

Submissions to Markets Committee



Meeting Date: 11 August 2021

To: Markets Committee

From: Ali Hassan, Blair Burkitt


GM Approval: Yes No

Subject: AEMO ISP Feedback loop and ISP Update - Proposed options to address issues regarding the application of the ISP Feedback loop.


Purpose

- To brief the Committee on issues raised by AEMO regarding the application of the Integrated System Plan (ISP) 'Feedback Loop' to actionable ISP projects, specifically TransGrid's Humelink project.
- To seek direction from the Committee on proposed options to address the issue.

Background

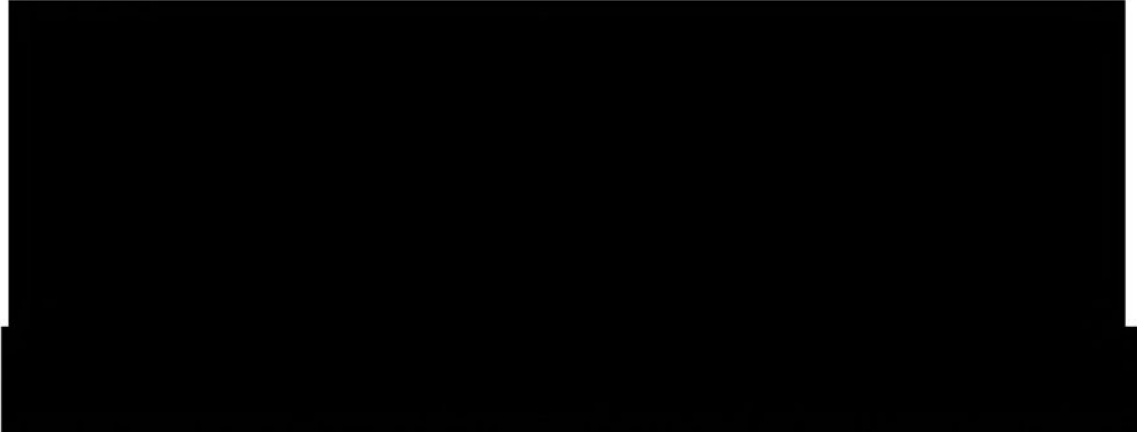
- Regulatory investment test for transmission (RIT-T) proponents that have completed the RIT-T for actionable ISP projects are required to seek written confirmation from AEMO that the preferred option is consistent with the most recent ISP as a condition of submitting a contingent project application to the AER. The process involves testing the preferred option with the most recent (completed) ISP to ensure it aligns with the optimal development path (ODP) in terms of cost and addressing the need. This is referred to as the ISP 'feedback loop' and is a binding requirement of AER's Cost benefit assessment (CBA) guidelines for actionable ISP projects.
 - In the event that the preferred option for an actionable ISP project identified in the Project Assessment Conclusions Report (PACR) fails the feedback loop, the National Electricity Rules (the Rules) require AEMO to undertake an ISP update and the ISP update is then used for the purposes of the feedback loop until a new ISP is published.
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- We suggested that AEMO publish an ISP Update at the same time as the draft ISP and considered that consultation on the ISP Update could be limited given AEMO may rely on its consultation process for the draft ISP. AEMO advised they would consider this approach and we tested this approach with the Policy and Governance Committee (see below).



Key Issues

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- It is important to recognise that Humelink is a transitional project in the Rules which means that:
 - TransGrid can use the new project triggers in the Rules, which requires the project to pass the ISP feedback loop before a contingent project application (CPA) can be lodged with the AER;¹ or
 - TransGrid can access the contingent project triggers in its 2018-23 revenue determination by applying to the AER for a RIT-T assessment and then in concluding our assessment, if we are satisfied the RIT-T has been successfully completed, lodge a CPA.

¹ These new rules also require the RIT-T to be successfully completed by the RIT-T proponent.

