

3 February 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

Transmission Frameworks Review: Submission in response to 1st Interim Report

Alinta Energy welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's, Transmission Frameworks Review, 1st Interim Report.

The 1st Interim Report represents a significant milestone in the process of fully analysing and addressing transmission and related matters confronting energy market participants. Alinta Energy strongly endorses the Australian Energy Market Commission's approach and the general strength of its analysis.

Alinta Energy's broad support is tempered by the view that the current options are unlikely to meet the needs of participants who continue to express concerns around access. As such, the attached submission provides perspectives on the 1st Interim Report and options contained therein.

Alinta Energy has also taken this opportunity to reflect upon the preliminary paper drafted by International Power – GDF Suez and circulated by the Australian Energy Market Commission. Initial analysis suggests this option justifies further consideration and better meets the National Electricity Objective

Alinta Energy acknowledges that a final or preferred option has not been presented at this stage and on that basis looks forward to further engagement on this matter and welcomes the Australian Energy Market Commission's consideration of the attached submission.

If you wish to discuss these matters please contact me on, telephone, 02 9372 2633.

Yours sincerely,



Jamie Lowe
Manager, Market Regulation



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27 January 2012

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Introduction

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), and maintains retail energy customers in Western Australia, South Australia and Victoria with a commitment to growth in the National Electricity Market (NEM).

Alinta Energy is committed to contributing to energy market developments across Australia and in all regions of the NEM as it pursues its forward growth strategy.

Alinta Energy welcomes the existing review and is supportive of the Australian Energy Market Commission's (AEMC) high level of engagement with industry in assessing the case for reform and developing reform options.

This submission has been structured in five parts:

- response to general matters raised within the Report;
- a review of the five options presented by the AEMC;
- an initial review of the integrated model presented by International Power – GDF Suez (IPRA) and circulated by the AEMC;
- perspectives on planning; and
- an outline of Alinta Energy's concerns in relation to connections to supplement the joint submission made with a group of likeminded generators.

General

This section outlines Alinta Energy's views that:

- there is a strong case for reform to address a number of fundamental shortcomings in the National Electricity Rules (NER);
- the AEMC's assessment framework is adequate but should be supplemented by an additional feature: certainty of access following connection, which is a fundamental requirement for existing and future investors; and
- the existing frameworks have generally performed well when assessed on an overall basis but that specific and enduring failures, uncertainty of access, and inability to forecast transmission investment decision-making impacts on the commercial incentives of participants

Case for reform

Alinta Energy endorses the broad view that transmission frameworks face a series of significant challenges moving forward. These challenges arise from the manner in which load growth and generation investment has evolved and is responding to government policies, and is a consequence of a number of uncertainties within the NER that have failed to evolve as originally anticipated by a number of market participants.

Therefore, at a time when the needs of consumers who rightly want electricity delivered to them at the times, and in the manner they value it, is likely to require substantial investment in all stages of the supply chain, it is fundamentally appropriate to ensure the short-comings in the transmission framework are identified and a forward looking approach to transmission is adopted to satisfy not only the needs of consumers, but also owners, operators and investors.

Hence, Alinta Energy supports appropriate reform for the reasons outlined below.

- Clarifying the role of transmission – the critical roles of transmission, supplying low cost energy generated in one location to consumers in another location and in maximising the value of energy traded, is often obscured by a range of regulatory and policy issues.
- Maximising commercial freedoms - individual market participants should be able to enter into the contractual and business arrangements they feel maximise their economic opportunities, reflect their risk appetite, and match their incentives.
- Clarify the NER – the NER contains a number of provisions which attempt to give effect to a form of firm access; however, these have for a variety of reasons, notably drafting, failed to facilitate firm outcomes.
- Generator access to transmission is uncertain – for Alinta Energy’s investors it is fundamentally important that Alinta Energy can rely on its existing assets to maximise economic outcomes to support business growth. This means uncertain access – for instance due to congestion in the South-East of South Australia – undermines business objectives and creates unmanageable risk.
- Causes of congestion must be addressed – congestion occurs in both the short-run and long-run. It is important to distinguish between the reasons for congestion and resolve drivers of congestion in both timeframes where economic to do so.
- Congestion leads to inefficient outcomes – this includes: discouraging new investment and unnecessary or inefficient network investment; sub-optimal management of trading risks; reduced efficiency due to the effects of congestion; the inefficiencies that result from “disorderly bidding”; and for generators, congestion threatens their ability to earn revenues in the spot market, exposes generators to unfunded difference payments in the contract market and significant penalties in the ancillary services market, and undermines the incentives on new generators to invest and compete in the market.

