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21 December 2007

Dr J Tamblyn
Chairman
Australian Energy Market Commission
Level 5,
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SYDNEY NSW 2000
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Dear Dr Tamblyn,

RE: NATIONAL TRANSMISSION PLANNING ARRANGEMENTS: ISSUES PAPER NOVEMBER 2007

Thank you for the opportunity to contribute to the AEMC's consideration of the role, functions and structure of National Transmission Planning in the National Electricity Market.

While the Planning Council will provide comments on a number of the issues raised in the paper, the primary focus of our comments is on the possible functions that a National Planner might undertake. The Planning Council sees this as an essential first step to then going on to consider the best structural arrangements to ensure that those functions can be carried out efficiently.

KEY AREAS OF FOCUS FOR THE NEW NATIONAL PLANNER

In any consideration of structural reform, it will be important to consider how the new structure can best contribute to improved market outcomes and more efficient decision making.

A National Planner for networks would be ideally placed to contribute in two key areas:

1. Assisting the AER in achieving better regulatory outcomes; and

2. Identifying and helping to realise additions to regional plans that would deliver national benefits.

1 Better Regulatory Outcomes

It is clear that a significant information asymmetry exists between the network service providers and the AER. While benchmarks and incentive regulation go some way to providing tools to encourage efficient outcomes, a modest investment in network expertise in a National Planner would provide invaluable assistance to the AER in its determinations on network revenues.

Knowing that a competent National Planner will be reviewing the details of revenue proposals will impose a discipline on NSPs in terms of ensuring that revenue reset proposals are well reasoned and fit to the efficient long term development of the network.

This review process could be seen to benefit both sides of the regulatory bargain: The AER would have an independent, technical expert that would provide it with some assurance that the projects proposed by the NSP were required and appropriate, and; the NSP, having agreed with the National Planner on the project make-up should have a smoother approval process through the reset period.

It should be highlighted that the Planning Council sees the final decision in all matters relating to network investment as resting with the NSP and that the National Planner plays only an advisory role throughout the process. Similarly, the final decision on regulatory matters would continue to rest with the AER.

2 Projects with National Benefits

One of the significant weaknesses of the current transmission planning system is the inability of TUoS to cross State borders. This situation sets up a system whereby local TNSPs have, if anything, a disincentive to identify and invest in local augmentations that would have non-local benefits. Such projects would effectively benefit consumers in one state, but be paid for by consumers in another.

One of the key roles for a National Planner would be to develop a clear strategic development path for national transmission corridors and then review regional transmission plans to identify where internally planned projects can be altered or expanded to access wider market benefits.

A further difficulty with the current system is the inability, based on a least-cost augmentation approach, to provide for the staged implementation of new transmission capacity. That is, if a TNSP can be guided by a strategic national plan that identified a new or expanded transmission corridor then when it plans to

augment a substation or line that will eventually form part of that corridor, rather than install the minimum requirements, the replacement asset can be sized to account for the proposed corridor. Such an approach would allow for incremental development of these corridors rather than significant one-off expenditure. However, for such a scheme to work it would require a cogent, detailed national plan and some form of national cost recovery.

FUNCTIONS OF THE NATIONAL PLANNER

In order to achieve the above outcomes, some of the basic functions of the National Planner begin to become clear, namely:

1 Scenario Planning

A consistent and planned approach to developing future market scenarios would not only provide the National Planner with a logical basis for the development of a strategic plan for future transmission corridors, but would also offer guidance to individual NSPs as they develop their regional plans.

Currently, there is no forum to discuss, or vehicle to present, views as to the possible structure of the market in terms of generation location and mix, customer loads, gas vs electricity transmission and price pressures. Having the National Planner develop a scenario plan as part of the new NTNDP would be a useful addition to the information available to the market.

2 National Strategic Plan Development

Using the scenario plan and its consideration of future loads and generation location, the National Planner would then be in a position to identify, at a strategic level, required augmentation or new investment to ensure the efficient development of the national transmission network.

3 Review of Jurisdictional Network Plans

While it is clear that NSPs have to be responsible for their own expenditure and for meeting any local or national reliability requirements, a review of local NSP plans by the National Planner would allow it to identify where local augmentations may be modified or expanded to provide broader market benefits or to prepare for longer term strategic objectives.

