50 Camberwell Road Hawthorn East VIC 3123

Clean Energy Investor Group

1 May 2023

Mr Daniel Westerman
CEO, Australian Energy Market Operator
Lodged by email to: ISP@aemo.com.au

Dear Mr Westerman,

Response to *Update to the ISP Methodology* Consultation paper

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the Australian Energy Market Opperators (AEMO)'s *Update to the ISP Methodology* (Consultation paper) published on 31 March 2023.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of installed renewable energy capacity across more than 76 power stations and a combined portfolio value of around $38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low-cost capital needed to achieve it.

KEY POINTS

- The ISP process is vital for investors as it gives investors economic information on which to base clean energy investment plans.
- CEIG proposes to add a new check for commercially credible outcomes within ISP scenarios. This is critical for investors and financiers to be able to rely on ISP scenarios when they make financial decisions.
- CEIG supports accounting for transmission project lead time uncertainty however, a new mechanism to commit to ISP's transmission investment program is required.
- CEIG provides in principle support for the use of a desktop assessment of land use data as this may improve social licence and reduce delays.
- CEIG believes it is appropriate and not premature to allow for emission reductions in the ISP.
- CEIG welcomes AEMO considering consumers' preferences and commissioning Deloitte to assess consumers' willingness to pay for transmission. However, AEMO must make decisions that enable transmission investment to be delivered without delays as this is critical to avoid higher than necessary costs for consumers.
- CEIG is calling for further consideration of market impacts before implementing energy storage capacity limits.

The ISP process is vital for investors, and we commend AEMO on the work it has done on the update to the ISP methodology. The ISP gives investors economic information on which to base clean energy investment plans. CEIG supports AEMO's process to update the ISP methodology on matters that warrant an earlier review outside of the four-yearly process.

CEIG proposes a new check for commercially credible outcomes within ISP scenarios

In our *Decarbonising Australia - Accelerating our energy transition with a credible 1.5 degree scenario* Report[1] commissioned from Baringa, we highlight that the current scenarios in the 2022 ISP include some assumptions such as the rate of renewable buildout that lack market credibility. For example, AEMO's 2022 ISP Strong Electrification sensitivity assumes up to 15 GW of new renewables are built in a year, and the Hydrogen Superpower assumes up to 24 GW. Those build out rates are widely seen by investors as unrealistic.

The 1.5°C scenario outlined in our Report incorporates a commercially credible view on the necessary coal closure schedule, build out rate for new generation and storage, future electricity demand, broader electrification uptake, and uptake of hydrogen. This is critical for investors and financiers to be able to rely on ISP scenarios when they make financial decisions.

CEIG proposes that AEMO adds a new methodology to check for commercially credible outcomes within ISP scenarios and ensure there are no unrealistic outcomes.

In addition to our new addition to the ISP methodology above, CEIG's response to six of the eight methodology updates within the Consultation paper is provided below.

CEIG supports accounting for transmission project lead time uncertainty however, new mechanism to commit to ISP's transmission investment program required

Although CEIG supports in-principle accounting for transmission project lead time uncertainty within the ISP, this does not address solving the issues leading to the delays.

As highlighted in our previous submission to the ESB[2], AEMO currently outlines the most likely Integrated System Plan (ISP) scenario but there is no commitment nor responsibility for any entity to deliver the volume and the timing of transmission investment outlined in the ISP. The ISP's Actionable Project process prioritises transmission projects but there is no certainty that the timing outlined in the ISP will eventuate.

CEIG proposed that Ministers should put in place a new mechanism to clearly commit the implementation of the ISP's transmission investment program.

This new measure would provide greater certainty around the status of the network in the

[1] CEIG, Decarbonising Australia - Accelerating our energy transition with a credible 1.5 degree scenario (Apr-23)

[2] CEIG response: ESB Tx Access Reform Directions

medium term by 'locking in' the timing and the quantum of transmission investment and ensuring that sufficient resources are allocated. The Rewiring the Nation Office (RTNO) could be the responsible entity, with financial backing from the Rewiring the Nation Fund.

A possible process could be:

- Ministers issue an annual determination and direct the RTNO;
- RTNO publishes an annual Statement of Objectives showing priority projects, milestones, responsibility for delivery & funding.

CEIG supports consideration of alternative methods to better determine network loss impacts

As highlighted in CEIG's Clean Energy Investor Principles[3] report, CEIG has been calling for marginal loss factor reform as the current methodology applied in the NEM creates revenue uncertainty for clean energy generators.

Providing investors with more predictable revenue will lead to an improvement in investor confidence and as a result a lower cost of capital. To achieve these outcomes, CEIG have previously proposed replacing the Marginal Loss Factor (MLF) with an Average Loss Factor (ALF) for determining settlement prices in the spot market.

