grid australia
BACKBONE OF THE NEM

National Transmission Planning Arrangements

Response to AEMC Draft Report

30 May 2008

Powerlink Queensland · TransGrid · ElectraNet electricity transmission · TRANSEND · SP AusNet A member of Singapore Power Group

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1. Introduction

Grid Australia makes this submission in response to the AEMC's Draft Report on the National Transmission Planning Arrangements released on 2 May 2008.

Grid Australia notes at the outset that the proposals put forward by the Commission in its Draft Report are a substantial improvement compared with the position set out in the earlier Discussion Paper. The Commission has clearly taken into account the submissions received in response to the Discussion Paper.

However, Grid Australia has some remaining material concerns in relation to the proposals set out in the Draft Report. In many cases these concerns reflect those that were discussed in Grid Australia's response to the Discussion Paper and which Grid Australia considers have not been addressed by the Commission.

Grid Australia's concerns mainly relate to the proposed Regulatory Investment Test for Transmission (RIT-T), although there are a smaller number of concerns in relation to the proposals for the National Transmission Planner (NTP) and the National Transmission Network Development Plan (NTNDP).

In addition, Grid Australia notes that a number of issues have been raised by the Commission for the first time in the Draft Report, including the mandatory inclusion of 'option value' as a benefit in the RIT-T analysis, proposals for incorporating (as yet undefined) climate change policies, and options for reforms to inter-regional charging arrangements. While Grid Australia supports consideration of each of these initiatives, it is concerned that new substantive matters of this nature have been introduced at such a late stage in the review process. Grid Australia addresses these particular issues in this submission, but notes that their late introduction in the review process has allowed little time for effective consultation.

The remainder of this submission is structured as follows:

- Section 2 sets out Grid Australia's key concerns with the RIT-T proposals included in the Draft Report;
- Section 3 discusses Grid Australia's concerns in relation to the proposals for the NTP and NTNDP;
- Section 4 discusses the Commission's four options for reforming inter-regional charging arrangements; and
- Section 5 covers a small number of miscellaneous issues, included in the Draft Report.

2. The Regulatory Investment Test for Transmission

Grid Australia has the following concerns with the Commission's proposals in relation to the RIT-T:

- The $5m threshold for application of the RIT-T is too low especially given that input costs have at least doubled since the initial $10m threshold was introduced. Further, the Commission has removed the current two-tier arrangement in the National Electricity Rules (NER) which allows for a simplified ("fast track") assessment process for small network assets. These arrangements were introduced as a practical measure to avoid imposing costs and procedural delays on projects for which there are unlikely to be non-network alternatives.

- The net effect is basically a fourfold shift from a "fast track" process to a "slow track" process, at a time when the national infrastructure agenda is focussed on removing bottlenecks in the approvals process. Given that skilled resources required for the type of network planning analysis required by the proposed RIT-T are in short supply (which will be exacerbated by the NTP), the result will be significant delays to the delivery timetable for transmission infrastructure (contrary to COAG's criterion) and greatly increased costs for customers.

- The Commission has not included a requirement for investment driven by reliability requirements to have a proponent;

- The information to be provided in relation to alternative options during the project specification stage far exceed the information and analysis that is likely to be available to the TNSP at that stage of the process;

- The introduction of two distinct project assessment processes for transmission and distribution gives rise to a number of practical considerations in relation to joint project assessments that include both transmission and distribution elements;

- The wording of proposed clause 5.6.5B(d)(8)(ii) in relation to the inclusion of operating costs effectively 'locks-in' a particular assessment methodology for the net present value (NPV) analysis;

- The Commission has included 'option value' as a benefit that must be included in the RIT-T assessment, unless the TNSP can demonstrate that it is not material. The practical application of option values and their inclusion in the RIT-T analysis has not been discussed during this review and the quantification of this benefit is highly uncertain;

- Proposals for incorporating separate quantification of carbon benefits are premature and pre-empt as yet undefined climate change policy responses; and

- There needs to be transitional arrangements which enable the AER adequate time to develop (including consultation) the Guidelines, before the new arrangements are introduced.

2.1 The $5m Threshold for the RIT-T is Too Low

The Commission proposes that all network augmentation projects above $5 million should be required to undergo the full RIT-T assessment process (including the project specification stage), except where the proposed investment is required to address an urgent or unforeseen problem, or where the investment is a replacement

expenditure which is either 'like-for-like' or where any augmentation component is less than $5 million. Grid Australia notes that the Commission intends to apply the proposed threshold to only the augmentation component of replacement projects. Grid Australia strongly supports this proposal, which is consistent with its earlier submission to the Commission.[1]

The Commission also proposes that the $5 million threshold be applied to the most expensive of all of the credible options considered in relation to a particular investment. The Commission has asked for submissions in relation to the appropriateness of the proposed threshold level.

Grid Australia considers that a $5 million threshold is too low, as it would capture investments for which there are unlikely to be either efficient non-network alternatives or market benefits. For example, a $5 million threshold would require the RIT process to be undertaken for transformer projects to meet local load requirements (which typically have a cost of up to $10 million).

Finally, in the context of asset replacement, 'like-for-like' should have the meaning of the most efficient modern day replacement which satisfies the service scope and specification.

