

21/06/2019

Dr Kerry Shcott AO  
Chair  
Energy Security Board

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

Dear Kerry,

### **Converting the Integrated System Plan into action consultation paper submission**

TransGrid welcomes the opportunity to respond to the Energy Security Board's (**ESB**) converting the Integrated System Plan (**ISP**) into action consultation paper.

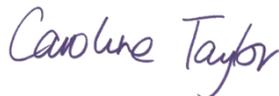
TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

TransGrid understands the ESB is seeking to progress some of the recommendations in the ESB's ISP Action Plan, which was endorsed in December 2018 by the COAG Energy Council. The recommendations that the ESB is progressing relate to developing changes to the National Electricity Rules to action future ISPs published by the Australian Energy Market Operator.

TransGrid commends the ESB for the work it has undertaken in consultation with stakeholders to date on the actioning of future ISPs. The effective actioning of the ISP is critical to the National Electricity Market as it has the potential to facilitate the efficient and timely development of nationally strategic transmission infrastructure, resulting in significant market benefits and lower price outcomes for consumers.

We appreciate the opportunity to comment on this consultation paper and look forward to engaging with the ESB and other stakeholders further on this important project. If you would like to discuss this submission, please contact me on 02 9284 3715.

Yours faithfully



Caroline Taylor  
**Head of Public Policy, Policy & Corporate Affairs**

## 1. Summary

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TransGrid welcomes the opportunity to respond to the Energy Security Board's (ESB) converting the Integrated System Plan into action consultation paper.

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

Australia is in the midst of an energy transformation. This is primarily driven by changing community expectations and choices, advances in renewable energy technologies, retirement of existing generation, and the adjustments required in Australia's economy to meet our international climate change commitments. These changes raise complex issues in relation to the design of the National Electricity Market (NEM) which must adapt to these changes and provide the basis for low emissions, reliable supply at the lowest cost to consumers over the long run.

TransGrid understands the ESB is seeking to progress some of the recommendations in the ESB's ISP Action Plan, which was endorsed in December 2018 by the COAG Energy Council. The recommendations that the ESB is progressing relate to developing changes to the National Electricity Rules (NER) to action future Integrated System Plans (ISP) published by the Australian Energy Market Operator (AEMO).<sup>1</sup> Recommendations relating to group 1 and group 2 projects identified in AEMO's 2018 ISP as well as other recommendations in the ISP Action Plan are being progressed by the ESB separately.<sup>2</sup>

TransGrid commends the ESB for the work it has undertaken in consultation with stakeholders to date on the actioning of future ISPs. The effective actioning of the ISP is critical to the NEM as it has the potential to facilitate the efficient and timely development of nationally strategic transmission infrastructure, resulting in significant market benefits and lower price outcomes for consumers.

The model developed by the ESB for actioning the ISP has the potential to achieve this outcome — we therefore strongly support it. We urge the ESB and other policymakers to work together to implement the changes needed and provide a stable policy and regulatory environment that encourages the required investment.

This submission sets out TransGrid's views on the model and governance framework for actioning the ISP being developed by the ESB, in particular:

- > Chapter 2 sets out our views on the ESB's objectives and principles for integrated system planning.
- > Chapter 3 discusses our views on the timing and scope of the ISP.
- > Chapter 4 sets out our views on the model developed by the ESB for actioning future ISPs.
- > Chapter 5 sets out our views on the ESB's proposed governance framework to give effect to its reforms.
- > In Chapter 6, we provide our views on the regulatory changes being progressed by the ESB for non-ISP projects.
- > Chapter 7 sets out our views on arrangements to transition to the new rules.

We have provided our response to the specific questions in the ESB's consultation paper in Appendix A.

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<sup>1</sup> We understand that the framework being consulted on by the ESB is intended to apply to from the next ISP, scheduled to be published in 2020.

<sup>2</sup> We note that the ESB provides an update on other recommendations in the consultation paper.

## 2. Objectives and principles for integrated system planning

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The ESB has identified objectives and principles to guide the design of the framework for developing and implementing the ISP (see Figure 1 below). The ESB states that these principles should also guide AEMO (as system-wide planner) and transmission network service providers (**TNSPs**) (as jurisdictional planners) and the Australian Energy Regulator (**AER**) (as economic regulator) in the exercise of their functions under the new framework. TransGrid supports the ESB's objectives and principles for integrated system planning.