- Planning arrangements need to continually evolve with the market – while planning arrangements are generally successful, there is scope for further reform to better match planning arrangements with participants and consumer needs, and improve coordination.
- Connections arrangements do not facilitate least cost connections and generator concerns arising from negotiating power imbalances remain – Alinta Energy is particularly interested in connections issues moving forward and its staff (drawn from across the industry) have significant connections experience.

Assessment framework

Alinta Energy endorses the four desirable features for a transmission framework identified by the AEMC that satisfy the National Electricity Objective (NEO).

Nevertheless, Alinta Energy suggests that a more explicit reference to certainty of access once connected is required. Although we appreciate this item could be captured by one of the other features, failure to explicitly capture this point means it could be traded off during the AEMC's assessment. Given the pre-eminence of this feature for commercially oriented generators we think it warrants separate articulation.

For Alinta Energy this means certainty of access to the node, not just the shared network generally, a willingness to pay at time of connection to secure access and an expectation the network will be designed and planned according to these conditions.

We note a similar point has been appropriately articulated by IPRA and we share these views in that once a connection has been made:

- a generator should not be negatively impacted by changes in its level of access or network costs including being disadvantaged by any changes to transmission frameworks;
- undermining certainty of access impacts the perception of regulatory risk and therefore disincentivises further investment;
- it is appropriate for incumbents to face commercial and technological risk but regulatory risk should be minimised;
- it is not economically efficient to penalise incumbents based on a perception of fairness towards future generators who are able to invest based on the market conditions in another timeframe; and
- fairness in the context of the variety of changes going on in the energy market and energy policy are not relevant to economic efficiency as compared with delivering a sound basis to invest moving forward.

Alinta Energy notes that the review is focused on the inter-relationship between transmission and generation; however, the view that a well-functioning market should minimise total

system costs and therefore deliver lowest cost energy to consumers remains entirely relevant to the consideration of any proposals arising from the Review.

On this basis, it would be incorrect to discount the efficiency implications arising from decisions that while delivering transmission and generation efficiencies realise efficiencies indirect to the transmission network but still directly relevant to the total delivered cost of energy to consumers.

Transmission arrangements

Alinta Energy welcomes the thorough analysis provided by the AEMC and sees the five options presented as a useful starting point for further discussion and analysis.

In relation to the AEMC's perspectives on the existing arrangements Alinta Energy:

- agrees that the degree of divergence in views can be characterised geographically and by ownership. On this basis, it is important for the AEMC to identify the impacts of the current arrangements on the various parties. Namely, private generators located in the South Australia and Victoria, base load generators, and non-vertically integrated businesses;
- notes that weighting the implications of reform versus the status quo on business confidence and future investment is required given it is expected that private equity will deliver the bulk of investment needed in the energy sector in the coming decades (see draft Energy White Paper);
- arguments around probabilistic versus deterministic standards, while necessary, need to occur in acknowledgement that neither standard is established for the purpose of catering for generator transmission requirements and therefore any possible benefit is incidental;
- notes that deterministic planning can only deliver an ongoing benefit where planning expressly accounts for generator needs in an ongoing manner and therefore reliance on decision-making by government owned or directed entities to build transmission investment to satisfy generator commercial requirements is a key concern for private investors, if not for government backed generation;
- endorses the view that appropriate incentives should drive Transmission Network Service Providers (TNSPs) management and operation of the network so as to minimise network outages and congestion; and
- agrees that for some generators the risk of unit failure may outweigh the benefit of firm access, but note that this can create perverse incentives and penalise generators who may be able to maximise revenues in an environment with minimal congestion risk (pursuant to defined access) as they operate to a higher standard of reliability.

The AEMC's analysis draws on the point made by the National Generators Forum and Loy Yang Marketing Management Company. Having reviewed these submissions Alinta Energy strongly endorses the view that while there is no agreement of an explicit level of access at present, all

market participants rely on, and have invested based on, an implicit level of access to the network and that there is an expectation that NEM transmission frameworks will ensure that material congestion does not increase.

We also agree with the additional point made by Loy Yang Marketing Management Company, (which appears mischaracterised by the AEMC) that this implicit level of access will be maintained going forward, but that the risk that transmission frameworks will not fulfil the implicit agreement around future access presents a significant risk, especially for private generators.

Option 1: An open access regime

Alinta Energy appreciates that this option, which includes the subsequent removal of the 5.4A would be a low risk options for some participants. By extension, the risks and concerns that generators have expressed for numerous years will continue. Conversely, consumer requirements for a safe, reliable and secure supply of energy and the role of the transmission framework in facilitating its delivery would remain as it is under the status quo.