2.1.1 Removal of the current two-tier process will delay investments

Grid Australia notes that currently the NER provisions set out a 'two-tier' process for the assessment of transmission investment, via the distinction between 'large network assets' (currently defined as assets with a value above $10m) and 'small network assets' (currently defined as assets with a value above $1m and less than $10m). Large network assets are required to undergo the full Regulatory Test process (including the RFI process for assessments under the market benefits limb) whilst small network assets undergo a simpler and more streamlined process, through the TNSPs' Annual Planning Reports (APR).

The two-tier assessment process was introduced by the National Electricity Code Administrator (NECA) in 2000, to address concerns in relation to the costs and timeliness associated with the Regulatory Test assessment process in the case of investments for which there were likely to be few market benefits. In proposing the change, NECA commented that:

> *"The package establishes a streamlined approval process for new investments necessary to ensure the reliability of power supply and a truncated process for small projects below a pre-determined threshold. This will help to restore the balance and allow new regulated network investment projects to move as quickly as possible through their planning and approval stages."*[2]

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1 Grid Australia, Response to the Discussion Paper, p.14.

2 NECA, Application for National Electricity Code Change, Letter from NECA to the ACCC dated 20 December 2000

The ACCC, in approving NECA's proposed Code change, noted that monetary value thresholds represented a workable proxy for when investments are unlikely to have material market benefits:

> *"[The ACCC] considers that the small/large project distinction based on costs is a pragmatic one given that the alternative of using a market impact test may be difficult to implement. Further, distinctions based on costs allow the approval process to be tailored with higher cost project proposals being more rigorously scrutinised relative to lower costs ones."*[3]

The Commission's proposals for the RIT-T in the Draft Report remove the current distinction between small and large assets, and the associated two-tier process. In effect the Commission has raised the threshold for no reporting on investments from $1m to $5m (consistent with Grid Australia's recent Rule change proposal)[4]. However, it has lowered the threshold at which the full RIT-T process must be undertaken, from $10m to $5m. At the same time:

- there has been a doubling of the input costs required for transmission investments (since 2000 when the current Regulatory Test thresholds were established), which has resulted in the current $10 million threshold now being too low;
- the application of the threshold will capture more projects, as it is to be applied to the most expensive of all of the credible options considered, rather than to the cost of the preferred option (as currently);
- the RIT-T process is substantially more onerous than the current Regulatory Test process, as it requires a project specification stage for all investments (including those driven principally by reliability concerns) and the inclusion of all material market benefits for all assessments; and
- skilled resources for the type of network planning analysis required by the RIT-T are in short supply (which will be exacerbated by the NTP).

As a result, Grid Australia considers that the proposed threshold will result in a four-fold shift from a 'fast track' process to a 'slow track' process, at a time when the national infrastructure agenda is focused on removing bottlenecks from the approvals process in contravention to the COAG directive for this review.

In addition, as the Commission acknowledges in its Draft Report, applying a $5m threshold for the RIT-T process will result in a greater number of assessments being potentially subject to dispute.[5] This in turn has implications for the timely delivery of investment.

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[3] ACCC, "Applications for Authorisation, Amendments to the National Electricity Code, Network and Distributed Resources", Determination, 13 February 2002, p36

[4] Proposed "National Electricity Amendment (Regulatory Test Thresholds and Information Disclosure on Network Replacements) Rule 2007".

[5] Draft Report, p.45.

Grid Australia considers there are sound policy reasons for retaining a two tier approach, particularly to ensure that necessary network investments are not delayed. In particular, a simpler, less resource-intensive assessment process should be retained for those investments that are unlikely to have either efficient non-network alternatives or substantive market benefits. Grid Australia notes that the Commission's proposed framework set out in the earlier Discussion Paper did retain the two-tier approach. Grid Australia further notes that the two-tier approach is *not connected* to the current two limbs of the regulatory test, and is driven by practical concerns in relation to the assessment burden for small projects versus the potential benefits, rather than being linked to a distinction between reliability investments and market benefit investments.

2.1.2 Grid Australia proposal for a two-tier process

Grid Australia understands the Commission's concern to ensure that investments do not 'slip through' the RIT-T process because of their small size, when in fact they may have implications for the wider operation of the market and therefore market benefits.

Grid Australia therefore proposes the following:

- for investments where the cost of the preferred option exceeds $35m, the full RIT-T consultation process is applied;
- for investments between $5m and $35m, the full RIT-T consultation process is applied where the most expensive credible option materially affects the capability of major transmission corridors, but a simplified APR consultation process applies in all other cases, similar to the process currently applying to small network investments in the NER;
- for investments below $5m, there are no reporting requirements.

In November 2007, Grid Australia proposed a change to the NER to increase the thresholds that define the public consultation processes for new transmission network assets.[6] Grid Australia proposed to increase the $10 million threshold to $35 million and the $1 million threshold to $5 million.