**Figure 1: ESB's objective and principles for integrated system planning**

<b>Objectives</b>	<ul style="list-style-type: none"><li>• Transmission investment to support the efficient development of the power system in the long term interests of customers – i.e. to provide reliable and secure supply for consumers at an efficient cost.</li><li>• Information to support efficient decision making by market participants and policy makers.</li></ul>
<b>Principles</b>	<ul style="list-style-type: none"><li>• NEM-wide system planning that co-optimises network, supply-side and demand-side solutions</li><li>• Rigorous stakeholder engagement in developing the plan, scenarios, inputs, assumptions and draft outcomes</li><li>• Unbiased consideration of network &amp; non-network solutions aimed at providing long term efficient outcomes</li><li>• Transparent, comprehensive analysis to support recommendations</li><li>• Flexibility to deal with a transforming market and uncertainty</li><li>• Streamlined process with clear decision points and no duplication</li></ul>

Source: Energy Security Board, *Converting the Integrated System Plan into action*, Consultation paper, May 2019, p. 22.

## 3. The timing and scope of the ISP

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### 3.1 The timing of the ISP

We understand that the ESB proposes that the ISP be published at least every two years with updates between plans if there is a defined material event.

TransGrid considers that the NER should require AEMO to publish an ISP by a certain date every two years. Providing a date in the NER will provide certainty which will assist TNSPs in the preparation of their transmission annual planning reports. This approach is also more consistent with the requirements to publish other key documents in the NER. For example, the NER requires TNSPs to publish their transmission annual planning reports (**TAPR**) by 30 June each year.

We agree that AEMO should be required to update the ISP within the two year period if a defined material event has occurred. The NER should empower AEMO to issue guidelines on how and when an update to the ISP would be activated and conducted.

## 3.2 Scope of the ISP

The ESB does not propose to define the scope of the ISP in the NER. It states:

*“The ISP is intended to be a system-wide plan that is closely integrated with TNSP’s local planning processes with no bright-line distinction between what projects are to be included in the ISP, and what are not...If the ISP process identifies that a particular system need exists, then that would belong in the ISP.”*

TransGrid considers that the scope of the ISP should be clearly set out in the NER. A very wide and uncertain scope for ISP projects risks duplication of TNSPs’ planning activities and opens up revenue requirements, and costs to consumers, to greater uncertainty. The scope should be aligned to AEMO’s current planning functions in the National Electricity Law (**NEL**).

We note that the Australian Energy Market Commission (**AEMC**) considered PIAC’s definition of strategic projects should be adopted in order to guide the distinction as to what should be included in the ISP. PIAC considers strategic projects for the ISP are “those where significant benefits accrue across multiple NEM regions, such as those involving major upgrades to interconnectors or national transmission flow paths.” TransGrid supports this definition.

The scope of the ISP may also need to include the identification of priority energy zones by AEMO.

## 4. The ESB’s model for actioning the ISP

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The ESB sets out a model for system wide planning. It states that the framework builds on the model described in its ISP Action Plan presented to the COAG Energy Council and the AEMC’s Coordination of Generation and Transmission Investment (**COGATI**) final report published in December 2018.

At a high level the model involves:

- > AEMO developing the ISP in consultation with stakeholders – the ISP will identify a single recommended development pathway for the NEM including priority projects and the timeframes in which they should be developed.
- > The TNSP undertaking a streamlined regulatory investment test for transmission (RIT-T) which uses the ISP scenarios, inputs, assumptions, market modelling (where possible) and development path (unless demonstrated why parameters should change). There is no PSCR stage of the RIT-T – this has been replaced by the ISP.

TransGrid strongly supports the model that the ESB has developed for actioning the ISP noting that it picks up key elements of the model that TransGrid advocated for in 2018. In particular, that the ISP develops a system wide plan and that TNSPs would undertake detailed assessment of individual projects to optimise the identified projects.

This section sets out TransGrid’s views on particular elements of the model.

### 4.1 Consideration of non-network solutions

The ESB’s model proposes that AEMO be required to consider non-network solutions, such as generation, storage, demand side or distributed energy solutions, in the ISP. TNSPs would also be required to consider non-network solutions in the subsequent RIT-T process.

TransGrid supports a thorough examination of non-network solutions in both the ISP and the RIT-T process. This is appropriate to give stakeholders an appropriate opportunity to offer non-network solutions. It is important that where a non-network option has been considered in the ISP process, a TNSP should not be required to assess the same option in the RIT-T – this would represent duplication and result in unnecessary delays to the process.