If the AEMC were minded to pursue this option it would reflect an acceptance that the NER has failed to deliver on a number of the features that participants who invested at market start expected to be able to depend upon, and that on balance it may be too costly to satisfy the criteria outlined by the AEMC and deliver on the intent of the NER as originally drafted. Alinta Energy believes this as:

- any existing claims to firm access under the NER; however, convoluted or intangible, or dependent on legal action, would essentially be quashed;
- there would be no incentive for TNSPs to satisfy generator preferences;
- access arrangements would continue to incentivise disorderly bidding and true price preferences would not be revealed; and
- coordination between transmission and generation would not be maximised and instead would be driven by transmission investment decisions which may vary wildly between regions and may have little similarity to private investor preferences.

Alinta Energy does not support Option 1 and notes that this option would lead to no improvement in efficiency.

Option 2: Open access with congestion pricing

The Shared Access Congestion Pricing (SACP) model represents part of the package developed by the “Southern Generators” which included a previous owner of the Augusta Power Stations assets. The model attempts to resolve the short-run effects of congestion and in particular disorderly bidding. We note the model has been put forward as a permanent NEM-wide mechanism.

Alinta Energy supports further investigation of the SACP and on the basis that exposure to localised marginal prices should:

- better signal the costs of congestion at any point on the network;
- address disorderly bidding and improve dispatch efficiency as generators are incentivised to reveal prices more transparently; and
- is likely to be simple to implement and represents a proportionate response to the possibility of further congestion arising or not arising moving forward.

We note that this option could be implemented in its own right; however, the NEM transmission frameworks would require further reform to address dynamic inefficiencies and long-run congestion concerns. That said, we suggest the SACP option, in better signalling congestion impacts in the short-run, is likely to sharpen locational incentives to a degree and therefore improve dynamic efficiency.

Alinta Energy notes that at the recent public forum a few participants raised concerns about the impacts on contracts markets flowing from a congestion pricing scheme. Further analysis is required to enunciate these concerns.

Option 3: Generator transmission standards

There is a perspective that a long-run transmission locational signal is not a concern in the NEM and therefore any proposal for the adoption of a clearly defined level of service for incumbent generators is for the purposes of providing investment certainty not driving dynamic efficiency. This is because it can be argued that locational decisions are already signalled through:

- price separation between regions;
- transmission losses;
- dispatch risk;
- connection charges; and
- fuel access and transport costs.

Therefore, if no discrete locational signal, for example in the form of a new entrant charge, is required a generator standard can be used to resolve the issue of access more generally. Hence, option 3 provides a generator reliability standard as an alternative method of delivering a defined level of service to generators.

Unfortunately, the proposal is ultimately deficient as:

- value to individual generators is still likely to change over time given the standard is based on the assumptions and expectations of a jurisdictional or other planner and not individual generation businesses;
- individual businesses are not able to select the level of access that suits their business model and then operate to that standard moving forward;

- there is likely to be little correlation between locational decisions and overall costs to the network and hence locational signals for new entrants will remain weak;
- incumbents will be penalised by new entrant entry decisions as costs will be smeared across all generation businesses;
- generation businesses that do not require firmer access or who are willing to be constrained off can not opt-out of this model and instead will be forced to pay a portion of the costs arising from new entrant locational decisions;
- the model would not resolve congestion in the short-run and as such some generators may be forced to face significant amounts of congestion for a number of years whilst still be made to pay a portion of the costs required to maintain the standard;
- the model fails to not disadvantage incumbents who have invested based on certain expectations; and
- the model is dependent on future reassessment, based on “changing economics”, which undermines any certainty the standard would hope to provide.

Alinta Energy believes any initial enthusiasm for generator reliability standards is tempered by the considerations above.

Notably, it could be suggested that improving the operation of the Regulatory Investment Test for Transmission (RIT-T) to take account of benefits to generators more explicitly is likely to be a preferable model than the development of generator reliability standards. This would require TNSPs being able to be funded to build RIT-T projects that value access certainty for generators.

We note the AEMC’s analysis of the RIT-T for this purpose is limited. Specifically, the AEMC attempts to suggest that a signal (uncertain congestion due to limited access) which cannot be accurately predicted, responded to or managed, would be weakened by an improved RIT-T.

Alinta Energy is aware that some market participants, who support the status quo, are suggesting that uncertainty creates a strong and positive locational signal. We would encourage the AEMC to reflect on how ongoing access uncertainty supports investment at any location given investors seek the certainty of financial returns in order to justify their investment.