One of Grid Australia's arguments for increasing the thresholds is that, based on the experience of TNSPs to date, there have been no credible or economically viable non-network alternatives to network augmentations that cost less than $35 million. Indeed, the Commission itself had earlier suggested that the thresholds for large network assets should be substantially increased:

The Commission's draft determination outlined its concerns that the current $10 million threshold is too low for any network investment, given the increase in costs associated with transmission investment since the threshold was originally

[6] This Rule Change Proposal was submitted by the Electricity Transmission Network Owners Forum, which is now known as Grid Australia.

implemented in 1999. The draft Rule determination concluded that an appropriate threshold is likely to be within the range of $20 to $50 million.[7]

As a result, Grid Australia considers that a $35m threshold would be appropriate in order to 'screen out' investments for which there are unlikely to be credible, efficient non-network alternatives.

However, Grid Australia also notes that the Commission's focus has changed somewhat. In developing the specification for the new RIT-T, the Commission has been tasked to develop a single test that unifies the reliability and market benefit limbs of the existing test. As a result, when considering an appropriate threshold above which extensive market consultation is required, the Commission has focussed on the circumstances in which substantive market benefits might accrue.

Grid Australia agrees with the Commission that a more extensive analysis and consultation process is warranted for network options that will have a material impact on the power flow capability of major transmission corridors. However, where the technically and economically credible options do not extend beyond meeting local needs in the network, Grid Australia considers that a more simplified assessment process should be adopted.

This is illustrated in the following table which considers whether various classes of market benefits are material for these two types of network options.

Table 2.1: Classes of Material Market Benefit by Type of Network Option

Class of market benefit	Investment has impacts beyond local network	Investment impacts only local network
Generation capital deferral benefits	✓	×
Fuel cost differentials	✓	×
Loss differentials	✓	✓
Unserved load*	?	?
Ancillary services differentials	✓	×
Competition benefits	✓	×

* whether market benefits will accrue from differentials in unserved load will depend on the reliability standards that apply.

While Grid Australia is not advocating a network investment classification scheme to be incorporated in the Rules, it may be useful to consider in what category some common network investments could fall.

[7] Source: AEMC, "Transmission network replacement and reconfiguration", Rule Determination, 1 March 2007, p20

Table 2.2: Examples of Network Investments by Type of Network Option

Type of network investment	Impact on network (Local or non-local)
Static reactive compensation (eg capacitor banks)	Local or non-local depending on location
Load transformers (eg 330/132kV or 132/66kV)	Local
System tie transformers (eg 500/220kV)	Local or non-local depending on location
Radial transmission lines	Local
Meshed transmission lines	Local or non-local depending on location
Dynamic reactive devices (eg SVCs)	Local or non-local depending on location and primary function (e.g. quality of supply or power system stability)

As a result, Grid Australia proposes that for investments between $5m and $35m, if the investment represents a non-local investment (and which may therefore have a material impact on the power flow capability of major transmission corridors) then the full RIT-T process should apply. However, if the investment only affects the local network, then a simplified process of consultation through the APRs should be adopted, rather than the full RIT-T process.

Grid Australia proposes the following simplified process for investments below $35 million that have only a local impact:

- The TNSP would provide information on the investment in its APR or in a 'small network asset consultation report' during the year[8], rather than through a separate project specification report. The information would be the same as that required by the NER for the project specification report;
- The APR or 'small network asset consultation report' would also set out the TNSP's recommended option for meeting the identified network need;
- In the event that submissions are received that raise material questions in relation to the TNSP's recommended option, the TNSP would issue a further Final Report in relation to the investment, addressing the issues raised in submissions;
- If no submissions were received in response to the APR then the recommendation in the APR would be taken to be the final recommendation and no further steps would be taken; and

[8] This reflects the current NER provisions (Clause 5.6.6A), which recognise that it is likely that more than one consultation mechanism for small network assets will be required over the course of a year.

- If submissions were received that identified additional credible options that deliver material market benefits then the TNSP would undertake the full RIT-T process in relation to that investment[9].

Grid Australia considers that the above approach provides interested parties with information in relation to all investments as per the Commission's current proposal, as well as a requirement on TNSP's to respond to any submissions received. However it also recognises that for a large number of small investments with only local impacts there is unlikely to be substantive stakeholder comment, and that undertaking the full RIT-T process for such investments does not represent an efficient use of resources.

The proposed process also provides for external parties to propose additional credible options that deliver material market benefits, in which event the full RIT-T process would be undertaken. This addresses any concerns that stakeholders may have that the distinction between local and non-local investments is not completely objective.

Grid Australia understands from discussions with Commission staff that the Commission's intention is that TNSPs could use their APRs to provide the information required for the project specification reports. As a result, TNSPs may be able to cover several investments in the APR rather than issuing separate project specification reports in relation to each. Grid Australia notes that this approach does not appear to be reflected in the current proposed drafting of the NER. Grid Australia considers that the ability for the APRs to also constitute the project specification reports would assist in reducing the number of consultation processes that the TNSP is required to run.

However, in itself this proposal would not go far enough in limiting the burden on TNSPs in relation to having to run the full RIT-T process for all investments with an augmentation component above $5 million. Grid Australia also notes that the ability of the TNSPs to utilise the APRs in this way is contingent on the NER requirements for the project specification report being amended to reflect the level of detail of information on alternative projects that the TNSP is likely to have in its early planning stages. Grid Australia's concerns on this aspect are discussed further in section 2.3 of this submission.