TransGrid supports changes to the economic regulation of transmission networks to provide a positive financial incentive for TNSPs to adopt non-network solutions and undertake research and development to develop efficient long term non-network solutions. In this regard, we support Energy Networks Australia’s rule change request to require the AER to develop a demand management incentive scheme and demand management incentive allowance for TNSPs. We consider this rule change request will result in a deeper market for non-network solutions leading to lower costs to consumers overall.

## 4.2 AER involvement in the process

### 4.2.1 Key elements

The ESB proposes that the AER has three key roles in the actioning of the ISP:

- > The development of guidelines that AEMO and TNSPs must follow in developing the ISP and undertaking RIT-Ts respectively.
- > Resolve any disputes on the ISP or RIT-Ts for ISP projects.
- > Determining the amount of revenue TNSPs will be allowed to recover for individual ISP projects.

The AER will also be responsible for monitoring and enforcing compliance with the NER. This is consistent with the AER's broader role in the NEM.

TransGrid considers that the AER's involvement at all stages of the ISP and RIT-T processes is essential to facilitate greater consumer confidence in transmission investment and a more timely process for actioning the ISP.

### 4.2.2 The removal of the AER's preferred option assessment and proposed automatic contingent project trigger

TransGrid understands that the ESB is considering removing the preferred option assessment that the AER undertakes after the completion of a RIT-T from the regulatory process. The assessment of a TNSP's preferred option in the RIT-T is required by the AER as a condition of a TNSP being able to submit a contingent project application. The requirement is set out in a revenue determination and often refers to NER 5.16.6.<sup>3</sup>

The ESB is also considering whether a TNSP should be able to make a contingent project application for a project identified in the RIT-T, and confirmed by AEMO to be consistent with the ISP, regardless of whether the project was in the TNSP's revenue determination.

TransGrid supports removing the preferred option assessment that the AER undertakes after the completion of a RIT-T to streamline and remove duplication from the regulatory process. However, we note that the removal of NER 5.16.6 alone will not achieve this outcome. This is because the contingent project trigger in a TNSP's revenue determination, which requires the AER to confirm that the preferred option satisfies the RIT-T, does not always reference NER 5.16.6. To achieve the ESB's desired outcome, TransGrid submits that the NER should therefore explicitly preclude the AER from requiring the assessment of a preferred option in the RIT-T as a condition of a TNSP being able to submit a contingent project application.

We also support the proposal for projects that are confirmed by AEMO to be consistent with the ISP to be automatically treated as a contingent project regardless of whether they have been identified as such in a revenue determination. This will increase the flexibility and timeliness of the regulatory process.

### 4.2.3 The length of the assessment of a contingent project application

The ESB considers there is a question as to whether the deadlines associated with the current contingent project process remain appropriate in the context of large complicated projects contemplated by the ISP, and in particular if the AER's preferred option assessment is removed.

TransGrid does not support extending the AER's time to consider contingent project applications. The contingent project application process is different from the preferred option assessment and we note that extending the length of the contingent project process is at odds with the necessity to speed up the regulatory process.

## 4.3 Dispute mechanisms

The ESB proposes that stakeholders be able to raise a dispute on the ISP and RIT-Ts:

- » Disputes on the ISP can be raised following each key decision point of the ISP.
- » The ESB proposes retaining the current dispute mechanism for RIT-Ts.

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<sup>3</sup> NER 5.16.6 allows TNSPs to seek the AER's approval of a preferred option in a RIT-T before submitting a contingent project application.

The ESB proposes that disputes be resolved by the AER and that stakeholders can only raise disputes on matters they have previously raised in submissions to the process.

TransGrid considers it is appropriate that disputes can be raised separately on the ISP and RIT-T.

Allowing stakeholders to dispute the ISP is appropriate as this will allow issues to be identified earlier in the process which will save time in the long run. However, any disputes of the ISP should only be able to be raised following publication of the final ISP. In practice, the proposal to allow disputes at each stage of the development of the ISP may not be effective and may unnecessarily delay the overall timeframe for completion of the ISP.

TransGrid supports the requirement that a person can only raise a dispute on the ISP if the person raised the issue in a submission to the ISP or where the issue was not transparently identified during the ISP consultation process. This requirement should also be extended to the dispute arrangements for RIT-Ts.

Following on from this, TransGrid considers it is important that the NER is clear that aspects of the RIT-T that were consulted on through the ISP consultation process should also not be open to dispute in the RIT-T dispute process.

