4 June 2021

public interest
ADVOCACY CENTRE

Stakeholder Relations
Australian Energy Market Operator

*Submitted electronically.*

Dear Stakeholder Relations team,

**Integrated System Plan Draft Methodology**

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 on 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 Australian Energy Market Operator's (AEMO) draft methodology for the 2022 Integrated System Plan (ISP). We generally support AEMO's proposed ISP methodology, but recommend improvements relating to the purpose of the ISP and AEMO's role in delivering it, scenario weightings, and generator retirements.

## Purpose of the ISP

PIAC has engaged extensively on the development of the 2022 ISP, including participating in scenario development, the Transmission Cost Database development and making submissions on the Inputs, Assumptions and Scenarios Report and the ISP Methodology Issues Paper. PIAC appreciates the work and engagement AEMO has undertaken to develop the ISP, however we remain concerned with aspects of the overall approach to the ISP.

The ISP is intended to be 'a whole-of-system plan that efficiently achieves power system needs through that transformational period, in the long-term interests of the consumers of electricity'. Achieving this requires a commitment to impartiality and evidence and the ability to withstand political pressures.

The National Energy Market (NEM) is increasingly subject to major interventions from state and federal governments. These interventions occur outside the usual regulatory and consultation processes and are not subject to the same standards for delivering consumer benefit and meeting consumer preferences. Though some, like the NSW Government's electricity strategy, are required to overcome barriers to reaching a resilient, zero-carbon energy system, others, like the Federal Government's recent decision to build in a new 600MW gas generator, are neither merit-based nor made with any regard for consumer interests.

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As these interventions become more frequent and material, PIAC is concerned they will lead to private investment abandoning the market, notionally competitive businesses being compensated for risks and losses, regulators losing their power and authority, and the costs to meet political goals being pushed onto consumers.

As it did in dropping the gas-fired recovery scenario, AEMO should seek to uphold the long-term interest of consumers against interventions where, like the Federal Government's gas generator, they are not in the consumer interest. It should ensure its development of the ISP – the inputs, assumptions and scenarios and the methodology – do not take as given government projects or plans that are uncommitted and/or unlikely, irrespective of their political popularity. AEMO's analysis should reveal, rather than cloud, the cost to consumers of NEM interventions, with counterfactuals including baselines, scenarios and sensitivities that are absent of interventions.

In doing this AEMO can demonstrate what the development of the energy system will look like if it is truly in the long-term interest of consumers, rather than what it looks like if interventions that defy the public and consumer interest continue unabated.

## Scenario weightings

PIAC supports AEMO's proposed use of the Delphi technique to determine scenario weightings. The Delphi technique will ensure a level of transparency to the scenario weightings determining process and provides an opportunity for a range of opinions to inform the weightings. For this process to be in the long-term interests of consumers, a range of consumer voices should be present on the Delphi panel. At a minimum, voices of residential, business and commercial consumers should be on the panel, with representatives of types of consumer within those categories also beneficial. AEMO should avoid appointing panellists who have commercial interests in certain scenarios coming to pass.

## Early generator retirements

AEMO proposes it will only consider generator unit retirements in the period beyond any NEM or jurisdictional notice of closure regulations and earlier retirement of a unit will not be considered if that unit has reported its closure date.

PIAC does not consider this approach reflects the reality of the likely pace of coal generation retirement in the coming decade. Recent studies have found coal plants may be forced to retire earlier than anticipated and/or stated due to the influx of new low-cost renewable generation.[1] Increasingly bold emissions reduction targets will also likely push coal generators out of the market earlier than anticipated.

We recommend AEMO assume generators may exit the market well before their intended closure date.

## Hydrogen

Production and use of hydrogen as a residential or commercial fuel source is still largely non-existent globally. As such, assumptions around how and to what extent it will be used and how it will be produced are a speculative and risky. AEMO should reflect this uncertainty in all aspects of its treatment of hydrogen in ISP modelling.

While much is uncertain about the future economics of Hydrogen production, supply and integration, it may require considerable new transmission infrastructure if electrolysers are grid-

[1] IEEFA and Green Energy Markets, 2021. *Fast Erosion of Coal Plant Profits in the National Electricity Market.* https://ieefa.org/wp-content/uploads/2021/02/Coal-Plant-Profitability-Is-Eroding_February-2021.pdf

connected at scale. In the case of hydrogen for export and in most other instances of its use, the cost of this transmission should not be recovered from other consumers. To ensure the cost of domestic hydrogen production is realistically reflected in the modelling outcomes, electrolysers should be assumed to be grid-connected.

We welcome the opportunity to discuss these matters further with AEMO.

Yours sincerely


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