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- The Humelink PACR published on 30 July 2021 estimates the cost of the preferred option, which is a 500kV loop between Marragle, Banaby and Wagga Wagga, to be around \$3.3b and delivering \$491m net benefits (on a weighted basis). The preferred option in the PACR is consistent with the actionable project included in the 2020 ISP.
- It appears that inputs and assumptions used in the Humelink PACR are not fully aligned with the 2020 ISP inputs and assumptions. The PACR notes that while the RIT-T assessment has been undertaken using the 2020 ISP inputs, assumptions and scenarios, a number of additional market developments were also included in the assessment given their status was changed either due to becoming committed or legislated. These developments were not part of the 2020 ISP and include:
 - NSW Government's Electricity Infrastructure Roadmap²;
 - Tasmanian Renewable Energy Target (TRET), 100% by 2022 included across all scenarios with 200% by 2040 only used in step change scenario³ ;
 - Economic retirement to all coal-fired generators and assumes that the retirement of Yallourn power station will occur no later than 1 July 2028;
 - Impact of the Victorian 'Big Battery' announced by VIC Govt. in November 2020; and
 - Estimation of competition benefits – these were excluded at the Project Assessment Draft Report (PADR) stage.
- Some of the market developments were also tested as part of the sensitivity analysis in the PACR which included:
 - adopting the draft 2021 IASR assumptions - TransGrid states that the "2021 IASR assumptions significantly increase the expected net benefits of the preferred option under the central scenario"⁴
 - the impact of the recently announced new Kurri Kurri and Tallawarra B gas generators
 - delaying VNI West until 2035/36 (in-line with the core 2020 ISP assumption for the central scenario); and
 - alternate commercial discount rate and alternative scenario weightings - TransGrid notes that the alternative scenario weightings are consistent with the recent ESB commentary that the pace of the market transition is higher than expected. Under alternative scenario weightings the benefits of the preferred option increase to \$566 million.

² AEMO has included NSW infrastructure roadmap in its 2021 IASR for the purposes of 2022 ISP

³ AEMO IASR 2021 assumption uses 200% TRET by 2040 across all scenarios.

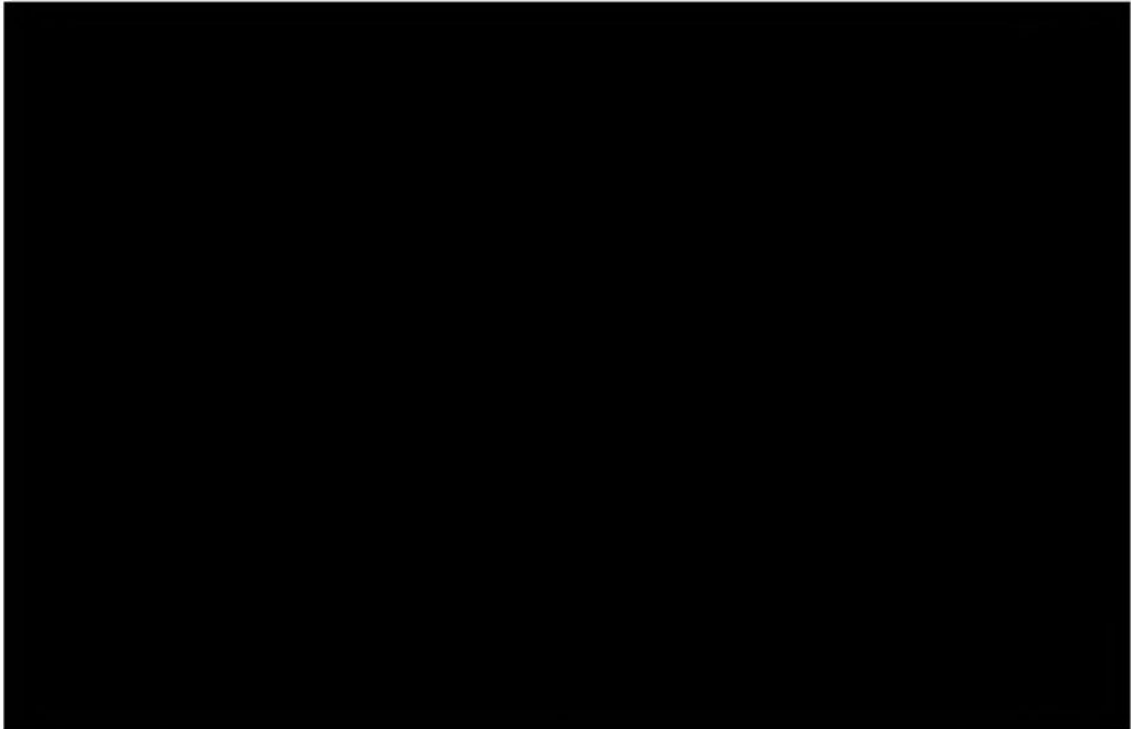
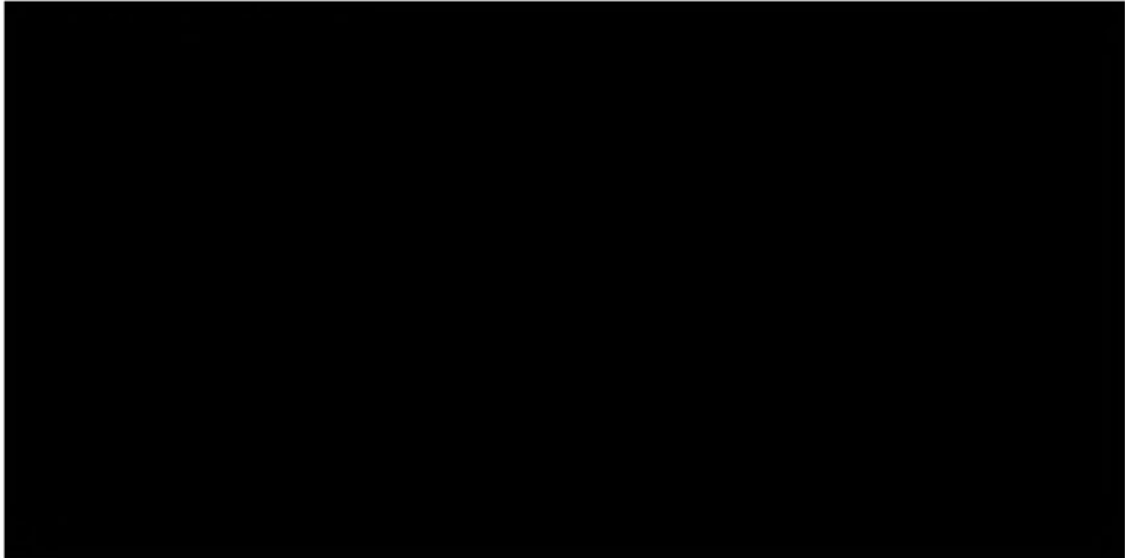
⁴ TransGrid, Humelink RIT-T, Project Assessment Conclusions Report (PACR), July 2021, pg 15