#### **4.4 The safety net mechanism if TNSPs do not invest**

The ESB states that a last resort planner may issue a notice specifying the detailed option(s) to be considered by the TNSP, if the TNSP is not undertaking a RIT-T in a timely fashion.

TransGrid considers this “safety net” is appropriate noting it is consistent with the existing last resort planning power function in the NER which, to date, has never been exercised. As noted by the ESB, the consultative manner in which the ISP is developed and the fact that TNSPs will be required to undertake a RIT-T on an ISP identified need should prevent this scenario from occurring. We do not support the last resort planner having a power to direct a TNSP or third party to invest. This would be inconsistent with existing arrangements in the NEM.

#### **4.5 Timeliness of the process to deliver ISP projects**

The model for actioning the ISP consulted on by the ESB states that a TNSP could undertake detailed costing and planning before it submits a contingent project application and could begin delivering a project before the AER’s decision on the application.

If the ESB is seeking to speed up the delivery of time critical ISP projects, we propose the costs associated with early work undertaken by a TNSP be allowed to be recovered via a cost pass-through or alternative mechanism. A TNSP is unlikely to commence detailed costing and planning before it submits a contingent project revenue proposal. Similarly, it is unlikely to begin delivering a project before the AER has approved revenue for the project. The consideration of underwriting by government represents a misalignment between the regulatory framework and the need to deliver critical transmission investment framework in a timely manner.

## **5. Governance framework including the proposed AER guidelines**

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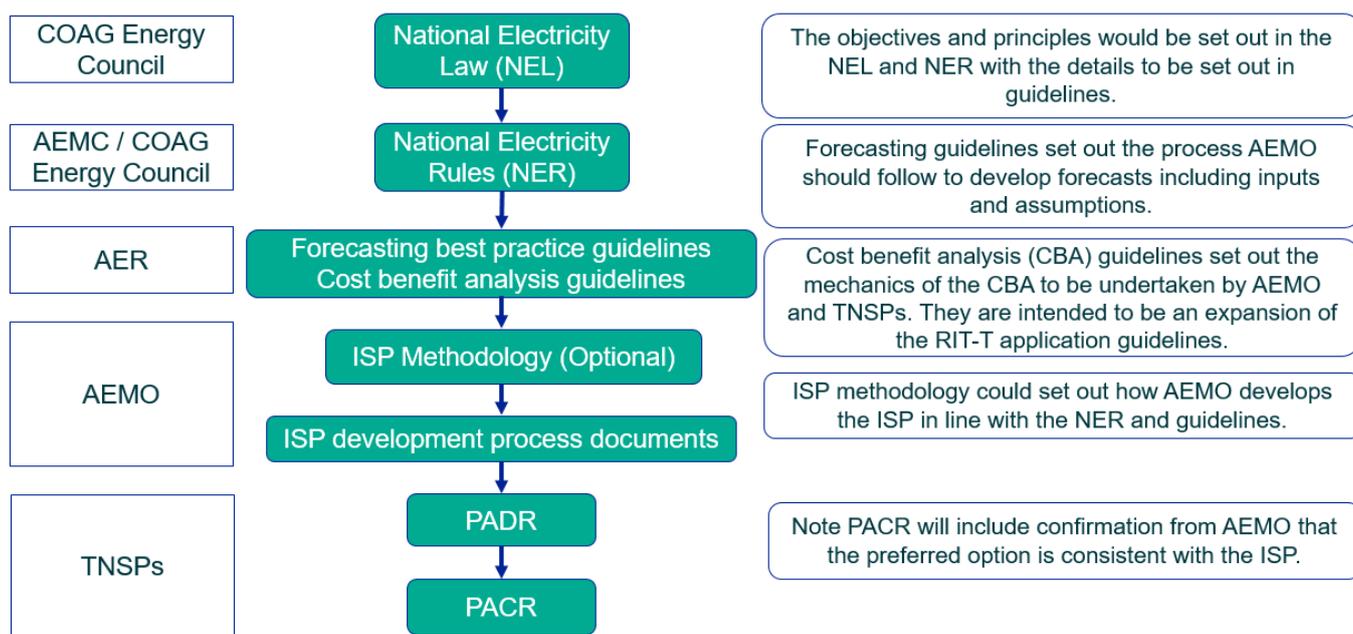
### **5.1 Overview**

The ESB sets out a governance framework to give effect to its proposed reforms (see Figure 1). Figure 1 sets out the proposed regulatory instruments, the proposed role of the instruments and which body is responsible for developing the instrument.