4 Establishment of Consistent National Reliability Standards

It would seem logical, given that the majority of funding remains local, that each jurisdiction should be free to choose the level of network reliability that it is prepared to accept. However, customers, retailers and generators that operate in more than one region would benefit from a consistent approach to identifying and reporting on the reliability standard at different parts of the network. A National Planner could play a useful role in setting up a reliability standard framework.

A National Planner should have the technical and market skills available to be a key player in the ongoing development of the regulatory price-performance bargain facing NSPs.

5 Advice to the AEMC on Network Rules Development

Despite recent revisions, the *NER* is, at times, hard to interpret and confusing to implement, particularly at the boundary, in some important network-related areas[1].

A National Planner, dealing as it will with these issues would be in an ideal position to provide expert advice to the AEMC on rule clarification and development in the areas of networks.

6 National Reporting

In addition to the forward looking aspects of a NTNDP, the National Planner could provide the market with historical, statistical information on constraints, minutes lost, forced and planned outages, etc. Such reporting would improve transparency in the market and provide a useful comparison between the various network areas throughout the NEM.

RESPONSE TO SPECIFIC ISSUES

While the Planning Council does not intend to address each of the issues raised in the Issues Paper, it has outlines responses to a number of the specific issues where comment has been sought by the AEMC.

As a general comment, the Planning Council feels that many of the issues relating to such things as the level of detail to be published in the NTNDP or the definition of asset types that the National Planner will or won't have an interest in are matters best left to the new National Planner itself. It would seem more important to define the role and purpose of the National Planner and then leave such a newly created body to define, within the limits of its resources, how best to achieve those outcomes.

1 Role of the Regulatory Test and the Ex Ante Cap

In an ex ante regulatory scheme, the role of the Regulatory Test process needs to be revisited. The incentive regime for NSPs does not appear to lead towards efficient investment decisions.

In fact the ex ante approach provides a disincentive against any investment in the early years of the reset period. Instead, the incentive is for the NSP to minimally invest only to meet clear reliability obligations. In the latter years of the reset period the incentive is to spend up to the revenue cap, but has no real

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[1] For example: boundary issues between transmission and distribution systems; regulated deep network augmentaion versus customer funded, negotiated augmentations; negotiated versus non-regulated assets.

incentive to select optimal projects. In fact, by leaving investment late, the driver is more on building quick projects regardless of their overall efficiency.

In such an environment, the Regulatory Test is sometimes promoted as a mechanism to ensure economic efficiency. However, there is no incentive or requirement for the TNSPs to apply the test accurately or completely. In reality, an NSP will have an incentive to favour network solutions, but will be financially indifferent as between competing network solutions and have a driver to choose projects that are easy to manage and implement quickly rather those that are efficient. As development approvals become difficult, this will drive NSPs to choose easy, but more expensive routes over efficient routes with long term benefits.

In such an environment, a more effective price-performance bargain would help to measure the effectiveness of investment decisions over time with the Regulatory Test becoming more a consultative tool and a means of documenting the decision process.

The role of a National Planner in dealing with these inefficiencies is not clear. Seeing them as a gatekeeper that is required to approve all Regulatory Tests is contrary to the "no slower then the present time taken to gain regulatory approval" driver.

If anything, the Planning Council sees the National Planner as being in an ideal position to promote changes to the regulatory framework that will provide clearer efficiency incentives to the scheme in general.

2 Having the National Planner Assimilate VENCorp

While there is no absolute requirement for the National Planner to perform the same role for every jurisdiction, there are a number of issues that would need to be addressed if this is not the case, notably:

- Funding: the AEMO and National Planner are likely to be funded by participants in a similar fashion to that of NEMMCO. If the National Planner is doing additional work or requires additional resources to conduct jurisdictional-specific functions then funding of those arrangements should similarly be jurisdictionally based.