Option 4: Regional optional firm access

The regional access model partly reflects the models proposed by privately owned generation businesses based in South Australia and Victoria over the course of recent years and a number of reviews. On that basis, it is initially appealing. Nevertheless, it fails to fully replicate those models and is undermined by the creation of its own uncertainties.

Alinta Energy would not support the regional optional firm access model in its current form as the model appears to rely on a balanced number of firm and non-firm generators existing so as

to ensure an appropriate range of payments are made at times where congestion arises. This cannot be guaranteed.

This means where the bulk of generators are “firm” there would be minimal payments in the face of congestion and disorderly bidding incentives would continue as is presently the case. Likewise, if all generators were non-firm then existing inefficiencies would continue to arise. This means under the proposed regional optional firm access model:

- there is limited incentives for TNSPs to provide generators with the level of access they require and generators have no involvement in determining the standard;
- the chance of getting the balance between firm and non-firm generators correct is limited and there would be limited scope to create a process of doing so in an industry that requires large sunk cost investments;
- the impacts of disorderly bidding may be limited or transient based on the proportion of non-firm generators, meaning opting to become “firm” would become a business decision or cost to maintain the status quo; and
- incumbent generators would be required to seek firm access in the knowledge its value would be at best transient before returning to the status quo.

Alinta Energy could not support the regional optional firm access model unless these matters were addressed. As a number of these matters have been discussed by IPRA in their preliminary submission Alinta Energy has dealt with these matters and the corresponding AEMC analysis in the latter section of this paper.

Option 5: National locational marginal pricing

The option to purchase fully firm access at a national hub is an alternative that has not been contemplated to the same degree as the previous options over the course of generator access discussions in recent years.

While Alinta Energy sees the conceptual benefits it is unlikely to represent a proportional response to the issues at hand at this point in time given existing business models and contractual arrangements are based on regional arrangements.

While we agree that a national hub potentially improves trading liquidity, the cost that would be required to develop that single platform would likely outweigh the consequent benefits.

At this stage Alinta Energy does not see this option as a preferred approach but would be interested in any further analysis the AEMC may undertake.

Integrated model and related comments

Given a number of the matters Alinta Energy intended to cover in its submission have been addressed by IPRA it is appropriate to review the integrated model in the same manner as the five options presented by the AEMC.

The integrated model outlined in IPRA's preliminary submission comprises six components:

1. protection of agreed access;
2. locational signals through charging deep connections costs for new entrants;
3. choice of level of access;
4. ability to trade access;
5. congestion management; and
6. interconnector planning to maintain a sufficiently integrated NEM.

Each of these matters is dealt with below.

Protection of agreed access

Alinta Energy agrees that a failure to protect access to an agreed level is likely to be contrary to the NEO given the adverse impact on investors and impacts on potential investors.

As such, we endorse a view that a base level of access should be planned that incorporates the preferences of individual generators who remain subject to fluctuations in access dependent on network operation.

Alinta Energy's agrees that for such a proposal to work it is dependent on the development of: (a) obligations on TNSPs not to connect generators where it would degrade the access of existing participants and (b) be subject to an agreed measurement protocol.

In principle this proposal is workable and Alinta Energy endorses its further development by the AEMC in conjunction with industry participants. Alinta Energy makes the following observations:

- new entrants and TNSPs must be subject to some form of one-off assessment so that there is no option to revisit the initial access decision post-connection or in subsequent years – this is required for the certainty of the connecting party and for the TNSP;
- TNSPs and generators should be free to negotiate and consider trade-offs between the access sought by a new entrant, that currently held by existing participants and augmentation costs – for instance it may be feasible to agree terms to provide one-off (or other) compensation to a party whose access would be degraded by an agreed level with a further party connection in that vicinity for the purposes of reducing augmentation costs or costs on a new entrant; and
- the base level of service should not be so low as to be of no value due to fluctuations but should take into account an agreed set of contingencies.

Locational signals based on deep connection costs

There seems to be a view expressed by some that proxy signals or the threat of congestion provides an appropriate locational signal. This is not the case. Proxy signals constructed by regulators may be useful in seeking to direct market participants to fulfil policy objectives and the general threat of congestion may ensure an investment accounts for these uncertain risk through higher costs of capital but neither ensure investors face the true value of all the costs associated with a specific location. The relevant costs include:

- the long-run and short-run fuel supply costs for that location;
- location specific site costs such as, water, access, labour and environmental costs;
- long-run and short-run transmission costs for that location;
- the ability to forecast with certainty the long-run transmission costs; and
- the ability to forecast with certainty short-run transmission cost (congestion and losses) and the price duration curve to facilitate the forecasting of likely revenue and to assist in the selection of plant type.