The ESB states that that objectives and principles would be set out in the NEL and NER with details to be set out in guidelines. It provides drafts of the AER’s guidelines and asks whether they are reasonable and appropriate.

TransGrid supports the ESB’s position that objectives and principles would be set out in the NEL and NER with details to be set out in guidelines. However, we consider the information presented in the draft guidelines in the ESB’s consultation paper should be located in the NER. It is important that the information in the draft guidelines is provided in the NER to provide stakeholders with an understanding of the framework and certainty as to how it works. It is also critical to effectively action the ISP given the AER has previously rejected some elements of the ESB’s draft guidelines.

**Figure 2: ESB’s proposed governance framework**



The following sections set out our additional comments on each of the AER draft guidelines consulted on by the ESB. We also then comment on the process for the development of these guidelines.

## 5.2 Cost benefit guidelines

The ESB states that the cost benefit analysis guidelines set out the mechanics of the cost benefit analysis to be undertaken by AEMO and TNSPs and that they are intended to be an expansion of the RIT-T application guidelines. TransGrid considers it would be clearer if the cost benefit analysis guidelines provided information on the cost benefit analysis to be undertaken by AEMO in the ISP only. Guidance on the application of the RIT-T to ISP projects by TNSPs should be provided separately in the RIT-T application guidelines.

We understand that the draft cost benefit analysis guidelines in the consultation paper provide greater flexibility for AEMO (than is provided for in the current RIT-T) to manage uncertainty, have sufficient regard to power system resilience, public policies and broader interactions with other systems and report on a range of benefits.

TransGrid considers this flexibility is appropriate and that it should be extended to the RIT-T for ISP projects. It is important that the approach adopted in the ISP analysis is extended to the subsequent RIT-T assessment as without this consistency there is a risk that the outcome of the subsequent RIT-T will not accord with the ISP, which would undermine the basis for the ISP. We consider that public policies should be limited to those that directly impact the electricity sector (for example, policies around uptake of EVs but not regional employment policies) to remain consistent with the NEO-focus of the existing NEM legal and regulatory framework.

TransGrid strongly supports the requirement that the optimal development pathway in the ISP is to be in the base case for RIT-Ts undertaken by TNSPs. This is critical for an effectively actioned ISP. We note this position has previously been rejected by the AER in the RIT-T application guidelines.

As set out above, we consider that it is important that the information in the draft guidelines being consulted on by the ESB should be elevated to the NER. AER cost benefit analysis guidelines would then set out any further detail required. This approach is consistent with the governance framework for the RIT-T in the NER which will assist stakeholders in understanding and implementing the new requirements.

## 5.3 Forecasting best practice guidelines

TransGrid questions the need for the proposed forecasting best practice guidelines. We support the development of an ISP methodology by AEMO in consultation with stakeholders which should include AEMO’s approach to forecasting. The information in the draft forecasting best practice guidelines in the consultation paper should be elevated to the NER.

## 5.4 Process for developing the guidelines

TransGrid seeks clarity from the ESB on whether the cost benefit guidelines and forecasting guidelines are going to be binding and the process for developing these guidelines. We understand that the AER will be required to make the guidelines in accordance with the consultation procedures in the NER, which we consider appropriate. We are therefore not clear on status of the “draft” guidelines that the ESB is consulting on in its consultation paper.

## 6. Regulatory changes for non-ISP projects

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The ESB is making rule changes for non-ISP projects as part of this consultation process.

In particular, the ESB is:

- > Reducing the timeframe for TNSPs to complete the PADR from 12 to 9 months for non-ISP projects.
- > Removing the AER’s preferred option assessment from the regulatory process for non-ISP projects, in the same way that it is considering this be removed for ISP projects.

TransGrid does not support reducing the timeframe for a TNSP to complete a PADR to be reduced from 12 to 9 months. The reduced timeframe would be difficult to meet for projects where complex market modelling is required as this modelling takes time. Time is also required to respond to stakeholder submissions.

Consistent with our position on ISP projects set out in Chapter 4 of this submission, TransGrid supports removing the preferred option assessment that the AER undertakes after the completion of a RIT-T to streamline and remove duplication from the regulatory process. To achieve this, the NER should explicitly preclude the AER from including this as a condition of being able to submit a contingent project application in a TNSPs revenue determination. The removal of NER 5.16.6, which allows TNSPs to seek the AER’s approval of a preferred option in a RIT-T before submitting a contingent project application, will not achieve the ESB’s desired policy outcome alone.

