

16 January 2020

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via email: ISPGuidelines@aer.gov.au

Dear Mark,

RE: GUIDELINES TO MAKE THE INTEGRATED SYSTEM PLAN ACTIONABLE

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Regulator (**AER**) on the guidelines to make the Australian Energy Market Operator's (**AEMO's**) Integrated System Plan (**ISP**) actionable.

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 AER's efforts to construct and review guidelines to support an Actionable Integrated System Plan (**AISP**).

TasNetworks supports Energy Networks Australia's (**ENA**) submission and would like to make several further comments reflecting a Tasmanian perspective. The key points in this submission are:

- TasNetworks considers the AER's proposed approaches for guideline development are broadly appropriate.
- Although supporting flexibility for AEMO to determine relevant methodological considerations, TasNetworks contends that stakeholder input must be sought as part of this process.
- TasNetworks notes that the issues paper contemplates staging and options analysis as something that could be undertaken by both TNSPs and AEMO. Further clarity on the methodology and granularity required of each process would better ensure efficient application of the guidelines.
- TasNetworks supports both TNSPs and AEMO being able to adopt different approaches to quantifying costs and benefits in the AISP and Regulatory Investment Test for Transmission

(**RIT-T**) assessments where these can be reasonably justified. For example, High Impact, Low Probability (**HILP**) events are likely to be better evaluated on the basis of insurance value or regret theory.

- In terms of the assumed costs of potential ISP transmission projects, TasNetworks considers the guidelines should mandate that these be informed by estimates provided by the relevant TNSP.
- TasNetworks supports AEMO being granted flexibility in the methods for determining the optimal development pathway. However, if this flexibility is granted, then similar methods must be available to TNSPs in deciding credible options in the RIT-T. 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 is available.
- TasNetworks considers that TNSP engagement on Non-Network Options (**NNO**) should be mandated in the AISP. This is due to the more detailed and refined understanding of local network characteristics and related experience that TNSPs can provide in assessing the feasibility, or otherwise, of NNO.
- TasNetworks suggests that further consideration be given to the date by which AISP inputs and assumptions must be developed. Without any firm deadline attached to it, there is a risk that subsequent stages are unduly compressed and result in poorer AISP outcomes.
- TasNetworks considers one critical matter not contemplated in the guidelines is the status of 'shovel-ready' works. TasNetworks suggests these be treated as actionable ISP projects for the purposes of both the ISP and RIT-T with all cost recovery and transitional arrangements applying.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'W. Tucker', with a stylized flourish at the end.

Wayne Tucker

General Manager, Regulation, Policy and Strategic Asset Management

Question 1: Do stakeholders agree with our proposed objective for the ISP guidelines?

TasNetworks agrees that the proposed objectives are broadly appropriate in all but one aspect. As noted in section 4.4 of the AER Issues Paper, AEMO may select an optimal development path different to the one which maximises net economic benefits. In this respect, having an objective which states that the optimal development pathway will optimise the net economic market benefits is erroneous. TasNetworks therefore suggests that the objectives be reworded as set out in the ENA submission.

Question 2: Do stakeholders agree with our proposed approach to flexibility and prescription for AEMO in the CBA guideline? Will this provide sufficient certainty and transparency to stakeholders?

TasNetworks considers that the proposed approach is reasonable in most aspects. The one exception concerns the extent of AEMO discretion. Where discretion is given to AEMO in applying or determining methodological considerations, TasNetworks contends that stakeholder input must be sought.

Question 3: What are stakeholders' views on our proposed approach to AEMO's development of inputs and assumptions? Are there additional principles we should consider?

Consistent with the answer to Question 2 above, TasNetworks considers the proposed approach is reasonable but contends that stakeholder input should be sought. Beyond this, TasNetworks notes one matter not contemplated in the draft Rules or the guidelines 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 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. Given this, TasNetworks suggests works to progress a development to 'shovel-ready' status be considered as actionable ISP projects for the purposes of both the ISP and RIT-T with commensurate cost recovery and transitional arrangements applying.

TasNetworks also suggests that further consideration be given to the date by which the Actionable ISP (**AISP**) 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 AISP outcomes.

Question 4: What are stakeholders' views on our proposed approach to AEMO's development of reasonable scenarios? Are there additional principles we should consider?

TasNetworks supports the proposed approach.