2.2 Reliability Projects should be required to have a Proponent

The Commission proposes to remove the current requirement that investments driven by reliability need to have a proponent in order to be included in the RIT-T assessment. The Commission considers that removing this restriction reduces the risk that practicable and efficient options are overlooked.[10]

[9] As the material presented in the APR constitutes the project specification consultation information the next step would be the TNSP preparing a project assessment draft report.

[10] Discussion Paper, p. 25; Draft Report, p. 42.

In its response to the Commission's Discussion Paper, Grid Australia previously raised its concern with the Commission's removal of the requirement for reliability projects to have a proponent.

The Commission rejected Grid Australia's argument in its Draft Decision, noting that the absence of a proponent would be a factor that TNSPs could have regard to in determining whether an option is credible or not. However, the Commission considers that all possible options should be assessed on their merits and ability to address the network problem. The Commission considers that the associated risks and liability management issues of each option would be a consideration in determining whether an option is both technically and commercially feasible.

Grid Australia agrees with the Commission that at the project specification stage all credible options should be assessed on their merits and ability to address the network problem. Grid Australia is not proposing that a proponent be required for options to address a reliability concern at this stage for them to be further considered.

However, given the extensive project specification process now proposed for all investments, including reliability investments, Grid Australia considers that by the time that the RIT assessment is undertaken, potential proponents will have had adequate opportunity to identify themselves. Grid Australia strongly considers that the risks to reliability of supply and potential liability exposure that NSPs face are such that there must not be a delay to the regulatory process as a result of considering projects for which there is no proponent. That is, there must be a cut-off point, beyond which the absence of a proponent is sufficient of itself to rule out an option from being credible (i.e. the option addresses the identified need, is commercially feasible and can be implemented in sufficient time to meet the identified need). For the reasons above, Grid Australia considers that, in practice, TNSPs cannot recommend a course of action which is not within their control to deliver, particularly given the potential significant legal exposures.

Grid Australia considers that this cut-off point is the Draft Project Assessment Report. For investments driven by the need to meet a reliability obligation, the Draft Project Assessment Report should not be required to include analysis of options for which there is no proponent. TNSPs are required to ensure that investments needed to meet the mandatory reliability standards they face proceed in a timely manner, and they are not able to do this in the case of projects which have no proponents. Moreover, where there is no proponent, TNSPs will not have the information necessary (e.g. proposed project cost) to undertake a proper analysis.

Grid Australia proposes that the NER explicitly sets out that for projects driven by reliability concerns, there needs to be a proponent for the project to be considered a credible option at the Draft Project Assessment stage.

2.3 Project Specification Stage Should Not Require Onerous Analysis

The Commission's proposed RIT-T continues to require that TNSPs provide excessive amounts of information in relation to both network alternatives and all other credible alternatives at the project specification stage. In particular 5.6.6(c)(5) requires the TNSP to set out in the project specification report:

1. The technical characteristics of each credible option;

2. Whether each possible credible option is reasonably likely to have a material inter-regional impact;

3. The classes of market benefits that the TNSP considers could be material;

4. An initial assessment of the relevance of the material classes of market benefits for each credible option;

5. The estimated construction timetable and commissioning date for each; and

6. The estimated costs for each.

These requirements are excessive relative to the level of information which is available at the project specification stage. In response to the Commission's Discussion Paper, Grid Australia highlighted that detailed cost estimates are generally not available at the project specification stage and that currently the APRs provide information in relation to the preferred option for network augmentation, rather than for each possible credible option. Grid Australia recommended that at the project specification stage, TNSPs should only be required to set out the technical characteristics that a non-network option would be required to deliver, in order to facilitate responses to the project specification consultation report from interested parties, such as:

1. the size of load reduction;

2. location; and

3. operating profile (e.g. time of year, time of day).

The Commission's Draft Report does not comment on Grid Australia's suggestions. However the Commission has added two requirements to the list that was previously in the Discussion Paper, namely requirements in relation to whether a TNSP considers that certain classes of market benefits are material and that an initial assessment of relevant material classes of market benefits for each credible option be undertaken.

Grid Australia considers that the requirement for the TNSP to set out *for each credible option* the classes of market benefits that the TNSP considers could be material and an initial assessment of the relevance of these market benefits will require substantially more analysis than is typically available at the time at which the project specification report will be released. It is unclear exactly what is contemplated by 'an initial assessment of the relevance of the material classes of market benefits', but it appears to potentially be an early cost benefit analysis of each of the credible options.

Given that the purpose of the project specification report is to draw out potential non-network options and to consult on the materiality of relevant costs and benefits, the value of the additional analysis that the Commission proposes at this early project assessment stage appears dubious, compared with the substantial costs that would be incurred. It is also disproportionate to the likely benefits (if any) of doing so.

Grid Australia therefore proposes that 5.6.6(c)(5)be amended as follows:

(5) for each possible credible option, to the extent practical, information about:

(iv) delete

2.4 Different Assessment Processes for Transmission and Distribution

Grid Australia notes that the Commission has now clarified that its RIT proposals are only to apply to transmission, and not to distribution businesses. DNSPs are to continue to apply the current Regulatory Test provisions. The MCE is considering whether it is appropriate to amend these provisions, as part of its wider review of distribution and retail regulation.

