

Introduction

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and expect to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

The EUAA welcomes this opportunity to comment on the Draft 2020 Integrated System Plan (ISP) and congratulate AEMO on the improvements to stakeholder engagement in recent months. We encourage AEMO to continue to evolve its approach to stakeholder engagement as a means of improving understanding of the ISP and building stakeholder trust in the outcome.

The EUAA recognise the need to comprehensively evaluate the best pathways to a decentralised and decarbonised electricity system including the challenges that come with the retirement of thermal plant and the integration of new and emerging technologies. This is becoming increasingly important as governments seek to put in place ambitious climate change objectives such as net zero emissions by 2050. Therefore, we support the development of the ISP as a guide for future investment and see it having the potential to play a key role in facilitating this transition pathway at the most efficient cost to consumers.

However, the ISP has moved beyond being a plan to guide investment decisions to a plan that directs investment decisions, largely driven by the desire of COAG Energy Ministers to make the ISP actionable. While on the surface this seems a worthwhile objective, it is not without its risks. In particular we should not be sacrificing sound governance practices, such as diminishing the role of the AER or removing important checks and balances in the independent economic assessment process in order to achieve an expedited result.

With the ISP, AEMO are engaged in a high stakes process that seeks to balance the risks of not acting quickly enough to enable a smooth transition of the energy market and acting too quickly or taking actions that may prove unnecessary where consumers may be forced to pay for underutilised or stranded assets. This task is made more difficult by the rapid pace of technological change and a volatile political environment.

The draft 2020 ISP recognises this¹:

The Draft ISP aims to take into account:

- *complex and interdependent factors in the physical system, and*
- *changes in the future economic, trade, security, policy and technology environments.*

The complexities include the rapid introduction of increasing levels of consumer-driven DER, satisfying the critical operational needs for the power system, arrangements to replace exiting generators and deploy

¹ See p. 21 https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2019/Draft-2020-Integrated-System-Plan.pdf

replacement resources ahead of, or in alignment with, those exits, low-cost but variable resources, storage, transmission investments, climate change impacts, and increasingly scarce system services.

The fundamental challenge for AEMO is that it has been given a task to develop an “actionable” ISP where its recommendations can be implemented quickly to facilitate the transition to a lower carbon NEM in the most efficient way while also meeting community expectation on system reliability, security and cost. However, the current regulatory system, with its various checks and balances and governance structure around the role of the AER and its Clause 5.16.6 reviews of proposed RIT-T projects, was viewed as being too slow to meet this objective.

As a result, some of these checks and balances, including robust independent cost benefit analysis, appear to be diminished under the plan to make the ISP actionable. However, these governance arrangements are seen as essential by our members as it gives them comfort that the risks of stranded assets, which consumers currently bear, are not discarded for the sake of expediency.

In summary, the EUAA is focused on increasing meaningful stakeholder engagement and input into the ISP, on ensuring the development of the ISP follows rigorous process, that independent financial oversight is maintained and that costs and risks are equitably shared.

Therefore, this submission will focus on a three-point plan that we believe will work to achieve these goals:

1. Improved consumer engagement and involvement in the development and monitoring of the ISP
While AEMO has considerable skills in technical evaluation and market operation, we see it recognising that it is on a journey to best practice consumer engagement. We are very supportive of the recent moves to establish an ISP Consumer Reference Group. We make some suggestions on how that might develop an effective engagement plan for the 2022 ISP.
2. Maintaining best practice evaluation and governance including the continuation of rigorous oversight by the AER
In our recent submissions to the ESB and AER on actioning the ISP we argued that as part of the preparation of the 2022 ISP that the AER guidelines should institute a process that is more prescriptive than discretionary. We also argued that critical governance structures are retained including a review role for the AER that it currently has under Clause 5.16.6. AEMO’s performance against these would be assessed at the end of the 2022 ISP and changes made for the 2024 ISP.
3. Development of an equitable framework for sharing the cost and risk of the transition including the ISP
The EUAA have long argued that in an environment of great uncertainty and with such fundamental change of ownership of the energy system from public to private enterprise, that it is unreasonable to expect that consumers continue to shoulder the entire risk and cost of building the 21st Century NEM. In these circumstances a new approach to access and charging is required.

