

26 June 2020

Mark Feather
General Manager, Policy & Performance
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001



Dear Mr Feather,

Submission to draft guidelines to make the ISP Actionable

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AER's explanatory statement and draft guidelines. PIAC is generally supportive of the draft Integrated System Plan (ISP) guidelines the AER has published but highlights several particular issues as outlined below.

Objective of the ISP guidelines

In our submission to the AER's Issues Paper, PIAC recommended the ISP guideline objectives be reworded to meet "the long-term interests of consumers as defined in the National Electricity Objective (NEO) and should not refer to the net economic benefit of those who produce or transport electricity."¹ We still hold this position.

We appreciate there may be benefit in maintaining consistent wording of objectives with the RIT which states the RIT-T should maximise "the present value of net economic benefit to all those who produce, consume and transport electricity."² While this may be the case, it is more appropriate for the objective of the ISP guidelines to be closer to the NEO than that of the RIT-T.

The ISP is, by design, a far more strategic and fundamental planning process than a RIT-T as it looks across longer time horizons and is a whole-of-system planning process rather than limited to a single transmission project. PIAC considers it essential that the ISP be in the interests of consumers first and foremost to ensure that all options to meet consumers' needs and wants are considered equally and fairly. The economic outcomes for producers and transporters must be an outworking or a means to achieve this rather than an objective in itself.

Put another way: achieving the NEO is *what* the ISP must seek to achieve, whereas considering the net economic benefit to all those who produce, consume and transport electricity is *how* this is achieved.

¹ PIAC, *Submission to the AER Issues Paper - Guidelines to make the Integrated System Plan actionable*, February 2020, 3.

² NER, 5.15A.1(c)

Classification framework for guideline elements

PIAC supports the proposed approach to classify elements of the guidelines as either requirements, considerations or at the discretion of AEMO and/or RIT-T proponents. This is an appropriate framework to balance certainty and flexibility.

Furthermore, we welcome the AER's rationale for its proposed classification decisions and consider this should aid in providing transparency and certainty to stakeholders.

However, we note that the AER's classification of elements as well as its rationale for classification must be reviewed periodically in order for the ISP and the guidelines to remain effective in the longer term as the market and regulations continue to change.

Risk allocation and cost recovery

PIAC strongly supports the guidelines requiring AEMO to present key distributional effects of its optimal development path. The allocation of risk or recovery of costs (such as between generators and consumers or between consumers in different NEM regions) is not explicitly considered in whole-of-NEM cost benefit analyses like the RIT-T yet has significant impacts on the fairness and equity of large investments.

There are a number of unique characteristics and challenges of projects that would make up an ISP development path that are not present in other transmission projects such as:

- Individual projects should, in combination with others, deliver a coherent, whole of system development path rather than be in isolation.
- ISP projects are more likely to require more complicated cost-, risk- and benefit-sharing across multiple regions that do not necessarily align with how costs have traditionally been recovered.
- The direct beneficiaries of many ISP projects may be new or existing generators rather than consumers, which does not necessarily align to the current risk allocation framework.

Providing information on the distributional effects helps highlight to stakeholders where some form of intervention or reform³ may be appropriate to address any inequity in risk allocation or cost recovery but still ensure the optimal whole-of-system solution is progressed.

Error correction loops for forecasting and modelling

PIAC supports the requirement for AEMO to conduct holistic, periodic reviews and more discrete, as-needed reviews of its forecasting and modelling. Doing so creates a feedback and error-correction loop that helps ensure forecasts and models remain accurate and helps to embed a process of continual improvement.

We note that the AER should also implement similar feedback and error correction loops in its own assessment of AEMO or RIT-T proponents' methodologies.

Communicating errors and uncertainties

We strongly support the draft CBA guidelines requiring that, where AEMO has chosen a single value from an underlying range or distribution for key inputs, that it should present the underlying range or distribution as well.

³ For example: reforms to regulated transmission cost recovery, the sharing of transmission costs between connecting generators and consumers or out-of-market underwriting of investments.

Depicting a single case in isolation from the range of potential outcomes risks conveying the erroneous impression that one definitive outcome has been predicted. This may cause stakeholders to over- or under-estimate the uncertainty associated with particular scenarios.

More broadly PIAC considers AEMO should continue seeking means to convey the uncertain nature of its forecasts in communications. Ideally, measures of confidence and certainty would be incorporated into the 'headline' messaging, as well as in more technical documents. In addition to improved guidance for market and policy responses, this would provide greater defensibility to forecasting approaches after the fact of any unforeseen event that attracts public attention.

We appreciate the challenge of conveying such complex information to a broad audience, support AEMO's existing efforts, and welcome opportunities to further explore how this might be achieved.

AER involvement and oversight

We agree that:

AEMO should facilitate active AER involvement to improve our knowledge of the inputs and consultation that AEMO has undertaken with a view to streamlining subsequent dependent processes.... Moreover, our oversight of AEMO when developing each ESOO should give AEMO greater confidence...⁴

Active AER involvement and oversight not only of the outputs of the ISP but also the internal development and stakeholder engagement is an important component in ensuring the robustness of the ISP and to help engender trust in the overall process.

Continued engagement

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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⁴ AER, *Draft Forecasting Best Practices Guidelines*, May 2020, 7.