The potential introduction of two distinct tests for transmission and distribution gives rise to a number of practical considerations in relation to joint planning under the NER and joint assessments of projects that include transmission and distribution/ sub-transmission elements, or where these may present alternative solutions. For example, options to address an emerging network limitation in a local load area can often be addressed by:

- new line works in the electricity distributor's network; or
- the establishment of a new transmission connection point by the TNSP; or
- a combination of both.

In particular there is a need to clarify which test should be applied to a joint project assessment, given that it would not make practical sense for both tests to be applied.

Joint assessment here means evaluating options with varying degrees of transmission and distribution/ sub-transmission development (including shared network augmentation) to address a network limitation in the overall most cost effective manner.

In NSW alone TransGrid has cited more than 10 projects with options involving TransGrid and the local DNSP, valued at over $5 million, to be undertaken or commenced in TransGrid's next five year regulatory control period.

Grid Australia recommends that further consideration be given to the implications for efficient joint planning and project assessment of potentially having two distinct tests for transmission and distribution.

2.5 The Approach to the NPV Assessment Should not be Inadvertently Locked In

The proposed clause 5.6.5B(d)(8)(ii) requires that TNSPs consider 'operating and maintenance costs over the operating life of the credible option.'

Grid Australia notes that the form of the NPV analysis that is undertaken in applying the Regulatory Test is not currently prescribed. Nor has the Commission included specific provisions in relation to the form of NPV analysis for the RIT-T assessment.

In undertaking the NPV analysis for the Regulatory Test, one of three approaches is commonly adopted:

1. an analysis of costs and benefits over a specific time period (typically 10-15 years), with the adoption of 'terminal values' for each of the categories of costs and benefits after that time, which reflect the value of each of these items over the remaining operating life of the asset;

2. an analysis of costs and benefits over a specific time period (typically 10-15 years), with a 'residual value' applied to estimate the remaining value of the capital investment after that time (after allowing for depreciation); or

3. an analysis of costs and benefits over a specific time period (typically 10 - 15 years), where the costs are calculated as an annual revenue requirement comprising the annual return on, return of, and operating and maintenance costs of the capital investment.

Under the first of these approaches, the TNSP does indeed consider the operating and maintenance costs 'over the operating life of the credible option', as a terminal value is applied to operating and maintenance expenditure.

However, under the second or third of these approaches, the TNSP only considers the operating and maintenance costs over the selected time period of the assessment, and not beyond this period.

By adopting the proposed reference to 'operating and maintenance costs over the operating life of the credible option,' the proposal appears to inadvertently 'lock-in' one approach to the NPV analysis.

In order to avoid this, Grid Australia proposed that the reference in 5.6.5B(d)(8)(ii) should be changed as follows:

> (d)(8)(ii) operating and maintenance costs ~~over the operating life of the credible option.'~~

Grid Australia previously raised this issue in its response to the Commission's Discussion Paper. Grid Australia also notes that the matter is one which more appropriately fits into the Guidelines rather than the Rules, and the modification proposed above will provide greater flexibility to the AER in the development of its Guidelines.

2.6 Inclusion of Option Value as a Benefit

The Commission is proposing that the 'option value' of the investment should be included as a benefit, unless the TNSP can demonstrate that it is not material (5.6.5B(d)(4)(viii)).

Grid Australia notes that the inclusion of 'option value' as a benefit that TNSPs are required to include in the RIT-T assessment is a new category of benefit that has not previously been discussed during the current consultation process. The Commission's Discussion Paper included a reference to 'option value', but only as an example of 'other benefits' that may be included:

> (3)(a)(viii) other benefits that are determined to be relevant to the case concerned (including possible option value)[11]

The Discussion Paper did not explicitly discuss 'option value'. Neither was the inclusion of option values raised by the Commission in its Public Forum. As a result, there has been no previous opportunity for stakeholders to comment on the inclusion of option values in the RIT-T analysis.

Grid Australia understands from discussions with Commission staff that the inclusion of 'option value' is linked to the Commission's considerations of the appropriateness of the RIT-T arrangements in the light of policy developments in relation to environmental issues (see following section). In its Draft Report the Commission defined 'option value' as 'any benefits that proposed projects may have for future investments or costs'. The Commission gives two examples of what may constitute an 'option value benefit' in relation to a transmission investment:

- increasing the capacity of a radial line above the level of service required by the reliability planning standards to allow for the possibility of new generation connecting without any future investment; and
- deferral of a network option by a non-network option that would enable the deferred network investment to benefit from improved information and therefore be more appropriately specified.

Grid Australia supports consideration of 'option value' for inclusion as a benefit.

However, under the Commission's proposals, the AER is given the task of developing the Regulatory Investment Test Application Guidelines, which are to include worked examples of the acceptable methodologies for valuing the market benefits of a credible option.[12] Grid Australia does not consider that it is good regulatory practice for the Commission to include a requirement within the RIT-T that has not been fully thought out and consulted upon, and without providing any guidance to the AER on how this requirement is to be applied.

Grid Australia therefore proposes that clause 5.6.5B(d)(4)(viii) be deleted and that there be no reference to option value benefit included in the RIT-T. In the event that interested parties consider that option value benefit should be included then it would be open to them to submit a Rule Change Proposal, which would allow for proper consideration of and consultation on this issue.

