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Australian Energy Market Operator
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AEMO – Integrated System Plan Consultation – December 2017

EnergyAustralia is one of Australia’s largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We welcome the opportunity to comment on the Integrated System Plan (ISP) as part of our continued engagement on this issue. During this period of changing market conditions, we support AEMO’s development of the ISP. As the ISP seeks to replace the current National Transmission Network Development Plan (NTNDP), it is important that the ISP still meets the requirements of the NTNDP. We consider that, if prepared with a strong focus on providing good market information and improved transparency, the ISP could be a valuable resource for the market.

The consultation paper highlights many of the current issues facing the market, particularly relating uncertainties in the proposed location of new generation in the NEM. Any resources that may enable the market to respond in a way that provides a coordinated investment path to least-cost, reliable and secure supply will be especially valuable during this transitional period.

We note the challenges presented by an evolving mix of generation technology, changes to consumer behaviour and the policy environment. The ISP is being developed at the same time as the Energy Security Board’s development of the National Energy Guarantee and the Australian Energy Market Commission’s reviews into the coordination of transmission and generation investment and reliability frameworks. With the multitude of potential market amendments or design parameters being considered by these reviews it must be recognised that the recommendations from any modelling exercise or long-term planning are subject to significant uncertainties through potential changes to market design. We support the ongoing development of the ISP framework, with annual improvements and updates to take into account developments in the design of the market, new technologies and policy developments.

We consider that against this background of market design uncertainty, AEMO needs to be very clear in providing guidance to all interested stakeholders on what the ISP does and does not do. This includes noting limitations of ISP as a potential providing
pathways for coordinated investment that guide, but do not bind, participants. In particular, it does not grant any rights for investment in transmission that fail to meet current regulatory tests. The utility of the ISP as a market information resource is that it should assist market participants in their investment and operation decision making processes.

With such a variety of transmission and generation options open to consideration under the ISP, it should aim in the first instance to present outcomes that are feasible within the current regulatory regime. That is, options capable of passing the current regulatory tests for investment. This would ensure that any proposals do not increase risk of inefficient investment or unjustified cost increases for consumers.

To provide additional context to the market on options proposed in the ISP, the key drivers behind these proposed options need to be clearly and explicitly set out, rather than generic benefits being attributed. These drivers should be based on the specific benefits that the option would deliver, rather than just the indicative net present values. That is, further details need to be provided around the services to the market (e.g. increased access to storage or renewable energy resources) that each option is expected to deliver.

We also consider that renewable energy zones (REZs) are a concept that warrant further exploration. REZs seek to encourage more efficient investment in renewable generation, but it is not clear what types of generation are most likely to be facilitated by their creation. For example, how does the REZ concept fit alongside the increasing penetration of distributed energy resources, particularly residential solar PV? These resources may end up competing with each other, and so the risk of REZs degrading in value should be taken into account. Further, recommendations that aim to facilitate REZs may not fit in with the current regulatory regimes for investment and therefore may increase the risk of uneconomic projects being encouraged or progressed.

As REZs are a new construct, any recommendations to facilitate their integration into the NEM need to be based on a deeper level of analysis and transparency beyond the current regime. Providing a more detailed breakdown of the drivers behind REZ-related recommendations will allow the market to better understand the costs and benefits of each option. In particular, we would support such transparency as it allows participants to better understand the level of co-optimisation that would be possible under the proposed options. Some of the analysis that would be useful for this would be if AEMO were to publish forecasts of the output and constraints on each REZ to highlight the congestion cost of a recommendation. Information on how system operation may change in order to maintain stability as new assets connect would also be useful.

We note that the ISP needs to present possible options that are not simply least cost; they must also seek to meet reliability or system security requirements. This includes analysis of whether proposed options are likely to reduce the need for ongoing, and costly, market interventions – as has been seen in relation to the Heywood Interconnector.

EnergyAustralia supports continued development of the ISP framework, particularly where it enhances the information available to the market. Yet, we caution against seeking to develop a framework that recommends investment opportunities that are not consistent with the regulatory regime or are not economically efficient and thus do not provide optimal solutions for the market and end use consumers.
If you would like to discuss this submission please contact me on 03 8628 1242 or at melinda.green@energyaustralia.com.au.

Regards

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Industry Regulation Leader