a)(1) states that a project may be automatically defined as a contingent project if AEMO provides written advice that the RIT-T proponent's preferred option is the same as the ISP and if its expected cost is less than or equal to that assumed in the ISP. However, there is nothing in the draft Rules that covers the case where the expected costs are greater than that assumed in the earlier ISP analysis. Instead, the consultation paper seems to imply that a secondary feedback loop and ISP update, whereby the ISP is rerun by AEMO to compare the outturns with other ISP options,

will be used to determine whether the project is still consistent with the optimal system development path.

TasNetworks notes that costs at the contingent project assessments will reflect more detailed design and analysis than is required or appropriate to the early ISP and RIT-T stages. As such, it is possible that costs and/or the cost basis to the preferred ISP option will exceed and differ from earlier analysis. With no flexibility in 5.16A.5(a)(1) to consider materiality, this could mean further ISP iterations and updates even if costs were just a dollar different. Although TasNetworks understands the prophylactic intent behind section 5.16A.5(a)(1), TasNetworks suggests AEMO be granted flexibility to consider materiality under 5.16A.5(a)(1) such that unnecessary analysis and ISP iterations are avoided.

#### *Alternative Options, Last Resort Planning and Transitionals*

TasNetworks supports the drafting under 5.15A.3 that does not obligate TNSPs to reconsider options at the PADR stage that have already been considered in the ISP but which were not found to be consistent with the optimal development pathway. TasNetworks suggests that the efficiency and streamlining benefits of this intent might be further strengthened by one further change. That is, where there is only one option that meets the ISP identified need, alternatives to the option should not have to be considered in the PADR.

TasNetworks also supports changes to the Last Resort Planning power. This is on the basis that the actionable ISP framework make such power redundant.

In terms of transitional arrangements, TasNetworks notes and supports the statement on page 21 of the consultation paper for TNSPs to be able to apply the old or new RIT-T processes for actionable ISP projects where a RIT-T for an actionable ISP project has already commenced. However, TasNetworks notes that this is not clearly reflected in the drafting. For example, under 11.xx.3(b), if a RIT-T proponent has published the PACR but not requested a 5.16.6 determination from the AER, then new clause 5.16A.5 will apply. That is, there is no choice for a TNSP to apply the old RIT-T rules. This contrasts with clause 11.xx.3(c) which states that a proponent *may* obtain advice from AEMO under new clause 5.16A.5 for those projects that have had the PADR published. TasNetworks suggests that drafting is clarified so that the flexibility intended by the ESB is actually reflected in the draft Rules. This should include clarification of how projects already underway will be treated in the event of an ISP update or other factor that necessitates the ISP to be re-run.