Question 5: What are stakeholders' views on our proposed CBA steps for the ISP? Are the amended steps from the RIT–T application guideline applicable to the ISP analysis? Are there particular areas where a worked example would be helpful in providing this guidance?

TasNetworks agrees that the amended steps from the Regulatory Investment Test for Transmission (RIT-T) Application Guideline (AG) are applicable to AISP analysis. TasNetworks therefore supports the proposed steps for the AISP but considers worked examples, particularly for other, more complicated matters be provided. For example, how the Cost Benefit Analysis (CBA) will take account of investment staging analysis that is contingent on other projects within the AISP going, or not going, ahead.

In this respect, TasNetworks notes that the AER issues paper contemplates staging and resultant option value as being something undertaken by the TNSP as part of the Project Assessment Draft Report (PADR). Alternatively, it is suggested that this is something that could be undertaken by AEMO as part of AISP sensitivity analysis. TasNetworks interprets this to mean that AEMO may consider option value where material as part of the ISP assessment with more granular evaluation being provided in the PADR. However, further clarity on this point may be required to ensure consistent approaches between ISP and RIT-T processes.

Question 6: What are stakeholders' views on our proposed approach to AEMO's selection of development paths for assessment? Are there additional principles we should consider?

TasNetworks supports the proposed approach to development paths selection. Per Question 5 above, TasNetworks considers that clarity on investment staging is required however.

Question 7: What are stakeholders' views of characterising the ISP counterfactual development path? Should replacement and small augmentation expenditure be included or excluded?

TasNetworks agrees that the Counterfactual Development Path (CDP) should not include any ISP projects that are not committed. This includes both AISP projects and AISP development opportunities such as Renewable Energy Zones (REZs). TasNetworks also agrees that the CDP should include anticipated Replacement Expenditure (Repex) and necessary augmentation investments. These approaches will allow the impact of the alternate AISP development paths to be more accurately assessed.

Question 8: What are stakeholders' views on quantifying costs and market benefits? What market benefits do stakeholders consider need to be estimated using probabilities?

TasNetworks supports the inclusion of market benefits in the AISP analysis noting that this is consistent with the RIT-T assessment. This will help to minimise the risk that the preferred option in any subsequent PADR is inconsistent with the preferred project identified in the AISP.

However, in relation to ascribing probabilities to specific events, TasNetworks considers that this is too prescriptive an approach to take for all elements of the CBA. For example, High Impact, Low Probability (HILP) events are likely to be better evaluated on the basis of insurance value or regret theory. TasNetworks therefore supports both TNSPs and AEMO being able to adopt different approaches to quantifying costs and benefits in the AISP and RIT-T assessments where these can be reasonably justified.

On this point, TasNetworks considers that further guidance on the assumed costs of potential ISP transmission projects be included in the AER's CBA Guideline. Specifically, that these costs be based on the estimates provided by the relevant TNSP. In this manner, consistency between the ISP and RIT-T analysis would be further promoted.

Question 9: What are stakeholders' views on whether and how AEMO should conduct sensitivity analysis in its ISP process?

TasNetworks considers that sensitivity analysis and related threshold analysis¹ be conducted in conjunction with scenario analysis. As above, however, TasNetworks cautions against taking too prescriptive an approach in deciding which parameters, development paths and scenarios will be subject to sensitivity analysis. Given the scale and complexity of the AISP analysis, it is likely that key parameters will change over time. Mandating sensitivity analysis of specific variables may not therefore capture appropriate parameters and/or could waste time and resource on analysis that is not required.

Question 10: What are stakeholders' views on our proposal to provide AEMO with the flexibility to choose its decision making approach(es) to determine the optimal development path, subject to consultation and justification? Does this satisfy the draft rules requirements and sufficiently mitigate the risks of over-investment, under-investment, premature or overdue investment?

Consistent with the answer to Question 9 above, and subject to sufficient consultation, TasNetworks supports AEMO being granted flexibility in the methods for determining the optimal development pathway. If this flexibility is granted, however, then similar methods must be available to TNSPs in undertaking the RIT-T. The risk is that without this the optimal AISP development project may not be the one that maximises net benefits under the TNSP RIT-T.

Question 11: What are stakeholders' views on our proposed approach to describing the identified need to be used by TNSPs in applying the RIT-T for an actionable ISP project?

