

3 March 2021

Elijah Pack
Manager Integrated System Planning
Australian Energy Market Operator

Sent via email



Dear Mr Pack,

Submission to ISP methodology issues paper

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 AEMO's issues paper on the methodology for the 2022 Integrated System Plan (ISP).

Reconsideration of projects

PIAC favours the ISP being an independent and expert assessment of what combination of generation, network and other investments will be in the long-term interest of consumers and the system as a whole. This is crucial to addressing the risk of over-investment and to building confidence in the ISP's optimal development path.

Determining whether or not a particular project forms part of the optimal development path should not depend on what stage of regulatory or planning approval the project has reached. Instead, it should depend on the technical ability and cost-effectiveness of the project, such that it is in the long-term interests of consumers. The ISP must not become a vehicle used to promote an individual project to achieve regulatory approval where the project is not in the interests of consumers.

PIAC recommends the ISP reconsider any major proposed generation, storage and network projects on the merits of their costs and benefits to consumers to determine whether they contribute to the optimal development path rather than accepting them as part of the base case.

In the case of Project Energy Connect (PEC), the benefits modelled by the AER and its revealed costs have shown the project is not in the interests of NSW consumers. While PEC may deliver other benefits that improve the cost-benefit analysis for the project as a whole (such as unlocking new generation potential or supporting regional economic development), the current regulatory framework does not allocate risks or recover costs efficiently or fairly for these major network projects. Instead, the risks and costs are borne primarily by NSW consumers on the assumption that consumers pay for all network investment and on the basis of where the majority of assets are physically located. Similar issues are evident with Marinus Link.

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While the ISP does not select projects for the optimal development path based on issues of risk allocation or cost recovery, the ISP must still consider these issues to ensure the development path delivers the long-term interests of consumers. PIAC recommends the ISP identify and highlight projects where there may be material concerns with risk and cost allocation. In these cases, AEMO should make recommendations for how these may be addressed including through regulatory reform.

Engineering assessment

PIAC supports AEMO continuing to improve the engineering assessment to better model and reflect the real-world operation of the power system. In considering network limits for candidate Renewable Energy Zone (REZ) sites, it is essential to allow an efficient (non-zero) level of network congestion and generation curtailment.

Increasing network capacity to 'build out' any chance of generation curtailment risks over-investing in the transmission network and increasing costs far above the benefit to consumers. Instead, an efficient level of curtailment should be determined based on factors including the cost of additional network capacity, the cost impact of curtailed generation and whether there are more effective alternatives to address curtailment such as by co-locating storage or load with generation within REZs to mitigate network congestion.

Role of distribution networks

PIAC supports AEMO improving how distribution planning processes are incorporated into the ISP. The challenges faced in the distribution network and the projects underway to address them (most notably the better utilisation of distributed energy resources) must be considered as part of the ISP modelling and development paths.

In terms of network modelling, PIAC considers assets should be considered based on their functionality rather than their ownership. For instance, many DNSPs own sub-transmission assets that impact on the ability to connect generation and on power flows in a similar way to transmission assets. It is essential that the role they play and the support they can provide to delivering an optimal whole-of-system solution are fully reflected in the ISP.

While PIAC supports the principles of the collaborative work AEMO has begun with ENA "to improve consistency in distribution and transmission network planning approaches",¹ the activities noted remain relatively high level. PIAC recommends AEMO continue to enhance how sub-transmission and distribution networks are incorporated into both the ISP modelling and the projects and activities that make up the optimal development path.

Continued engagement

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

Yours sincerely,

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¹ AEMO, *ISP Methodology Issues Paper*, February 2021, 35.