

21 February 2020

Audrey Zibelman
Chief Executive Officer and Managing Director
Australian Energy Market Operator (AEMO)

Submitted via email: ISP@aemo.com.au

Dear Ms Zibelman,

AEMO'S DRAFT 2020 INTEGRATED SYSTEM PLAN (ISP)

Origin Energy Limited (Origin) welcomes the opportunity to provide feedback on AEMO's draft 2020 ISP.

Our submission focuses on areas where we consider there is scope for additional transparency and further clarification, and provides some suggestions aimed at improving the robustness of and confidence in the ISP.

Specifically, we provide feedback on the following:

- **Transparency of the ISP:** The final ISP should provide more transparency and clarification on several aspects, including around the outcomes of the modelling, drivers behind the optimal development path and terminology used in the ISP.
- **Modelling and methodology:** Confidence in the modelling could be improved by weighting scenarios, explaining AEMO's rationale for its choice of modelling in more detail, and providing additional sensitivities.
- **Adaptability of the ISP:** Flexibility of the optimal development path could be improved by considering staging of projects and by clearly communicating the 'signposts' that could lead to AEMO recommending a change in course.
- **Treatment of non-network options:** The final ISP should treat non-network options the same as network options by considering and incorporating them into the optimal development path.
- **QNI Medium project:** The final ISP should include more information on the QNI Medium project (including non-network options) in the absence of a project specification consultation report (PSCR) on the proposed upgrade, to reflect as much as practicable what the PSCR would normally contain.

Our submission is consistent with our comments made to the ESB and the AER with respect to the draft ISP rules and ISP guidelines respectively. We support AEMO considering the feedback that the ESB and the AER have received to date when finalising the 2020 ISP.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely



Steve Reid
Group Manager, Regulatory Policy

Further detail and clarification are needed in some areas to promote transparency

We consider that there are several areas where the final ISP could provide more detailed information, clearer explanation, or clarification in order to help stakeholders understand the plan. Table 1 sets out our comments.

Table 1: Transparency suggestions

Area	Comments
ISP projects	<ul style="list-style-type: none">• The draft ISP uses several different terms which could be clarified to avoid confusion. For example, there are “no regrets” projects which are actionable. QNI medium is also actionable but is not consistently described as a “no regret” project, while Marinus Link is “recommended”. The appendix groups some projects as “actioning to develop”, while others are “priority projects”.• Clarity is welcome on what the differences and selection criteria are across the terms used.
Marinus Link	<ul style="list-style-type: none">• We would welcome commentary on consistency between the ISP and TasNetworks’ Marinus Link project assessment draft report (PADR) especially in relation to the inputs, assumptions and net benefits.
System costs	<ul style="list-style-type: none">• The final ISP should provide more information on how total system costs are derived, including capital costs of projects included in the analysis.
Modelling outcomes	<ul style="list-style-type: none">• We would welcome more detailed explanation of the drivers behind the modelling outcomes, especially with respect to the optimal development path and recommended projects.• For example, our understanding is that VNI West is the least regret outcome if the step change scenario occurs. We would welcome clarification on what the drivers of the least regret outcomes are, and how they would work in practice.
Process	<ul style="list-style-type: none">• Given the draft ISP rules deem the 2020 ISP to have been undertaken in accordance with the ISP rules, it is important for the final ISP to reflect these final rules as closely as possible.• Where they do not, AEMO should set out the differences and how they would have affected the outcomes of the ISP.

The modelling approach and robustness could be improved

We consider that AEMO should weight the scenarios appropriately, consistent with our submission to the ESB and the AER on the draft ISP rules and guidelines. Inappropriately accounting for the likelihood of scenarios runs the risk of low-probability scenarios being given more weight than they should. This would be a suboptimal outcome for the market – doing so would increase the risk of over-investment, leading to higher costs and higher risks of stranded assets.

As noted in our submissions to the ESB and the AER, our preference is for the AER to review the final approaches taken by AEMO in terms of modelling and how it will choose the optimal development path. In the absence of this final check, we consider that AEMO should expand on its rationale for its modelling approach to the optimal development path in the final ISP. This would promote confidence in the approach taken.

In terms of the public policies used in the draft 2020 ISP, AEMO should clearly explain its rationale for how it has interpreted the impact of the NSW Electricity Strategy on the ISP, given that there are few details about the plan.

Additional sensitivities should be modelled to improve confidence in the plan

The use of sensitivities helps to keep cost-benefit analyses robust against different, but possible, sets of assumptions, inputs and world views. In addition to the sensitivity tests included in the draft ISP, the final ISP should include sensitivities for:

- Higher capital costs.
- Public policy needs, including a sensitivity for Snowy 2.0 not being built.
- Smelter closures in NSW and Vic.
- Higher and lower discount rates.

The sensitivities above are potential future outcomes which have a more than remote chance of occurring. For example, it is not uncommon for major infrastructure projects to go over-budget. The sensitivities above are also consistent with those used in recent RIT-Ts.¹

Flexibility is useful and its intent should be clearly communicated

The draft ISP identifies several signposts to indicate when it may be desirable to move from one path to another, e.g. deciding to not proceed with an upgrade or to accelerate an upgrade should conditions change. We support this flexibility. Given that the future is uncertain, there is benefit in having a plan that can adapt to changes in the market.

It is important that this flexibility is effectively communicated so that all interested parties understand what the optimal development path projects mean in the context of the signposts. There is a risk that if AEMO has made projects actionable or has recommended a project, this is seen as an endorsement to build. We consider that AEMO should identify up front what the signposts are that could lead to a change in course, and which projects could be affected by such a change.

The final ISP should also consider the costs and benefits of staging larger projects in order to keep the optimal development path flexible and minimise costs for consumers, to the extent that it has not done so. Staging would involve building part of a project that meets the identified need and has lower costs first (where practicable), with the decision to continue with the rest of the upgrade being made in later years when the need is more certain. It could also mean staging of multiple large projects (i.e. waiting until an upgrade has been completed before deciding to proceed with another large project).

Non-network options should be given a level playing field

We consider that AEMO should, in its final ISP, treat network and any non-network options it has received in the same manner. This would involve considering and incorporating non-network options as part of the optimal development path. If non-network options are rejected, we consider that the final ISP should clearly set out the rationale for why that was the case.

More information on QNI Medium is needed

We understand that the intent is for the final ISP to replace the project specification consultation report (PSCR) for QNI Medium and that TransGrid/Powerlink will not be consulting on the PSCR separately. We therefore consider that the final ISP should include more details on this project (and any non-network options), commensurate with what a PSCR would usually provide, as much as it is practicable for AEMO to do so.

¹ See, for example, HumeLink project assessment draft report at <https://www.transgrid.com.au/what-we-do/projects/current-projects/Reinforcing%20the%20NSW%20Southern%20Shared%20Network> which modelled three of the four sensitivities noted.