While the “who pays?” question may be strictly outside of AEMO’s scope in preparing the ISP we think it is important that AEMO discuss it in the Final Report. Risk should be the responsibility of the party best able to efficiently manage it – and that is not always the consumer. We would hope that AEMO encourage the debate around where risk should lie while recognising the work the AEMC is undertaking on CoGaTI.

Improved consumer engagement and involvement

We have welcomed the improved level of consumer engagement AEMO has undertaken as part of the development of the 2020 ISP. We are encouraged that AEMO recognises there is still a long way to go to move to a best practice approach currently being pursued by a number of electricity and gas networks.

The evolution to best practice stakeholder engagement and a customer centric culture for these networks was driven by many factors, not the least of which was a recognition that there exists a huge information asymmetry between the network and consumers.

Those electricity and gas networks leading best practice consumer engagement recognise that simply providing significant amounts of information is but one part of effective engagement. They recognise the benefits of deep and long-lasting engagement with consumers to improve their skills and understanding of the information provided.

This knowledge enables consumers to better understand the detail provided by these best practice networks and to see what parts are consistent with the National Electricity Objective. They recognise the critical assessment of their plans, including the questioning of base assumptions or decisions made, is an important part of developing a robust business case or regulatory proposal. Rather than weaken their position, they understand this actually strengthens it. This approach then leads to a greater chance that stakeholders will support any recommendation to the AER on whether the network’s proposals were capable of acceptance.

A common tool, but by no means the only one, is used by best practice networks in their consumer engagement is the IAP2 spectrum². This spectrum has the following stages:

IAP2 SPECTRUM OF PUBLIC PARTICIPATION



² See <https://www.iap2.org.au/resources/spectrum/>

Whether or not this specific approach is adopted, the most successful engagement comes with the right mix of inform, consult, involve and collaborate – recognising that the network has to make the final decision on what to submit to the AER and the AER makes the final decision.

The best engagements are those that have the greatest level of involvement and collaboration. But for this to be successful requires a lot of investment over time by the network to inform and consult and recognising that different consumers advocates have different knowledge bases. In our experience, well run programs result in a high level of trust between network and consumer.

All this takes time and AEMO is just beginning that journey with most stakeholders. We look forward to continuing to support AEMO as they build appropriate systems, processes and skills in this area.

To help AEMO refine its ISP processes and with the objective of making this and future ISP's more robust and capable of widespread acceptance, we provide the following comments on the stakeholder engagement process used for the 2020 ISP and then comment on what improvements we believe will be beneficial for the 2022 ISP.

2020 ISP

The EUAA participated in a range of engagement activities over the period of preparation of the 2020 ISP. This included ISP specific meetings and various Forecasting Reference Group meetings that fed into the ISP process. There appeared to be little specific engagement with consumers around the ISP details, at least in comparison to the engagement experiences elsewhere, with consumers only participating in general stakeholder sessions.

Admittedly, available EUAA resources limited our participation at times which we believe is a similar issue with other consumer advocate groups.

Using the IAP2 framework as a base, what we have observed is that engagement was heavily biased towards 'inform' with some level of consult, but very little 'involve'. Meetings often took the form of going through a large slide pack distributed a day or so prior to the meeting. On many occasions individual AEMO experts would go through at a high level, a sub-set of the slide pack that was usually a highly technical matter that the presenter may have worked on for a substantial period. The information and knowledge asymmetry between presenter and audience was often large while timeframes to build stakeholder understanding small.

A further example; the consultation sessions held across various cities in early February 2020 were primarily 'inform' with a bit of 'consult'. Discussion was very tightly controlled to cover the topics AEMO saw as important and in a way that reflected the AEMO preferred approach to the modelling. Attempts to engage in discussion at the Q&A stations on topics outside the AEMO template, or with different assumptions, were seen to be outside the agenda and largely dismissed.

This may be reflective of the time constraints AEMO were under at the time, which could be resolved somewhat by engaging with stakeholders much sooner and on specific topics that allow a more meaningful discussion and deeper analysis.

There is no lack of data published by AEMO in the course of preparing the ISP with over ~42MB of data on the ISP website. However, a reasonable proportion of it was not the subject of direct engagement.

We would suggest that simply providing information on the AEMO website is not effective engagement and certainly not our experience in practice³.