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[11] Discussion Paper, Appendix B: Regulatory Investment Test – Draft Specification

[12] Proposed NER clause 5.6.5B(j) and (l)(4).

2.7 Separate Quantification of Carbon Benefits

In its Draft Report, the Commission raises questions as to how various environmental policies currently being put in place (ie, the emissions trading scheme (ETS) and the MRET target) are reflected in the RIT-T analysis, and whether carbon benefits should be separately identified within the RIT-T analysis.

The introduction of an ETS will impact the level of electricity prices and, as a result, on the timing and type of generation that is built going forward. This impact on generation investment is already inherently captured within the RIT-T via the market modelling for market development scenarios.

In relation to the MRET scheme, the Renewable Energy Certificates associated with the scheme provide an additional financial benefit to renewable generators, and so may result in more renewable generation and/or bring forward the timing of planned renewable generation. Again, these changes in the type and timing of generation investment will already be captured in the RIT-T via the market development scenarios and the potential price at which network support from non-network renewable options is offered.

As a result, the effects of both the ETS and the MRET schemes on future plausible generation patterns (market development scenarios) will already be captured in the RIT-T analysis.

Grid Australia supports the wider policy discussion on environmental issues and is keen to actively participate in this debate. Grid Australia also supports consideration of the way in which the RIT-T is applied and whether this needs to be amended to ensure that it is aligned with wider environmental policies currently being developed.

However, Grid Australia considers that it is inappropriate and premature for the Commission to seek to predict the outcomes of this debate.

At this stage, all the Commission needs to do is ensure that the Rule which provides the AER with the role of developing the guidelines is written broadly enough to allow the AER to modify the Guidelines once the details of new government policies become defined.

It is clear from the above that both the ETS and the MRET scheme will influence the costs and benefits included in RIT-T assessments via their impact on future generation patterns (market development scenarios). These are already automatically included in the RIT-T. However, market development scenarios are also affected by a range of other factors. Isolating the impact of carbon policies, and thereby separately identifying carbon benefits, does not appear necessary, and is likely to be highly complex and ultimately arbitrary. Grid Australia does not support the separate identification of carbon benefits in the RIT-T. Further, Grid Australia sees no need for the Commission to pre-empt the details of the emissions trading scheme by seeking to separately identify carbon benefits.

2.8 Other

Grid Australia has a small number of additional comments on other areas of the Commission's proposed RIT-T which should be addressed as recommended below.

2.8.1 RIT requirement to set out factors to be treated as externalities

The Commission has now included a specific reference to externalities being excluded from the RIT-T in the wording of the NER (Clause 5.6.5B(d)(9)). Grid Australia supports this inclusion, as being consistent with the current Regulatory Test. However Grid Australia notes that Clause 5.6.5B(d)(10) requires the RIT-T to also set out the factors that will be treated as externalities under the RIT-T. There is the potential for these two clauses (i.e. (d)(9) and (d)(10)) to conflict, in the event that the list of externalities in the RIT-T is not complete or kept up to date.

In order to avoid this possibility, Grid Australia proposes that (d)(10) be deleted and that instead the AER be required as part of its RIT-T guidelines to provide examples of the factors that should be treated as externalities under the RIT-T.

2.8.2 Projects excluded from the RIT to be planned and developed at least cost

The Commission is proposing to add to the NER a requirement that for all transmission investments (network augmentations) to which the RIT-T does not apply (with the exception of funded augmentations), there is instead an obligation for the TNSP to ensure that the investment is planned and developed at least cost (5.6.5B(h)).

Grid Australia questions the value of this proposed provision. The NER (Chapter 6A) already includes incentives for efficient investment. The proposed addition appears to have little practical impact. Grid Australia suggests deleting this provision.

2.8.3 Timing

The Commission has set out a detailed process for the consultation required for the RIT-T, together with required timeframes. In particular, the Commission proposes that:

- the Draft Project Assessment report must be published within 12 months of the end of the consultation on the project specification; and
- the Final Project Consultation Report must be released within 30 days following the Draft Project Assessment report.

The Commission's rationale for the first requirement is 'to ensure timely investments.'[13] If the TNSP fails to publish its Draft Project Consultation Report it would presumably be required to re-run the project specification process. Grid Australia considers there may in some instances be very good reasons why the Draft Project Consultation Report is delayed beyond the 12 month cut-off point. Grid Australia therefore proposes that the NER should incorporate the ability for the TNSP to apply to the AER for an extension to this timeframe, where appropriate. Grid Australia also notes that in the event that the APR is used as a vehicle for facilitating the project specification stage of the RIT-T for several investments then this may

[13] Draft Report, p. 43.

extend the overall timeframe taken for an individual assessment beyond the 12 month period.

The second requirement is for the Final Project Consultation Report to be released within 30 days after the Draft Project Assessment Report. Grid Australia considers that there should be no timeframe prescribed between the Draft and Final Reports. It is impossible to foresee the issues that may be raised during the consultation process following the Draft Project Assessment Report, and therefore the time that may be required to address these issues in a manner satisfactory to interested parties prior to the release of the Final Report. Indeed, a 30 day limit may result in a matter raised being given cursory treatment, which then gives rise to a dispute, which would defeat the intended purpose. TNSPs already face incentives (via various sanctions) to proceed in a timely manner. Grid Australia therefore proposes that this 30 day limit should be removed.