- Liability: The current VENCorp model involves it making decisions regarding the assets that are required in Victoria. Any final decision-making power in relation to such assets would normally attract the possibility of litigation should anything happen as a result of the planning of those assets. The exact extent of this liability and the sharing arrangements between VENCorp and SP AusNet are not in the public domain, but rolling those liabilities into a national body would require that they be clearly identified and indemnified at a jurisdictional level.

3 Mechanism for Transferring Costs across Regional Boundaries

Where investment in one jurisdiction leads to significant benefits accruing to a different jurisdiction, some mechanism for transferring those costs across regional boundaries needs to be incorporated into the regulatory scheme. The National Planner, in its role of identifying national benefits, could also provide an assessment of where those benefits most accrue and should be paid for or perhaps in establishing those truly national projects that should be equally funded across the NEM.

4 National versus Local Planning

It seems premature to attempt to limit the scope of a National Planner's investigations by setting arbitrary restrictions on the level of detail that a National Planner should consider. A National Planner should be concerned with national impacts and relieving important constraints. If such a constraint is as a result of a distribution configuration then that is still rightly of interest and should be able to be investigated. At this point, the Planning Council argues that it is more important to define the role of the National Planner and the expected outcomes from its work and to leave some of the scoping detail to the new body once it is established.

As such, the Planning Council would be wary of limiting the role of the National Planner to the current definition of national transmission flow paths or any concept of "main grid."

5 Time Horizon for a National Plan

Given the strategic focus that a National Planner would need to adopt, it would make sense for the NTNDP to cover a period longer than the current NSP requirement of 10 years. Anticipating developments well beyond this time frame would allow a longer term focus on transmission development.

6 Advice from State JPB's

A National Planner will need to work closely with all of the NSPs and JPBs. It would make sense to formalise that arrangement by having an advisory body of JPBs to assist the National Planner both in terms of communication and technical support.

7 Other Roles currently undertaken by JPBs

Whether the National Planner should take over some of the broader roles currently undertaken by JPBs is likely to be best determined on a case by case basis.

The Responsible Officer role, being a communication role between the national operator and the state jurisdiction would appear to best remain with the JPB,

whereas responsibility for load shedding schedules may be split: with overall scheme development undertaken by the National Planner and the order of loads and listing of sensitive loads left to the jurisdiction.

Ongoing dialog with the jurisdictions should allow them to consider changes in their local institutions to ensure that they fit with the new bodies and new market environment.

8 Makeup of the RIT

In addition to the previous comments in relation to the Regulatory Test, the Planning Council would specifically support an revision to the RIT that includes broader market benefits and captures network reconfigurations and replacement expenditure.

9 Aligning the Review of TNSP Revenues

Provided the new NTNDP contains sufficient detail each year to project forward projects across the NEM, the Planning Council sees no particular need to align the review of TNSP revenues.

By staggering the reviews, the AER has the benefit of smoothing resource requirements both within its own organisation and for any consultant support it may require.

A staggered approach would also avoid all of the TNSP's having their revenue determined by economic indicators at a single point in time. Should the risk-free rate or CPI or other indicators vary from forecasts, the changing circumstances could be reflected in subsequent resets rather than impacting on all of the TNSPs at the same time.

The use of a modified "contingent" project process for nation projects could be used, where necessary, to adjust revenue within a reset period.

10 Definition of Prescribed and Negotiated Transmission Services

In considering the scope of its review into national transmission planning, the AEMC may wish to consider a clarification of the definition of those services that qualify as Prescribed and those that will be Negotiated. As more of the existing networks' capabilities are utilised, there will be growing pressure through the connection of significant loads or new generators to more clearly understand which part of the augmentations required for these connections are to be shared through the regulated assets base and which are to be paid by the connecting entity.

In any event, the role of the National Transmission Planner needs to be understood as either including or excluding consideration of negotiated network services.

11 Locational Pricing Signals

One of the tools that might be considered for a National Transmission Planner is a reconsideration of location pricing signals for the market. While the interconnectors remain as both a physical and financial boundary between the States, the development of efficient pricing signals and the establishment of meaningful market benefits associated with relieving network constraints will remain extremely difficult.

I would welcome the opportunity to discuss any of the matters raised above with you or your staff.

Yours sincerely,

Braden Cowain
CORPORATE SECRETARY