To further illustrate the challenge for stakeholders and consumer advocates created by this approach. There were ~35MB of documents published in December 2019 around scenarios, inputs and assumptions. Submissions were due by 7th February 2020. While this may be built up through earlier documents published through 2019 (e.g. the 25MB August 2019 workbook and many MBs of supporting studies), it is unrealistic to expect consumer advocates to have the detailed knowledge, time and resources to even begin to evaluate these documents.

It is this lack of resources and information asymmetry that drives our support for the AER governance role that currently sits under Clause 5.16.6.

2022 ISP

It appears that the assumption in the ESB proposed ISP rule changes that are designed to speed up the network review process is that organisations like the EUAA will 'step up to the plate' to be much more involved in both the ISP process and individual network RiT-T processes. This appears to be, at least in part, designed to be a substitute for a diminished role of the AER.

While we appreciate an invitation to participate in an enhanced ISP engagement process and we will do so to the extent of our resources and knowledge, consumer advocate organisations should not be asked to perform the highly complex and resource intensive task of critical assessment normally performed by an independent regulator. Organisations like the EUAA simply don't have the resources or specific in-house skills and we would be surprised if other consumer advocates were in any different position, given the limited resources and funding available for such advocacy.

If consumer advocates are being asked to 'step up to the plate' in this way, then additional support needs to be provided such as access to additional funding to conduct detailed analysis on key aspects of the ISP or access to independent expert resources. These could be developed as a central resource that could be accessed by all consumer advocates.

We understand that AEMO will be forming an ISP Consumer Reference Group (CRG) and we look forward to seeing how this might build the level of understanding and trust in the 2022 ISP. Our experience with engaging with regulated networks is that this process takes time.

Therefore, our recent submissions to the AER on the CBA Guideline⁴ and the ESB on the proposed rule changes⁵ recommended more prescription in how AEMO prepares the 2022 ISP. As the CRG takes shape over the next few years the AER could then review the consumer engagement performance as a basis for reviewing the level of prescription to apply in the 2024 ISP. Our hope is that due to improved stakeholder practices that AEMO will be given greater flexibility in future ISP's.

³ This is similar to the Hayne Royal Commission finding that lengthy product disclosure statements are not sufficient to ensure a consumer understands a financial product.

⁴ See <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/guidelines-to-make-the-integrated-system-plan-actionable/initiation>

⁵ See <http://www.coagenergycouncil.gov.au/publications/consultation-draft-isp-rules>

Building on our recommendations in our recent ISP submissions, we suggest that in developing the CRG, AEMO should:

- Consider a significant increase in stakeholder engagement resources including building specific skill sets in stakeholder outreach, engagement and communication
- Draw on the AER’s Consumer Engagement Guideline and consumer engagement plans of best practice electricity network companies, work with the forum to develop an ISP Stakeholder Engagement Plan.
- Use the IAP2 spectrum as a framework for that plan with appropriate focus on education and then striving to achieve the involve and collaborate levels of the spectrum required to achieve broader acceptance and support
- Present this Stakeholder Engagement Plan to the AER for review and comment prior to engagement commencing on the 2022 ISP, and
- Ensure appropriate resourcing for the forum.

Finally we would encourage AEMO to consider becoming a signatory to the recently established Energy Charter⁶ which would be a clear demonstration of their commitment to better engagement, increased transparency and a strong focus on consumer outcomes.

Maintaining best practice evaluation and governance

Under the rule changes to make the ISP actionable, a number of new roles have now passed to AEMO including taking over the PSCR process from project proponents. As a result, AEMO will be required to follow the AER’s Forecasting and CBA Guidelines while it appears that the AER will no longer have a role under Clause 5.16.6 to review the RiT-T cost benefit analysis.

The intention is that consumers should be able to rely on the rigor in the ISP and network RiT-T processes – through a combination of best practice evaluation and governance arrangements – and get comfort that the national electricity objective is being achieved and consumers’ residual stranded asset risk is minimised.

Based on what we have observed to date, it would appear that projects that end up in the ISP have an air of inevitability about them and seem to move along the AEMO project priority spectrum based largely on the stage in the development process rather than a continuous, rigorous financial assessment with appropriate, transparent governance arrangements. The Draft ISP summary document talks a lot about Group 1 – Priority grid projects that are:

“... critical to address cost, security and reliability issues. They are to commence immediately after the publication of the final 2020 ISP, if not already underway.” (p.11)

We expanded on this view in our submissions to the ESB (on the draft ISP rules) and the AER (on the proposed Cost Benefit Analysis Guideline) making two key recommendations relating to best practice evaluation and governance.