Facing the true value of all costs ensures the most efficient decisions are made by NEM participants. This includes trade-offs relevant to NEM transmission frameworks and those outside the NEM framework that still have a direct bearing on the total delivered cost of energy to consumers (i.e. water availability, location of skilled workforce, gas pipeline access, State government environmental licensing and regulation etc).

This is in essence what a deep connection cost model seeks to do.

Problems arise with the deep connection costs model when the lumpy nature of transmission investment and tagging issues are factored into the analysis; however, those issues alone don't necessarily invalidate the development of a regime that creates appropriate locational signals through deep connection costs. Alinta Energy supports investigation of a regime where:

- charges are forward looking to impact on investment and locational decisions before they are made and not impact on sunk investments;
- charges have the singular purpose of informing efficient transmission decisions and are not used for pursuing broader social objectives;
- charges are determined by new entrant locational decisions or incumbent expansion decisions not as a centrally regulated proxy;
- charges are as granular as possible to reflect, to the closest extent that is possible, the direct impacts of an individual connections locational decisions and impact on the network but accepting that in some instances this may not be feasible (the development of posted charges [i.e. based on year of connection application] across small zones was raised previously by Loy Yang Marketing Management Company);

- charges reflect the efficient cost of the network investment required to provide the defined level of service required by the new generator;
- charges should be known at the time of connection and fixed for the life of the asset;
- TNSPs can take advantage of scale economies for the purpose of supporting customer reliability but not for the purpose of subsidising potential new entry (the no SENE principle); and
- where utilisation of spare network capacity attracts no charge.

These principles provide a sensible approach to charging for network access to promote overall efficiency. This does not mean Alinta Energy believes charging new entrants is the only available model to satisfy generator requirements for more certain access to transmission but it should be treated as a viable model.

Choice of level of access

Alinta Energy supports the choice of level of access proposal provided by IPRA but notes that bilateral contracts should not be the only option investigated by the AEMC subject to consultation with TNSPs.

Ability to trade access

Alinta Energy believes that any defined service associated with this regime should be tradeable. The tradability of such service levels is valuable to existing and new generators. For instance, an existing base load generator could be incentivised to sell part of their defined service level at a market determined price should they commence winding down their operations or should they be willing to move to an alternative business model.

In this manner, a new generator could therefore be exposed to a charge to augment the network and receive a defined service or purchase the existing defined level of service off an incumbent. As indicated by IPRA this in itself provides a locational signal that may minimise the need for additional augmentations.

That said, and has been expressed previously, TNSPs would need to be satisfied with the terms of any access arrangements agreed between an existing generator and a proposed new entrant.

Congestion management

The issue of congestion management is covered in Alinta Energy's response to the SACP proposal. Alinta Energy agrees with the commentary of the AEMC and IPRA on the rationale for the implementation of a congestion management scheme.

Interconnector planning

As expressed earlier in this submission Alinta Energy shares IPRA's concerns around the degradation of existing interconnector capacity. As noted, Alinta Energy's concern is not that further interconnectors are required or not required but that once an interconnector has been

justified there seems little clarity about which entity is required to maintain its capacity and no disincentives when actions result in a reduction in an interconnector's capacity.

We note IRPA's suggestion regarding a single entity having responsibility for interconnectors, but at this stage have no preference for a single entity like the National Transmission Planner (NTP) to perform this role or a single TNSP, as opposed to combining this responsibility with existing TNSPs function on both sides of the interconnector. In fact, if TNSPs are to largely retain their existing functions then the latter may be preferable.

For example, the degradation of an interconnector is impacted by within a region through activities by TNSPs and measurement of the impacts of those activities on interconnectors appears necessary. Hence, if the NTP or a single TNSP had responsibility for management of a particular interconnector that entity may be unable to illicit the required behaviour from the TNSP not responsible, but degrading, said interconnector's performance.

Simplistically, it appears the primary issue is ensuring that:

- interconnectors capacities are readily identified and monitored;
- interconnectors are maintained to the standard justified at time of construction – an appropriate proxy in the absence of significant changed economic conditions agreed to by affected participants;
- TNSPs on both sides of an interconnector are responsible for maintaining capability – these means work in one region may be required to facilitate greater capacity in another region with TNSPs assessed accordingly; and
- TNSPs on both side of an interconnector, like generator locational decisions, are not permitted to degrade the capacity of an interconnector as a consequence of augmentation decisions (with associated penalties).