## 7. Transitional arrangements

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The ESB has not set out any proposed arrangements to transition to the new arrangements.

TransGrid considers TNSPs should have the opportunity to apply new provisions to projects that are identified in the 2020 ISP as priority projects but have already commenced under the existing RIT-T process where this could result in more timely and efficient outcomes for consumers.

## Appendix A – Table of responses to questions posed by the ESB

Questions posed by the ESB	TransGrid response
<p>QUESTION 1: ISP DEADLINES</p> <p>1. The ESB invites stakeholders to provide comments on whether the timing deadlines associated with the ISP process should be specified in the Rules.</p>	<p>TransGrid considers that the NER should require AEMO to publish an ISP by a certain date every two years. Providing a date in the NER will provide certainty which will assist TNSPs in the preparation of their transmission annual planning reports. This approach is also more consistent with the requirements to publish other key documents in the NER. For example, the NER requires TNSPs to publish their Transmission Annual Planning Reports by 30 June each year.</p> <p>We agree that AEMO should be required to update the ISP within the two year period if a defined material event has occurred. The NER should allow AEMO to issue guidelines on how and when an update to the ISP would be activated and conducted.</p>
<p>QUESTION 2: GOVERNANCE FRAMEWORK</p> <p>2. The ESB invites stakeholders to provide comments on the governance framework that applies to the ISP.</p>	<p>See Chapter 5 of this submission.</p>
<p>QUESTION 3: THE DRAFT GUIDELINES</p> <p>3. The ESB invites stakeholders to provide comments on whether the draft AER guidelines included in the consultation paper are reasonable and appropriate.</p>	<p>See Chapter 5 of this submission.</p>
<p>QUESTION 4: FURTHER SUBORDINATE GUIDELINES</p> <p>4. The ESB invites stakeholders to provide comments on whether further subordinate guidelines are required and if so what.</p>	<p>We support the development of an ISP methodology by AEMO and consider that AEMO should set out its approach to forecasting in this guideline. The AER best practice forecasting guideline is not required as set out in section 5.3.</p>
<p>QUESTION 5: AER REVENUE APPROVAL</p> <p>5. The ESB invites stakeholders to provide comments on whether the current contingent project mechanism should be amended to provide more time for the AER to undertake its assessment.</p>	<p>TransGrid does not support extending the AER's time to consider contingent project applications. The contingent project application process is different from the preferred option assessment of the RIT-T and we note that extending the length of the contingent project process is at odds with the necessity to speed up the regulatory process.</p>
<p>QUESTION 6: DISPUTE RESOLUTION</p> <p>6. The ESB invites stakeholders to provide comments on the dispute resolution framework.</p>	<p>TransGrid considers it is appropriate that disputes can be raised separately on the ISP and RIT-T.</p>

	<p>Allowing stakeholders to dispute the ISP is appropriate as this will allow issues to be identified earlier in the process which will save time in the long run. However, any disputes of the ISP should only be able to be raised following publication of the final ISP. In practice, the proposal to allow disputes at each stage of the development of the ISP may not be effective and may unnecessarily delay the overall timeframe for completion of the ISP.</p> <p>TransGrid supports the requirement that a person can only raise a dispute on the ISP if the person raised the issue in a submission to the ISP or where the issue was not transparently identified during the ISP consultation process. This requirement should also be extended to the dispute arrangements for RIT-Ts.</p> <p>Following on from this, TransGrid considers it is important that the NER is clear that aspects of the RIT-T that were consulted on through the ISP consultation process should also not be open to dispute in the RIT-T dispute process.</p>
<p><b>QUESTION 7: THE SAFETY NET MECHANISM</b></p> <p>7. The ESB invites stakeholders to provide comments on whether the proposed Last Resort Planning function provides an appropriate safety net.</p>	<p>TransGrid considers this “safety net” is appropriate noting it is consistent with the existing last resort planning power function in the NER which, to date, has never been exercised. As noted by the ESB, the consultative manner in which the ISP is developed and the fact that TNSPs will be required to undertake a RIT-T on an ISP identified need should prevent this scenario from occurring. We do not support the last resort planner having a power to direct a TNSP or third party to invest. This would be inconsistent with existing arrangements in the NEM.</p>
<p><b>QUESTION 8: ANY OTHER MATTER</b></p> <p>8. The ESB invites stakeholders to provide comments on any other matter relating to how to make the ISP an actionable strategic plan.</p>	<p>We have identified some other issues in the main body of this submission.</p>