- (a) The EUAA recommend that the Guidelines for preparation of the 2022 ISP be more prescriptive than discretionary

⁶ See <https://www.theenergycharter.com.au>

We advanced three reasons for this:

- The perception that AEMO’s forecasting is overly conservative and that its level of transparency could be improved
- The current state of AEMO’s consumer engagement and the information asymmetry consumers face, and
- The limit on disputes to matters of process

(b) Retention of the AER’s ability to undertake a review of the proposed Priority projects – either through retention of Clause 5.16.6 or as part of the contingent project application.

As we stated earlier in this submission. Regulated businesses who engage in a genuine and a meaningful way, that are highly transparent and who encourage stakeholders to ask probing questions which are then promptly answered, see this process as a way of strengthening their regulatory proposal, not weakening it.

In this section we comment on what we regard as areas of the Draft 2020 ISP that are still highly uncertain for consumers. We highlight these areas to support recommendations made in the previous section. We believe that in addressing these issues as part of a revised stakeholder engagement process will help strengthen this and future ISP’s.

(i) What capital costs did AEMO use in the Draft 2020 ISP?

In contrast to the immense amount of data provided to explain and justify the approach in most areas, unfortunately this does not seem to be the case for the crucial input of project capex assumptions. The only reference to capex we could find in the 83-page ISP summary document is a statement that:

“Transmission project options were refined in consultation with transmission network service providers.”

The ISP summary contains no summary table of the assumptions used in the CBA nor any discussion of the confidence that AEMO/TNSPs have in these cost estimates. While Box 1 (p. 26-7) lists the improvements since the 2018 ISP that have been the result of stakeholder consultation, it makes no mention of network capex.

While there is a comprehensive study of generation costs by CSIRO⁷, neither the 60-page August 2019 “Forecasting and planning scenarios, inputs, and assumptions” report⁸ nor the 310-page Draft 2020 Integrated System Plan Appendices from 12 December 2019⁹ discuss network capex cost estimates in any detail.

There is an excel spreadsheet¹⁰ showing a significant range of capital costs for the Group 1, 2 and 3 projects and then these numbers are repeated in the discussion of each project in Appendix 6 of the Appendices document¹¹. However, there is no indication of which number within that range was chosen and why.

⁷ See https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/Inputs-Assumptions-Methodologies/2019/CSIRO-GenCost2019-20_DraftforReview.pdf

⁸ See https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/isp/2019/2019-to-2020-forecasting-and-planning-scenarios-inputs-and-assumptions-report.pdf?la=en

⁹ See https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/isp/2019/draft-2020-isp-appendices.pdf?la=en

¹⁰ See “Draft 2020 ISP Transmission outlook summary” at <https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2020-integrated-system-plan-isp>

¹¹ See Draft Integrated System Plan Appendices 12 December 2019 pp.138-180 https://www.aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/isp/2019/draft-2020-isp-appendices.pdf?la=en

The only project where the specific capex number was sighted was Energy Connect where the capex of \$1.53b was used¹² with the following explanation:

“This augmentation cost is aligned with the South Australia Energy Transformation RIT-T Project Assessment Conclusion Report (PACR).”

We note that the AER 15.6.6 report on Energy Connect¹³ accepted this estimate but did note (pp.10-11):

“ElectraNet's SAET RIT-T indicates that the estimated costs of the preferred option are subject to a high degree of uncertainty. We also understand that there is the potential for updated proposed costs in a contingent project application to diverge from the estimated costs in the SAET RIT-T.

...

“While our decision on this 5.16.6 application is that the preferred option satisfies the RIT-T, our assessment is that the costs and benefits of the preferred option may be more finely balanced than [Electranet] suggests. On this basis, any significant changes to the costs of the preferred option could have a material impact on the outcome of the RIT-T.”