These suggestions above may, or may not, following further analysis prove workable and are put forward to encourage further discussions with the AEMC.

Conclusions on the integrated model

Alinta Energy agrees with IPRA that the integrated model proposed should facilitate greater certainty for new and existing investors in the NEM.

Alinta Energy appreciates there are a number of aspects to the model that require further consideration, including the application of a workable deep connection costs model, but nevertheless endorses the proposal.

From Alinta Energy's perspectives the integrated model provides certainty of access to the node, provides a strong locational signal, provides a charging regime for access in circumstances where new entrants voluntarily select firm access, and ensures TNSPs manage and plan the network in recognition of these access arrangements.

Planning

Alinta Energy welcomes the AEMC's analysis in relation to planning. The following section comprises three parts:

- (a) general discussion and commentary in respect of the AEMC's analysis;
- (b) comments on the proposed options; and
- (c) Alinta Energy's preferred approach.

Discussion

Alinta Energy notes the planning characteristics outlined by the AEMC, namely:

- efficient investment is delivered to meet load reliability;
- generators are provided with the level of access that reflects the value of being dispatched in the energy markets; and
- there is confidence that the arrangements promote effective coordination between generation and transmission investment and therefore minimise total system costs.

These characteristics appear appropriate; however, they are limited by their generality. In this regard, Alinta Energy agrees that the planning arrangements have worked sufficiently well in complying with load reliability indicators; however, the following areas – many of which the AEMC have identified - require attention:

- maintenance and management of network capacity so as to not partially strand existing generation assets – this risk, related to the issue of firm access, is a concern for existing and future investors and is a risk that cannot be hedged;
- maintenance of interconnector capability – where an interconnector investment has been justified it is concerning when capacity continues to degrade over time undermining reliability of supply and inter-regional trade;
- the RIT-T fails to take account of the value of augmentations to the competitive market, in particular generators for certainty of access and on market liquidity – while the RIT-T is new it is a variation of a longstanding test and therefore the history of performance of the variations of the test are illustrative;
- deficient modelling undermines network planning and the cost-benefit of independent modelling; and
- the role of the NTP moving forward, in particular its relationship with TNSPs and its position within AEMO.

While Alinta Energy supports further work we do not believe there is particular value in attempting to evaluate the 'what if' scenario of whether a planning regime in the absence of regional boundaries and separate TNSPs would have been more efficient. A national TNSP

may have developed the network differently; however, this does not suggest that an outcome may have necessarily been more efficient.

Furthermore, it is not surprising that there is a general preference for supply options within a region over new interconnectors given the costs of large scale additional transmission is likely to be significant. On this basis, Alinta Energy supports the AEMC's position that regional price separation does not reflect insufficient interconnector investment.

In relation to interconnectors there is merit in the position presented by Grid Australia, as interconnectors are being reviewed; however, there is lack of consistency about when such reviews will take place and what is determined as the appropriate standard to justify augmentation or other work.

In relation to inter-regional trade we note that inter-regional settlement residues do not provide a perfect hedge; however, this does not prevent inter-regional trade but sets the hurdle for such trade at a higher level as greater risk must be internalised or hedged elsewhere. Alinta Energy sees inter-regional trade as an important part of its growth strategy and welcomes developments which support certainty in this area.

Overall, the AEMC's analysis is appropriate and in that regard we agree that it is unclear whether every difference in perspectives on planning arrangements reflects a lack of transparency or more fundamental concerns. Nevertheless, Alinta Energy notes that there is general discomfort with the manner in which planning currently occurs at the regional level and suggest this requires consideration.

Comments of AEMC limited reform options

Alinta Energy is broadly supportive of the approach taken and endorses the following positions:

- support a national framework for network reliability standards as previously outlined by the AEMC;
- agree that there needs to be greater consistency between TNSP and NTP planning if those entities are to retain their respective responsibilities;
- support increased transparency around the RIT-T including an estimate of economic impacts on market participants;
- understands the attraction of aligning regulatory resets and should it be conclusively demonstrated such alignment is sensible is not opposed but looks to AER for conclusive guidance on this proposal; and
- agrees that interconnector reliability requires attention; however, the form of any potential standard is critical.

National framework for reliability standards

Alinta Energy agrees that the approach proposed by the AEMC, economically derived but deterministically expressed standards, represents a desirable hybrid approach to setting network reliability standards

Alinta Energy supports the AEMC's position that a common approach to reliability standard setting would allow investments across the NEM to be optimised and deliver competition and efficiency benefits.