2.8.4 Transitional arrangements

Grid Australia notes that there needs to be a sensible transitional arrangement which enables the AER adequate time to develop the required guidelines for the RIT-T, before the new arrangements are introduced. It is important that this timeline provides the AER with enough time to undertake effective consultation.

3. National Transmission Planner

Overall Grid Australia supports the proposals put forward by the Commission in relation to the NTP and the NTNDP. In particular, Grid Australia supports the focus of the NTP on the longer-term, strategic development of the power system. This focus accords with COAG's directive, and ensures that the NTP and the NTNDP will complement a TNSP's own planning, which is typically focused on more near-term investment decisions guided by a long term vision and development plans. Grid Australia also supports the bounded role of the NTP in relation to RIT-T assessments and the AER's regulatory determinations for TNSPs.

Grid Australia also considers that the proposals have been improved in a number of areas where Grid Australia had previously expressed concern, following the Commission's earlier Discussion Paper.

Notwithstanding the above, Grid Australia continues to have concerns in relation to the following three areas of the NTP and NTNDP proposals:

- the objective for the NTP does not match that explicitly set out by COAG;
- the proposed considerations supporting the objectives do not explicitly reflect the longer-term, strategic focus of the NTP; and
- information provisions should be placed on market participants (particularly generators) as well as TNSPs, in order to ensure that the NTP has access to all of the relevant information that it needs for its assessment of power system development.

The remainder of this section sets out these concerns in more detail.

3.1 Objective for the NTP

COAG's directive sets out the objective of the NTP and NTNDP as being 'to ensure a more strategic and nationally coordinated approach to transmission network development [..] to help optimise investment between transmission and generation across the power system.'

The Commission appears to have ignored COAG's specific directive in this area and instead proposes that the objective for the NTP should be expressed as follows:

> *"The NTP objective is to contribute to the achievement of the national electricity objective in a manner that an [sic] promotes the efficient, long-term and coordinated development of the national transmission grid.' (Section 7AA proposed to be included in the National Electricity Law)"*

In response to the Commission's earlier Discussion Paper, Grid Australia submitted that the objectives for the NTP and the NTNDP must be expressed in relation to the development of the **power system**, rather than solely focused on transmission investment, in order to be consistent with COAG's directive.

In its Draft Report, the Commission comments that promoting efficient transmission investment is not an end in itself but must be in the long term interests of consumers.

> *"In developing the NTNDP, the NTP should therefore have regard to the most efficient combination of transmission, generation, distribution and non-network options that will deliver reliable energy supply at minimum efficient cost to consumers under a range of credible future scenarios."*[14]

It is clear from this statement that the Commission does intend the NTP to consider generation and non-network alternatives as well as transmission development. Indeed, the Commission notes that COAG's Communiqué refers to the focus of the NTP being on **power system** development.

Given that the Commission appears to want to give effect to COAG's directive in this area, Grid Australia finds it puzzling that the Commission appears reluctant to propose the wording used in COAG's directive, in framing the NTP objective. Grid Australia considers that this is not purely semantics. Framing the NTP objective solely in relation to development of the national transmission grid inappropriately makes the transmission network the focus of the NTP's activities, rather than **power system** development. This focus is inappropriate and is reflected elsewhere in the Commission's proposals, most notably in relation to information provision (discussed below). If the Commission intends to be consistent with the COAG directive, then Grid Australia sees no reason to adopt a form of wording that relies on inference to do this, rather than directly reflecting the terminology used by COAG.

Grid Australia therefore proposes that the NTP objective be reworded as follows, to directly reflect the COAG directive:

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[14] Draft Report, p. 10.

'The NTP objective is to contribute to the achievement of the national electricity objective in a manner that an [sic] promotes the ~~efficient, long-term and coordinated development of the national transmission grid.~~ development of a strategic and nationally coordinated transmission network to help optimise investment between transmission and generation across the power system'

3.2 Strategic High-level Focus

Grid Australia supports the Commission's proposal to ensure that the NTP is focused on strategic, long-term objectives. This approach is consistent with COAG's directive.

To ensure that this focus is adequately captured in the NER, Grid Australia recommended in its response to the Discussion Paper that two further sub-clauses be added to the list of proposed factors that the NTP must have regard to in performing its functions, namely:

- the focus of the NTP on strategic, long-term, high level planning; and
- avoiding duplication of the planning which NSPs have to do to meet their obligations with respect to reliability.

The Commission has not incorporated these factors within the NTP considerations set out in the proposed Section 7AB to the NEL, with no explanation as to why.

Grid Australia remains of the view that the arrangements would be enhanced by explicitly including these factors in the list of NTP considerations. These factors are entirely consistent with the Commission's view that the NTP considerations should 'increase transparency and encourage consistency and predictability of NTP decision making.'[15]

3.3 Information should be obtained from market participants as well as TNSPs

Grid Australia considers that a key element of the NTNDP is identifying the alternative generation planting in each scenario, in order to guide transmission investment.

To enable the NTP to take into account energy market development more generally, it will need to have the ability to seek information from market participants and intending market participants (in particular from generators) as well as from TNSPs. The NTP will not be able to obtain information from TNSPs in relation to future generation developments as the TNSPs use of information they receive as a result of connection applications by generators is prohibited from being released to others, under the NER[16].