The AER continued (pp. 79-80):

“Given the preliminary nature of the estimated costs, ElectraNet has identified the investment as being in line with a Class 4 estimate under the AACE International Recommended Practice and Estimate Classification. This implies that only 1 to 15 per cent of the scope of the project has been defined. ElectraNet stated that the accuracy range for this estimate is -15 to -30 per cent on the low side and +20 to +50 per cent on the high side. This would mean that the investment cost could reasonably be in the range of \$1.07 billion and \$2.23 billion.”

These project cost ranges in the Draft ISP (excluding the AER’s view on Energy Connect) are summarised in Attachment 1 to this submission. Assuming the Energy Connect cost is the stated \$1.53b, then the following table summarises the significant capex range provided by AEMO¹⁴ and how the upper range for Group 1, 2 and 3 projects is only slightly below current RAB for all TNSP’s.

	Total of lower bound estimates (\$19)	Total of upper bound estimates (\$19)	Current TNSP RAB (\$18)
Group 1	\$4.3b	\$6.6b	
Group 2+3	\$7.0b	\$12.8b	
Total	\$11.2b	\$19.4b	\$20.7b

¹² Appendix 6 p. 145

¹³ See <https://www.aer.gov.au/system/files/AER%20-%20Determination%20-%20SAET%20RIT-T%20-%202024%20January%202020.pdf>

¹⁴ Where the ISP provides capex estimates for a number of options, we have selected the highest cost option. The current TNSP RAB is the closing 2018 RAB from <https://www.aer.gov.au/system/files/TNSP%202018%20Data%20report%20-%202024%20July%202019%20-%20FINAL%20for%20publication.pdf>

Unfortunately, at this point of ISP engagement we don't have answers to many key questions that we consider to be a normal part of regulatory engagement. For example, there is no (obvious) explanation of what numbers were used in the ISP and why. There is no (obvious) discussion of what sensitivity analysis was done on different capex assumptions. What the Draft ISP does provide is an estimate of the net market benefits of the various scenarios¹⁵:

Table 4 Ideal timing and benefit of "no-regret" grid augmentations (NPV, \$ billion)*

Scenario	No regret grid augmentation projects				Cost-benefit analysis		
	QNI Minor	VNI Minor	Energy Connect	HumeLink	Total system costs† without projects	Total system costs† with projects	Net market benefits
Central	2022-23#	2022-23	2023-24	2025-26	87.53	85.34	2.18
High DER					80.27	78.50	1.78
Step Change					92.15	90.98	1.17
Slow Change					57.69	56.77	0.93
Fast Change					85.74	83.84	1.90

This indicates that the net market benefits under a supposed 'no regrets' framework are between only 1-2.5% of "total system costs with projects"? A relatively small change in assumptions e.g. a relatively small movement towards the upper bound capex, can quickly remove these market benefits.

Unfortunately, stakeholders have no way of testing the capex assumptions and no way of disputing these numbers given the ESB proposal that disputes are only available on matters of process. We would encourage AEMO to quickly publish a comprehensive analysis of the network capex assumptions to enable stakeholder engagement and build confidence in the final result.

(ii) Where would consumers be without the AER Clause 5.16.6 report on Energy Connect?

In the absence of the AER 5.16.6 report, all consumers would have known would be drawn from the Electranet analysis based on ISP and Electranet assumptions. That analysis indicted a net market benefit of ~\$924m over 21 years assuming a capex of \$1.53b. This would appear to be a very attractive project. However, the AER review concluded that:

- Electranet had made flawed assumptions on SA gas plant minimum capacity factors that reduced the project NPV from \$924m to ~\$269m
- The remaining ~\$269m of benefits are heavily reliant on AEMO requirements for system security and Electranet's assumption that only gas plant can provide AEMO's requirements. We observe this requirement goes beyond what was specified in the 2018 ISP and what AEMO advised AER in 2019. Based on additional AER modelling, relaxing the Electranet two gas unit assumption being used to justify Energy Connect, resulted in the overall net market benefits becoming negative.

With these net benefit calculations based on the \$1.53b capex. The AER's comments on this capex estimate¹⁶

¹⁵ See p. 51

¹⁶ See pp10-11 <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/contingent-projects/electranet-sa-energy-transformation-regulatory-investment-test-for-transmission-rit-t>

“ElectraNet's SAET RIT-T indicates that the estimated costs of the preferred option are subject to a high degree of uncertainty. We also understand that there is the potential for updated proposed costs in a contingent project application to diverge from the estimated costs in the SAET RIT-T.