It is not considered necessary that standards are identical across regions, but that the approach conforms to a common framework to deliver certainty of outcomes while accounting for regional differences. This is considered preferable to the current approach especially with respect to Victoria.

Alinta Energy supports, in-principle, the setting of standards by bodies independent of the asset owner. The NTP would notionally be one entity capable of fulfilling this role; however, as it sits within AEMO, and AEMO has clear preferences which contrast with the AEMC's recommendations, such an outcome would not be considered ideal at present.

Alternatively, Alinta Energy does not consider independent planning entities in each jurisdiction as a viable outcome. On this basis, it is difficult to foresee changes to the present arrangements and the ongoing existence of conflicts between asset owner and asset planner roles.

TNSP and NTP responsibilities

Greater alignment between Annual Planning Reports and the National Transmission Network Development Plan (NTNDP) makes intuitive sense and barring any noted impediments Alinta Energy supports the proposals contained in this section. Alinta Energy agrees that differentiation between information outputs creates coordination costs that should be avoidable despite APRs and the NTNDP being developed by different entities.

If the NTNDP (and NTP) is to have a reasonable standing it would seem appropriate that in time its processes and format would guide the work of TNSPs who are responsible, and appropriately so, for developing planning materials at a more granular level.

Application of the RIT-T

The RIT-T and its precursor tests are the source of ongoing interest. It seems barely a review occurs where the RIT-T is not subject to scrutiny and suggested amendment. In relation to the AEMC's suggested changes Alinta Energy:

- supports greater involvement of affected participants in the RIT-T process when initiated by TNSP;
- the ability for non-TNSP parties to initiate a RIT-T;
- supports a requirement that RIT-T assessments that provide a compelling economic case must be acted upon; and

- supports the AEMC considering the role of the NTP in the RIT-T process and the merit of an alternative gateway for the RIT-T being the NTP.

Reliability standards for interconnectors

Reliability standard for interconnectors are intuitively appealing; however, they are not without implementation issues.

Alinta Energy's concern is not that interconnectors necessarily require increased capacity but that efforts to keep interconnectors in service at the capacity previously determined economic does not occur.

We support obligations, be they in the form of interconnector reliability standards or otherwise, which require interconnectors to be maintained at, or close, to their previously agreed capability. For example, failure to meet this requirement on a rolling three year basis should result in appropriate remedies.

Alinta Energy appreciates the concern that maintaining capacity may be more expensive than other forms of supply or investment to meet reliability standards; however, certainty around interconnector levels is needed to ensure regional trade can take place and in some instances is a fundamental pre-condition to maintaining the integrity of specific generation investments and promoting additional investment.

In this regard, the original test that demonstrates the justification for a specific interconnector being built or augmented is an appropriate proxy for a test to justify its continuance at or around that level of capability going forward, other things being equal.

The only unresolved issue is that degradation in capacity can be a direct result of specific locational decisions by generators or augmentation decisions by TNSPs. The AEMC needs to ensure the transmission frameworks correctly address poor decision-making by both TNSPs and generators that result in market-wide costs.

Comments on AEMC's more significant reform options

Enhanced coordination of the NTNDP and APRs

The concept of a "national plan" is appealing and is likely to be a valuable addition to the planning framework. On this basis, Alinta Energy welcomes enhanced coordination, whether through greater coordination of the NTP and TNSPs processes or through consolidating existing planning processes.

Nevertheless, Alinta Energy is conscious of the costs involved and holds existing concerns about the validity of yearly NTNDPs. On this basis, it may be more appropriate that a coordinated and singular process orchestrated by the NTP occur but not on an annual basis. In intervening years TNSPs could continue to provide information regarding localised network development options within APRs supplemented by a high-level NTNDP in intervening years.

This ultimately reflects Alinta Energy's evolving view that coordination of strategic initiatives across the NEM is necessary including in planning; however, the benefits that arise from

localised knowledge should not be surrendered for the sake of harmonisation especially given the slow evolution of strategic initiatives vis a vis the daily impacts of operational matters.

Harmonised regime based on current South Australian model

While Alinta Energy appreciates the reasoning behind the Department of Primary Industries position, and agrees that conceptually there are preferable models, this argument fails to acknowledge the status quo.

On the basis of the status quo, and the primary difference being between Victoria and the other regions Alinta Energy:

- supports the use of financial incentives;
- endorses a harmonised regime;
- agrees the South Australian model provides an appropriate guide for a harmonised model;
- agrees that demand forecasting is always problematic and forecasting sitting within the existing TNSPs operation is not ideal;
- does not have a clear view whether notoriously difficult demand forecasting should be provided by AEMO, an independent NTP entity or other; and
- by implication supports the revision of AEMO's role in Victoria where there remains dissatisfaction with the Victoria model.

