

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235



Marjorie Black House
47 King William Road
Unley SA 5061

P. 08 8305 4222
F. 08 8272 9500
E. sacoss@sacoss.org.au
www.sacoss.org.au

ABN 93 197 662 296

19 October 2018

Dear Mr Pierce,

RE: Coordination of generation and transmission investment – options paper (EPR0052)

As the peak body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) has an established history of interest, engagement and provision of proposed advice on the supply of essential services including electricity. SACOSS research shows that the cost and supply of basic necessities like electricity have significant and disproportionately greater impacts on vulnerable people. SACOSS' advocacy is informed by our members and direct consultations with consumers and other consumer organisations: organisations and individuals who witness and experience these impacts in our community.

Our primary comments refer to the direction to convert the ISP into an actionable strategic plan. We note a significant degree of concern about possible interpretations of "actionable strategic plan". Our primary objective is to ensure investment in line with the NEO that addresses the energy trilemma: **affordability**, reliability, emissions (our emphasis). We are extremely concerned that some of the options the AEMC is considering would result in unnecessarily high costs for consumers and greater and significant risk of stranded assets, particularly those options with greater stages of involvement of AEMO.

We draw the attention of the Commission to Recommendation 5.1 **and 5.2** of the Finkel Review Panel Final Report:

5.1 By mid-2018, the Australian Energy Market Operator, supported by transmission network service providers and relevant stakeholders, should develop an integrated grid plan to facilitate the efficient development and connection of renewable energy zones across the National Electricity Market.

5.2 By mid-2019, the Australian Energy Market Operator, in consultation with transmission network service providers and consistent with the integrated grid plan, should develop a list of potential priority projects in each region that governments could support **if the market is unable to deliver the investment required to enable the development of renewable energy zones. The Australian Energy Market Commission should develop a rigorous framework to evaluate the priority projects**, including guidance for governments on the combination of

circumstances that would warrant a government intervention to facilitate specific transmission investments **[our emphasis]**.

It is very clear to SACOSS that these two recommendations are intended to be read together. We believe they provide necessary guidance around how the integrated grid plan was intended to function. Our first point of emphasis (“if the market is unable to deliver the investment required to enable the development of renewable energy zones”) clarifies that the integrated plan was not intended to override market outcomes. In balancing the trilemma, the Finkel Review provides adequate time for market responses to reliability and emissions goals.

Our second point of emphasis is around the need to evaluate the priority projects identified by AEMO (“The Australian Energy Market Commission should develop a rigorous framework to evaluate the priority projects”). There is a clear role provided for the AEMC to assist in this evaluation. Hence, the integrated plan developed by AEMO was not viewed as a fait accompli. It was intended that there be thorough evaluation of the plan and rigour applied in the course of this evaluation.

Taken together, the above two points of emphasis provide some guidance for how to interpret “actionable strategic plan”. It is clear that the plan should facilitate market information and response and that the plan produced by AEMO was never intended to be a blueprint plan.

Further, SACOSS believes that when considering the meaning of actionable strategic plan it is essential to differentiate the terms “strategic” and “implementation”. According to the Australian Institute of Company Directors, a strategic plan documents where the entity “is going. It can be defined as a roadmap to sustainable value creation based on the best possible information available at the time. It addresses the long-term direction of the organisation by describing what it’s going to do and how.”¹ A strategic plan is intended to be differentiated from an implementation plan: “An organisation must also have a detailed plan for implementing the strategy and a set of measures to indicate how well the implementation is going.”² SACOSS notes that this distinction points to the conclusion that as a strategic plan the ISP is not intended to be prescriptive. Rather, it functions to provide guidance and direction to the market about where investment needs to occur, and what would be the most likely consequence if that market based investment did not occur. In relation to the term “actionable strategic plan”, the action in this case is the action of the market in responding to the signals it is receiving from the market operator.

We have attached a report produced by Greenview Strategic Consulting which demonstrates the rapid scale of market development and the massive potential for market response.

SACOSS notes that in relation to the ISP, all of the Group 1 projects identified by AEMO in the ISP have been identified and are being progressed by individual TNSPs under current arrangements. SACOSS also notes that these Group 1 priority projects are investment projects that AEMO considers should be progressed as soon as possible because they provide immediate benefits. SACOSS notes

¹ Australian Institute of Company Directors (nd) Strategic Plan Development at https://aicd.companydirectors.com.au/~media/cd2/resources/director-resources/director-tools/pdf/05446-5-14-mem-director-rob-strategic-plan-development_a4-web.ashx p.1

² AICS (nd) p.1

the costs of these investments are in the order of \$450 to \$650 million, a very substantial investment. SACOSS is concerned about the speed at which these projects are being facilitated, which is out of step with the Finkel Review recommendations. SACOSS is concerned that the market is being given insufficient opportunity to respond to market signals from AEMO.

In terms of the Group 2 and Group 3 projects, SACOSS believes the appropriate course of action at this stage is to apply a rigorous framework to evaluate the Group 2 and Group 3 priority projects.

Given all of the above comments, SACOSS does not support options 2—5 as outlined by the AEMC in making the ISP an actionable strategic plan. SACOSS believe these options put enhanced risks on consumers that they will bear the costs associated with investments that may no longer be required.

SACOSS believes option 1 is an efficient use of the information gathered by AEMO for the purpose of transmission planning and decision making.

SACOSS strongly supports the Commission's view that the role that the RIT-T fulfils in protecting consumers from inefficient investment should not be diminished. SACOSS recently engaged in the AER review of the RIT and generally supports the direction of the AER in further enhancing the RIT-T.

SACOSS agrees with the assessment by the Commission that access and congestion management issues are likely to need to be addressed in the near term. SACOSS supports optional firm access being introduced at the earliest stage possible as we believe current circumstances demonstrate the need for additional generation and transmission investment and it is in the long term interests of consumers to introduce more commercial drivers into transmission and generation development.

We would like to thank the AEMC for the work done to date on enhancing coordination of generation and transmission, and for consideration of our comments. If you have any questions relating to the above, please contact SACOSS Policy Lead, Jo De Silva on (08) 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ross Womersley', written over a light grey rectangular background.

Ross Womersley
Chief Executive Officer