“While our decision on this 5.16.6 application is that the preferred option satisfies the RIT-T, our assessment is that the costs and benefits of the preferred option may be more finely balanced than [Electranet] suggests. On this basis, any significant changes to the costs of the preferred option could have a material impact on the outcome of the RIT-T.”

The AER continued¹⁷:

“Given the preliminary nature of the estimated costs, ElectraNet has identified the investment as being in line with a Class 4 estimate under the AACE International Recommended Practice and Estimate Classification. This implies that only 1 to 15 per cent of the scope of the project has been defined. ElectraNet stated that the accuracy range for this estimate is -15 to -30 per cent on the low side and +20 to +50 per cent on the high side. This would mean that the investment cost could reasonably be in the range of \$1.07 billion and \$2.23 billion.”

If stakeholders are being asked to rely on assumptions made by project proponents which then form a critical aspect of the net market benefits of the ISP then we must ensure rigorous, independent assessment is maintained.

Therefore, in addition to maintaining 5.16.6 we believe it is important that the AER maintain a key oversight and governance role that includes the following:

- Monitoring, investigating and enforcing compliance with AEMO’s implementation of the ISP Guidelines along with proactive monitoring throughout the ISP and RIT-T processes
- Listening to stakeholder concerns as the 2022 ISP is being prepared
- Acting on disputes
- Review the ISP Guidelines following completion of the 2022 ISP to review the prescription vs discretion balance
- Given that the AER cannot reject an ISP project, ensure it has enough resources to undertake a comprehensive contingent project review process to ensure only an efficient level of capex is approved into the RAB.

Develop an equitable framework to share cost and risk

This section comments on an issue that is outside a strict definition of the AEMO scope. However, it is an issue that is central to consumers attitudes to the ISP – how the ISP transmission investment should be funded. Using the example of Energy Connect we are presented with contrasting views:

- An ISP recommendation that it is a Group 1 Priority Grid Project that is:

“...critical to address cost, security and reliability issues. [It should] commence immediately after the publication of the final 2020 ISP, if not already underway.”

¹⁷ Ibid pp 79-80

- An AER report that questions whether the NPV of net market benefits is positive

We await the Electranet/Transgrid contingent project application to see what capital cost they seek to incorporate in the RAB and how much higher it will be than \$1.53b. This raises large concerns for our members. We find it difficult to understand why consumers should take all the potential stranded asset risk for ISP projects that seem to have a highly volatile business case.

There is a debate within the AEMC CoGaTI discussion on how the costs should be shared between consumers and generators. Then there is the political discussion around potential levels of Commonwealth and State Government funding, whether by way of guarantees or direct funding. Obviously the more funding that comes from generators and Governments the less concerned consumers are about the proposed ISP projects stranded assets risk.

The EUAA made numerous submissions to the Coordination of Generation and Transmission and Investment (CoGaTI) process over the last 2 years. The key issue we have been raising in our submissions to the CoGaTI process and to several RIT-T assessments has been to challenge the assumption that consumers would continue to pay the full cost for network augmentation including for proposed Renewable Energy Zones (REZ) and interconnectors such as Energy Connect, Project Marinus (Tas to Vic interconnector) and Kerang Link (the deep augmentation costs to facilitate Snowy 2.0).

We note that the AEMC recognise that the existing access and charging arrangements may no longer be fit for purpose.

“...the current access regime needs to evolve to allow the risk and cost of generation investment to compliment planning and investment in transmission. Building transmission to benefit generators means that generators should pay for this transmission investment.”¹⁸

“While generators are able to underwrite transmission investment on the shared network to reduce congestion, doing so would improve the access of all generators. Each individual generator would prefer for other generators to underwrite transmission investment, to avoid the cost of doing so while enjoying the benefits that the transmission infrastructure provides to all generators: a free-rider problem. As a consequence, a regulated, centralised approach to transmission investment has been adopted to date, which may be poorly coordinated with the market-based approach to generation investment.

As generators only pay the direct costs associated with facilitating their connection, the price they face does not fully reflect locational signals, and generators do not receive any guaranteed level of access to the transmission network.”¹⁹

The EUAA agree and are of the view that the current arrangements do not fully serve the long-term interests of consumers, new entrant generators or networks. We note that the Energy Connect project has been “up-sized” to facilitate significant new generation, specifically via a number of ISP identified Renewable Energy Zones.