A single NEM-wide transmission planner and procurer

This option is intuitively appealing; however, it is difficult to gauge the benefit that may actually arise from this model versus the problems with centralisation and removal of local nexus that exists between TNSPs and the networks.

There is little support for AEMO's procurement role in Victoria amongst stakeholders and it is unclear whether a national model would not lead to more of the same given AEMO or the NTP would be the likely candidate for such a role. While a national planner is appealing increasing AEMO's responsibilities may detract from the already significant market operator functions required of AEMO.

This is particularly the case at the level of investment decision-making, procurement, and connections. In regards the latter, market participants remain wholly unsatisfied with AEMO's performance, the complexity arising from multiple agreements with multiple entities, and AEMO's conduct in relation to the renegotiation of connection and use of system agreements.

Joint-venture planning body established by TNSPs

This option seems sensible but it ultimately may create an unwieldy national body that is beset by squabbles between competing interests and entities comprising part of the joint venture body. We are encouraged by the practical thinking of the AEMC; however, this option serves

to illustrate that the status quo, with minor changes, may remain appropriate for the time being.

This is because given the NEM geographical spread a number of TNSPs maintaining and managing the network and utilising their local knowledge is not an inappropriate outcome. In this regard, it is unclear a national body with the full gamut of transmission responsibilities will do little more than increase bureaucracy given the strong incentives and need to maintain the existing local presences.

Additional matters for consideration

In the section above, Alinta Energy has hinted at a few matters which we suggest require AEMC consideration in the planning domain these include:

- greater incentives to increase the timeliness of RIT-T assessments, as the RIT-T is not acted upon in a timely manner;
- a greater role for the NTP in performing RIT-T assessments which obligate action by TNSPs, which may improve timeliness of assessments, consistency in application and assumptions, and go part way to harmonising the necessary aspects of the planning arrangements;
- whether the relationship between the NTP and TNSPs will be enhanced by its separation from AEMO and development of a structure which draws upon the expertise of the TNSPs;
- should the NTP be made independent of AEMO, whether it should hold the Last Resort Planning Power to encourage action by TNSPs aligned with the NTP – in this way the safeguards desired by Victorian Department of Primary Industries will be in place through a not for profit planner; however, the advantages of financial incentives and the benefit of local decision-making will be retained;
- where the RIT-T demonstrates a shortfall market participants should have the option of funding the gap with associated rights allocated; and
- the need and regularity of planning documentation should be reviewed as practical measure - the value of an annual NTNDP's has already been raised.

Connections

Alinta Energy agrees with the AEMC's characterisation of the connections issue. The bulk of Alinta Energy's views have been reflected in a joint submission with likeminded generators. Nevertheless, Alinta Energy's position can be summarised as:

- supportive of improving clarity of connections process; enhancing dispute resolution as a last resort; improving timing requirements around information provision; and gaining clarity around cost allocation;

- supportive of development of standard terms and conditions being developed by industry, under the guidance of the AEMC through the this Review process, which can be used as default in relation to specific matters (i.e. GST, tax, indemnity, risk allocation, early termination, credit support etc);
- supportive of regulation in the absence of contestability;
- requiring the applicant to be the determinant of when contestability exists;
- supportive of greater consistency between regions;
- not supportive of AEMO's role in tri-partite contracts in Victoria and believes two party negotiation would be more appropriate;
- not supportive of any steps to subsidise overbuild (i.e. for the purpose of including additional kit for future connections); and
- not supportive being exposed to shared network costs that do not relate to a individual connection.

Conclusion

Alinta Energy welcomes the detailed analysis provided by the AEMC in the 1st Interim Report. This body of work provides a solid foundation for moving the longstanding access debate forward, notwithstanding the reluctance of some parties to engage in a productive discussion regarding transmission access, and provides useful progress on connections and planning.

As it concerns the AEMC's five developed options, Alinta Energy sees value in the further development of Option 2 for the purpose of addressing short-run congestion but sees limited value in the remaining four options.

Option 1, without doubt, would not improve efficiency and would represent a missed opportunity should the AEMC be minded to pursue this option. Option 5 alternatively is considered disproportionate to the issues at hand.

In their current form, option 3 and 4, remain unsatisfactory. Each could be further developed; however, a RIT-T which explicitly recognises a base level of access and the value of access to generators, and the integrated model presented by IPRA, are likely to be more appropriate alternatives to option 3 and 4 respectively.