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- If the progression of this project through the feedback loop process is considered by TransGrid to raise uncertainty or delay in the approval process, there is the risk that TransGrid may elect to seek the contingent project triggers i.e. request that the AER undertake a RIT-T assessment (similar to the process for project EnergyConnect).

Proposed options to address the issue

Staff have explored the following options to address the matters related to application of feedback loop and ISP Update process.





Option C: Staged RIT-T option- Humelink early works (*option considered but not recommended*)

- Under this option, TransGrid would undertake RIT-T on early works for the preferred option (i.e. the Humelink project) and would apply the AEMO feedback loop from the most recent ISP to the early works.

Relevant considerations

- The application of a RIT-T that is limited to early works raises a number of issues. First early works will not address a RIT-T network need and therefore it is also not apparent as to the market benefits of the early works.
- The application of a RIT-T on early works also raises the issue regarding the approval process. In particular, the AER's contingent project triggers require us to be satisfied that the RIT-T has been successfully completed but our triggers refer to a network need that cannot be satisfied by only assessing early works as the contingent project.



- This approach is also not consistent with the 2020 ISP for the Humelink project, which did not envisage a staged RIT-T approach i.e. for early works and the project itself. As such we would expect that the application of feedback loop would apply to the total estimated costs of the preferred option rather the early works.

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- While we have accepted staging contingent project applications for the Humelink project this is a different issue from undertaking a separate RIT-T on the early works, where under the CPA staging approach early works can be submitted as a separate CPA. Relevantly, even with staging CPAs, the total project costs are still subject to the AEMO feedback loop.
- Relevantly, the 2020 ISP decision rules for Marinus Link acknowledged it as a multi-staged actionable ISP project, however the 2020 ISP did not specify that TasNetworks undertake a separate RIT-T for early works. Instead, it confirmed that early works and stages 1 and 2 of the Marinus Link should be progressed through single RIT-T process as was being undertaken by TasNetworks at the time. Further, both early works and stage 1 and if necessary stage 2 would have to be subjected to ISP feedback loop rather than only the early works for Marinus Link.



External engagements

- Commonwealth Department of Industry, Science, Energy and Resources (DISER) raised the application of the feedback loop for the Humelink following their conversations with AEMO. We indicated that we are in a dialogue with AEMO and we will provide an update once we settled an AER position on this matter.
- Staff have also been in discussion with the NSW Department of Planning, Industry and Environment (DPIE) regarding the regulatory treatment of environmental offset costs. The Department is exploring alternative regulatory options to minimise these cost on consumers. We understand that the Department will engage with the AER once it has developed proposed alternative options for the treatment of these costs.

Quality assurance process

- This paper was prepared by Frameworks team from the Market Performance branch with primary contributions from Ali Hassan and Blair Burkitt. It was reviewed and approved by Kami Kaur, GM Market Performance.
- The paper was also reviewed by RLU (David Ball).

Next steps

- Given the significance of this issue in terms of its implications for the AER and the recently amended regulatory framework for the approval of actionable ISP projects, we consider that the AER Executive/Chair should engage with AEMO following consideration of these options.

Recommendation

That the Markets Committee:

- Provide direction on proposed options to address the issue related to ISP Update and feedback loop.