[15] Draft Report, p. 11.

[16] NER, Clause 5.3.8

Grid Australia highlighted the importance of the NTP having the power to obtain information from market participants in its response to the Commission's Discussion Paper. In the Draft Report the Commission notes that it is important that the NTP is able to access the information it reasonably requires from TNSPs *and market participants* in a timely fashion to meet its objectives.[17] However, the Commission considers that:

> *"In relation to information needed from market participants the expected AEMC powers to obtain information from market participants in relation to market operations and development of the Statement of Opportunities will be sufficient for this purpose."*[18]

However, the Commission also comments that:

> *"[..] the consultation process will provide the NTP with a good opportunity to collect valuable planning and investment information from market participants where they volunteer to do so"*[19] *(emphasis added).*

The Commission's comments appear contradictory. On the one hand the Commission is saying that the information collected by the AEMO from market participants will be sufficient for the purposes of the NTP. However it then holds out the prospect of 'valuable' planning and investment information from market participants being provided as a result of the consultation process.

To the extent that market participants do indeed have 'valuable' information that the AEMO has not received in another context (and Grid Australia considers that this is more likely than not to be the case), then there should be a formal process for *requiring* them to provide this information, rather than making provision of the information voluntary. This is consistent with the 'planning information instrument' process being proposed for the TNSPs.

Grid Australia considers that the focus by the Commission on information provision solely by the TNSPs, and not also by generators, is a further indication of an inappropriate focus on the development of the *transmission network* rather than the development of the *power system* (see discussion in section 3.1 above).

4. Inter-regional Transmission Charging

The Commission has included in its Draft Report four options for reforming the current arrangements for inter-regional transmission charging and has set out its intention to put forward a 'preferred approach' in its Final Report, for consideration by the MCE.

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17 Draft Report, p. 20-21.

18 Draft Report, p. 20.

19 Draft Report, p. 21.

The Commission considers that inter-regional charging arrangements are 'a key policy issue' facing the development of a national and co-ordinated electricity market, and therefore should be highlighted to the MCE.

Grid Australia agrees with the Commission that reforms to the inter-regional charging arrangements may be desirable. However, Grid Australia is concerned that this new substantive matter has been introduced at such a late stage in the review process and notes that this has severely limited the time available for effective consultation.

The Commission states in its Draft Report that it intends to assess the options against the decision making criteria set out for the review. These criteria are as set out below:

1. Solutions which promote more efficient outcomes over time;

2. 'Good regulatory practice': transparency and predictability;

3. Effective corporate governance and accountability; and

4. Minimisation of implementation costs and risks.

Grid Australia has reviewed the Frontier Economics report on the four options for inter-regional charging.[20]

Grid Australia supports the above as representing appropriate criteria for assessing alternative approaches to reforming inter-regional charging arrangements.

The table below sets out Grid Australia's assessment of the options against these criteria.

[20] Frontier, Advice on the application of AEMC options for an inter-regional charging mechanism in the NEM, April 2008, p.8.

Table 4.1: Assessment of Alternative Options for Inter-regional Charging

	Option 1	Option 2	Option 3	Option 4
	Interconnector cost sharing	NEM-wide Interconnector cost sharing	Load Export Charge	NEM-Wide Methodology
Economic efficiency	×	×	✓	✓
Transparency and predictability	?×	?×	?	?
Good governance and accountability	?✓	?✓	✓	?✓
Minimisation of implementation costs and risks	?✓	?✓	✓	×

Options 1, 2 or 3 are likely to be capable of practical implementation, although options 1 and 2 both raise specific implementation issues, and have greater potential to lead to disputes. Option 4 represents the most fundamental change to the current NEM arrangements, and is likely to raise significance implementation issues.

On the basis of the above, Grid Australia would lean towards Option 3 (Load Export Charge). Compared to the other options proposed, this option appears to be relatively more straightforward to implement.

However, Grid Australia notes that the time available for consideration of this item has been very limited, and that its position should therefore be regarded as a preliminary one.

5. Miscellaneous

Grid Australia notes that the Draft Report raises a small number of additional matters for consultation, and requests submissions on these matters.

5.1 Reliability Augmentation Criteria

The Commission is proposing not to require the NTP to have to develop criteria to identify reliability augmentations.

Grid Australia supports the Commission's proposal and agrees with the Commission that the current NER provisions are sufficiently clear as to what constitutes a reliability augmentation.

5.2 Inter-regional Projects

The Commission notes in the Draft Decision that it does not consider it necessary to provide for a further 'activist' role for the NTP in relation to inter-regional projects.

Grid Australia supports the Commission's proposal and notes that the NTP's strategic consideration of options for inter-regional augmentations will by itself result in a greater focus on these options, where they are identified.

5.3 Timing of the initial NTNDP

Given the sizeable work effort required in compiling the NTNDP as defined, and given that the NTP would need to recruit a significant amount of (scarce) resources to do this work, Grid Australia would seriously question the achievability of a 2009 timeline and the quality of the product should that timeline be imposed.

Grid Australia considers that a 2010 timeline for the initial NTNDP is more realistic, and less likely to lead to a product which falls short of the relatively high expectations which have been created.