TasNetworks agrees with the AER's proposed approach. In particular, the sentiment that the description of the identified need should not bias the development of credible options in a RIT-T towards any one solution. That is, although AEMO may specify the identified need, it should be the TNSP that ultimately determines the preferred credible option to meet it.

Question 12: What are stakeholders' views on how AEMO should take option value into account in the ISP, and TNSPs in RIT-Ts for actionable ISP projects?

TasNetworks agrees that AEMO should take option value into account as part of the AISP analysis. However, per Question 5 above, TasNetworks considers that further clarity on exactly how the ISP option value assessment relates to the RIT-T option value assessment would be useful.

Question 13: What are stakeholders' views on our proposed guidance on non-network options in the CBA guideline?

TasNetworks agrees that guidance on the technical characteristics of Non-Network Options (NNO) to AEMO, including best practice stakeholder engagement principles, would be a useful addition to the guideline. TasNetworks considers that TNSP engagement on NNO should also be mandated in the AISP. This is given the more detailed and refined understanding of local network characteristics and related experience that TNSPs can provide in assessing the feasibility, or otherwise, of NNO. However, TasNetworks considers this should only occur as part of the initial ISP analysis with no new NNO included as part of the PADR analysis. This is in keeping with the stated aim of the actionable ISP framework to streamline and speed up ISP project delivery.

¹ Threshold analysis is used to identify how much key variables would have to change before the net benefits from the preferred development pathway are reduced to zero. This contrasts with typical sensitivity analysis which just looks at the quantum of change in a given variable(s) without considering a specific analytical outcome.

Question 14: What are stakeholders' views on our proposed approach to RIT-T application guidance for actionable ISP projects and non-ISP projects?

TasNetworks considers the proposed approach is reasonable.

Question 15: What are stakeholders' views on what network development should be included in the base case of the RIT-T for actionable ISP and non-ISP projects? What are stakeholders' views on what generation (and other) development should be included in the base case of the RIT-T for actionable ISP and non-ISP projects?

TasNetworks agrees that including other AISP projects within the optimal development plan in the base case for the RIT-T will best promote the coordination required to action the ISP. The exception to this is where more accurate and/or up to date information on the ISP methodologies and assumptions, project status and/or the optimal development pathway become available. In these cases, proponents should have the flexibility to exclude projects from the RIT-T base case.

TasNetworks supports the same approach being applied to non-ISP projects. This is on the basis that to do otherwise would seem to undermine the coordination necessary to ensure that the optimal system development plan results. That is, undertaking a non-ISP RIT-T on the assumption the optimal ISP development plan does not occur appears inconsistent with the stated goals of actioning the ISP.

Question 16: What are stakeholders' views on the scenarios to be considered in RIT-Ts for actionable ISP projects? Would the 'feedback loop' help to overcome any misalignment between the ISP and RIT-T?

As noted in the discussion paper, AEMO may select the optimal development plan on a basis other than the planning scenario outcome. Requiring TNSPs to conduct the RIT-T on the basis of only the planning scenario may thereby result in inconsistency between the preferred project identified in the AISP and the preferred credible option identified in the RIT-T.

TasNetworks does not consider that the feedback loop will adequately address this. This is due to the feedback loop simply confirming that the RIT-T option is inconsistent with the AISP. This is instead of confirming that the AISP option passes the RIT-T.

For these reasons, TasNetworks suggests that the CBA guidelines require TNSPs to consider outcomes across scenarios consistent with the methodology adopted by AEMO. Per earlier comments, this means that flexibility to step away from a pure probability weighted approach in the RIT-T should be granted.

Question 17: What areas of the ISP do stakeholders require further transparency and/or consultation to engage effectively in the process?

Provided the foregoing suggestions are incorporated, TasNetworks does not see that further transparency and consultation is required at this time.

Question 18: What are stakeholders' views on our proposed guidance on dispute resolution in the RIT-T and ISP processes? What specific guidance on dispute resolution would stakeholders value?

TasNetworks considers that guidance in the CBA guideline on disputes procedures should be consistent with that already included in the RIT-T Application Guidelines.

Question 19: Do stakeholders agree with our proposed approach to compliance and enforcement of the rules and binding guidelines?

TasNetworks agrees with the AER's proposed approach to compliance and enforcement.