This new generation, being privately owned and operated, is set to gain significant financial benefit from this asset while consumers cover the cost associated with this access. Consumers should pay their fair share but should not be asked to fund free access to commercial entities seeking to make profit from energy market participation.

¹⁸ https://www.aemc.gov.au/sites/default/files/2019-03/Consultation%20paper_0.pdf

¹⁹ https://www.aemc.gov.au/sites/default/files/2019-03/Consultation%20paper_0.pdf

To be clear, the EUAA are not opposed to new network assets being built to facilitate new generation or for interconnectors to be built that allow market participants and the market operator greater flexibility. Our concerns revolve around the assumption that a vast majority of the costs associated with these projects will be included in the Regulated Asset Base (RAB) of the network companies involved.

It must be recognised that consumers have no control over the financial viability or operation of these assets but are currently expected to carry the cost, volume and technology risks. While consumers may receive some benefit from new transmission assets, given the fluctuating nature of the energy market and the risks involved, these benefits may be fleeting at best. In any case, the principle of only paying for that benefit that is reliably received should guide future cost and risk allocation in this area.

We recognise that moving to generator co-contribution could result in slightly higher contract prices (i.e. PPA's) as project proponents seek to recover these additional costs. So yes, while the customer will always pay we should not continue to be asked to absorb aspects of project risks and costs that we have no control over or be faced with paying "full weight" for underutilised assets.

Further, we contend that that exposing more network costs to open markets and competition will drive better outcomes for consumers compared to a regulated environment that, despite good intentions to deliver a result that replicates a competitive market outcome, has not always proven to be so.

We think these are key issues for COAG Energy Ministers and AEMO, the resolution of which will be central to building trust that the ISP will not only facilitate a lasting positive benefit for consumers but that the costs and risks are equitably shared.

Sincerely,



Andrew Richards
Chief Executive Officer

Attachment 1

Project	\$m capex	Comment
Group 1		
Western Victoria transmission augmentation	Short-term ~\$5.5m (\$?) with accuracy of ± 30% Medium-term ~\$473m (\$?) with an accuracy of ±30%.	Cost are aligned with the Western Victoria PACR
Energy Connect	\$1,530m (\$18-19)	Aligned with PACR; includes all new transmission and land and easements
QNI Minor	\$122-228m (\$19)	
VNI Minor	\$56-105m (\$19)	
Hume Link	\$945 - \$1,755m (\$19)	
VNI West	5A - \$570-1,060m (\$19) Option 6 - \$940 - 1,730m (\$19). Option 7 - \$1,300 - 2,410m (\$19) Option 8 - \$1,010-1,880 million (\$19)	
Group 2		
Medium QNI upgrade	Option 2E - \$1,040 - 1,925m (\$19)	
Group 3		
Marinus	One 750 MW cable – \$1,150 - \$2,130m (\$19) Two 750 MW cables – \$1,935 - 3,590 million (\$19) One 600 MW HVDC monocabable from Burnie - Hazelwood - \$1,085 - 2,015m Two 600 MW HVDC monocabables from Burnie - Hazelwood \$1,820 - 3,385m	
QNI large	Option 3E - \$675 - 1,250m (\$19)	Assumes QNI Option 1A and QNI Option 2E are already commissioned.
Sydney – Newcastle-Wollongong reinforcement	Stage 1 - \$375 - 700m (\$?) Stage 2 - \$290 – 540m (\$?)	
New England and North West New South Wales REZ expansions	Stage 1 - \$820 - 1,520m (\$?) Stage 2 - \$290 – 535m (\$?)	
Central West New South Wales REZ expansion	Stage 1 – \$24 - 44m (\$?) Stage 2 – \$299 – 555m (\$?)	
Far North Queensland REZ expansion	\$535 – 830m (\$?)	
Gladstone Grid Section Reinforcement	\$160 - 300m	
Central Queensland to Southern Queensland	\$226 - 420m	
South East South Australia REZ	Stage 1: \$20 - \$80m (\$?)	Depending largely on the requirements for reactive plant
Mid North region REZ	\$265 - 475m	