Unlike MLF which typically overstates the value of losses, ALF's are based on actual system losses providing AEMO with an opportunity to better reflect network loss impacts.

Therefore, CEIG supports AEMO considering alternative methodologies, such as the use of MLF's, in determining network loss impacts that more accurately reflect these losses leading to a better determination of the optimal generation mix.

CEIG provides in-principle support for the use of a desktop assessment of land use data

As highlighted in our submission to the Draft 2023 IASR consultation,[4] CEIG supports the inclusion of a sensitivity for social licence with the definition of social licence to be broad enough to incorporate environmental and biodiversity concerns as well as considerations for offshore wind.

Not getting social licence right is likely to lead to project delivery delays and potential late-stage cost changes as additional hurdles are encountered at the planning and environmental approvals stage, leading to increasing costs to consumers.

CEIG provides in-principle support for AEMO's proposal to use a desktop assessment of land use data to provide an initial screening for sites which are unsuitable for development including environmental and ecological constraints, cultural heritage, land planning and proximity to airports and other restricted areas.

[3] CEIG Clean Energy Investor Principles
[4] CEIG response: AEMO Draft IASR

CEIG believes it is appropriate and not premature to allow for emission reductions in the ISP

CEIG has been a strong advocate for the implementation of an environmental objective in the NEO[5] and is in line with the CEIG Investor Principles[6] (Investor Principle 2: Redesign governance for transformation).

Since Ministers have agreed to amend the National Electricity Objective (NEO), it is important to start factoring in those changes as soon as practicable, particularly for such a foundational document as the ISP. The agreed amendment of the NEO is important for investors as it will provide policy certainty, leading to a lower cost of capital, ultimately lowering the cost to consumers.

Although CEIG recognises the challenges AEMO has highlighted with considering the NEO before its implementation, CEIG believes it is appropriate and not premature to allow for emission reductions in the ISP. In particular, the inclusion of a 'value of carbon emissions' as a method to represent the value of investments that reduce carbon emissions beyond existing ISP scenarios is supported. In the absence of clear policy direction or a rule change to allow this additional class of market benefit to influence ISP outcomes, we are strongly supportive of AEMO including analysis and commentary on the value of carbon emissions in the ISP and related documents. Overall, CEIG strongly supports updates to the ISP Methodology that consider the near-term changes to the NEO.

Investment in transmission is critical to unlocking low-cost renewable energy

CEIG welcomes AEMO commissioning Deloitte to assess consumers' willingness to pay for transmission. In line with our position to support the delivery of transmission investment in ways that maximise social licence from local communities, CEIG welcomes AEMO considering consumers' preferences.

CEIG however stresses the importance of transmission investment in the transition as this is key to unlocking access to low-cost renewable energy that will ultimately drive down cost for consumers.

CEIG supports the delivery of transmission investment:

- in a timely manner to allow the buildout of sufficient renewable energy capacity to replace the ageing thermal fleet;
- in a quantum sufficient to unlock low-cost renewable energy capacity and aligned to 1.5 degree scenarios; and
- in ways that maximise social licence from local communities.

AEMO must make decisions that enable transmission investment to be delivered without delays as this is critical to avoid higher than necessary costs for consumers.

[5] CEIG response: NETP NEO

[6] CEIG, Clean Energy Investor Principles (Aug-21)

In our *Transmission planning and investment for clean electricity* Report commissioned from Baringa, we have previously noted that delays to transmission augmentations would leave each residential and each small-to-medium enterprise customer worse off.

This is further demonstrated in research published by Nexa Advisory[7] which outlined that:

- "a delay of even one year in delivering new transmission results in higher bills for consumers. Business customers are impacted the most; and
- Victoria is most severely impacted because of its reliance on energy generation in NSW and Tasmania. The modelling shows a significant spike in prices if HVNI West and Marinus Link are delayed."

Further consideration of market impacts required before implementing energy storage capacity limits

CEIG members currently do not currently support the proposal to limit the storage capacity of storage devices.

Although the ISP is a planning document only with no impact on final settlements, it's not exactly clear how the proposed change will impact on the ultimate economics of storage. For example, CEIG members are concerned the proposed methodology will make short-duration batteries appear more expensive, thus making the transition appear more expensive.

As such, AEMO should consider the impact on the market before implementing and run a proper consultation process as there may be unintended consequences.

If AEMO considers applying energy storage capacity limits in the future, for fairness, consideration should be given to de-rating factors of other technology types, not just short-duration energy storage.

CEIG thanks AEMO for the opportunity to provide feedback on its Consultation paper and looks forward to continued engagement on those issues. Our Policy Director Ms. Marilyne Crestias can be contacted at marilyne.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,

Simon Corbell
Chief Executive Officer and Chairperson
Clean Energy Investor Group Ltd
w: www.ceig.org.au

[7] Nexa Advisory, Modelling electricity bill impact of transmission project delays (Jun-22)