



Major Energy Users Inc.

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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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National Electricity Amendment (Transmission Connection and Planning Arrangements) Rule 2015 Reference: ERC0192

The Major Energy Users (MEU) welcomes the opportunity to provide its views on the rule change proposed by the CoAG Energy Council (CEC) to improve contestability in providing new connections and planning arrangements; this response follows the consultation paper released by the AEMC to further investigate the proposal.

As a high level observation, the MEU supports making new connections more contestable as member first hand experiences have highlighted that the transmission network service providers (TNSPs) have demonstrated that they are at times not as low cost as they could be when subject to competition. Providing the ability for those seeking connection to obtain competitive prices for the connection works (including those assets commonly provided by TNSPs) would be a welcome change to the rules. Moreover, the MEU views that greater competition drives better outcomes for all consumers. A key driver behind the deregulation of the National Energy Market (NEM) was to achieve this outcome, and this proposed rule change, in many respects, supports this aim.

The MEU offers some further observations about new connections that have caused some concern to its members over time.

-) Access to existing easements and acquiring new easements is more difficult for entities (such as end users) whereas TNSPs tend to have a better ability to acquire these.
-) Obtaining insurance for a single connection can be very expensive (reflecting the high impact low probability nature of the risks faced by a single powerline), whereas TNSPs are able to include new assets into their existing insurances with little or no additional cost.

The impact of these two issues gives TNSPs a significant advantage over other potential owners of such assets. In contrast, MEU members have seen that TNSP

2-3 Parkhaven Court, Healesville, Victoria, 3777

ABN 71 278 859 567

Ph: (03) 5962 3225, Fx (03) 5962 3237, email davidheadberry@bigpond.com

www.meu.asn.au

costs for building new assets is usually much more expensive than that offered by potential competitors.

The MEU is also concerned that the proposal does not recognise two fundamental differences between generators and load when connecting to the shared transmission network:

1. In assessing the proposed rule change, the MEU is also cognisant that generators contribute little to the cost of providing the shared transmission networks with consumers paying costs usually well in excess of 90% of the total shared transmission network costs.
2. Further, the MEU points out that a new end user connection to the network provides a benefit to all other end users through making a contribution to the costs for providing the transmission services. For example, a new load contributes to the costs of both the locational and non-locational transmission use of system (TUoS) as well as the common service thereby reducing costs to other consumers. In contrast, a new generator connecting makes no contribution to these other costs at all after connecting¹.

The MEU considers that in attempting to "standardise" the connection arrangements as proposed, there has to be a clear recognition of these differences when assessing the costs that end users will incur when making a new connection. It is clear that the connection arrangements currently in force (as detailed in figures 2.1, 2.2 and 2.3) do recognise these differences and end users would not want to see changes made that will cause new end users to incur more costs and that the benefits of new end users connecting are shared².

The Identified User Shared Network Assets

The proposed new arrangements introduce a new category of assets - identified user shared assets. This new asset class would allow a party proposing to connect to the network to have the ability to build these assets directly and therefore enable the costs to be based on competitive pricing. The MEU supports these assets being contestable as this leads to a more efficient and competitive outcome. The MEU further notes that the discussion paper proposes that these assets would be operated, controlled and maintained by the TNSP.

However, the MEU sees a number of issues that have to be resolved with this model.

¹ While there is an argument that a new generator connecting to the network might reduce the cost of electricity in the market, a new generator connecting might also increase congestion in the network causing higher market costs and a cost to consumers to "clear" the congestion through network augmentation such as has previously occurred in various parts of the network.

² In this regard the MEU points out that the AER guideline for allocating costs for new connections (required under Chapter 5A of the NER) which recognises that some of the costs of a new connection should be carried by existing consumers as existing consumers benefit from the contributions made by new consumers connecting to the shared assets.

-) Who pays the TNSP costs associated with operating, controlling and maintaining the assets? The presumption is that this would be part of the regulated service, however we question if this is equitable? Equally, if these costs are allocated to the party connecting to the network, we query how these costs can be viewed as being the lowest cost as the prices offered are from a monopoly.
-) If the TNSP is responsible for the reliability and availability of the assets, does the TNSP have a determinative say in the design and quality of the assets provided? The presumption is that the TNSP only provides high level design concepts, yet the detail design and selection of the plant is at the discretion of the party connecting. We question then how can the TNSP be held responsible for the continued performance of the new assets if they have control only over the conceptual design? If the TNSP has control over the detail design and selection of plant, then this detracts from the purpose of making the new connection contestable.
-) The detailed design and the selection of the specific plant items are by the connecting party. The presumption is that the TNSP is responsible for the cost of operating and maintenance. Is it reasonable that the TNSP should be responsible for the costs of maintenance³ bearing in mind that the connection assets could be of a lesser standard than what the TNSP usually acquires? Should the TNSP be responsible for the reliability and availability of plant over which they have no control of its selection?
-) If the assets are needed by another party, who decides whether this should occur? The presumption is that the TNSP does but is this equitable?
-) If the assets are required to be utilised by another party, does the "owner" of the assets get reimbursed in anyway for its capital investment? The presumption is that they would not but is this equitable⁴?
-) If the assets are needed to transition to the shared assets, and the owner does not gift the assets to the TNSP, then it is required to be subject to regulation for the assets involved. The costs of regulation will be significant relative to the value of the assets, and therefore there will be financial pressure to "gift" the assets (or sell them at a low cost) rather than incur the costs of regulation. This is not equitable. If the assets are "gifted" this introduces tax implications for consumers⁵
-) If a generator and an end user share the assets, how is this to be managed bearing in mind that the end user contributes to TUoS and common service costs but the generator does not?
-) If the assets are converted to shared assets, how is this to be achieved? The presumption is that they would be "gifted", but this creates tax problems (with TNSPs reimbursed for the tax implications of the "gifted assets" by

³ If these TNSP costs become a regulated service, this means that all consumers incur the costs. effectively as a pass through. If the costs are paid by the connecting party, they incur the costs as a pass through with no control over the costs

⁴ This issue has been addressed in the AER guideline on new connections in the distribution network where the new user is required to contribute to the cost of the assets

⁵ See for example, the Victorian government contribution to the NSPs after the Bushfire Royal Commission caused consumers to reimburse the NSPs for the tax they incurred as a result of receiving funds from the government. This issue has been partially rectified but there is no clear outcome if the assets are provided by another commercial entity.

consumers) but is this equitable? Does the "owner" get reimbursed for the gifting of the assets and on what basis or are they sold to the TNSP and on what basis?

Under the current framework proposed within this rule change, the queries above remain unanswered. Despite our general support for this change, we view it as a prudent measure to address these issues to ensure that this change reflects the best interests of consumers.

Wider application of the concept to load and DNSPs

The change proposed by the CEC is specifically targeted at new generator connections, yet, the AEMC canvasses the idea of using the same approach to apply to direct connected end users and DNSPs.

The MEU is of the firm view that applying the new approach to DNSPs needs to recognise that DNSPs will pass through any costs they incur to consumers. As most (if not all) DNSPs do not pass through connection costs to the transmission network to specific end users but tend to socialise the costs⁶ this raises the question as to the value of applying the new approach to DNSPs. The benefit of a DNSP being able get competitive pricing for a new connection could be significant - even that the DNSP may elect to carry out the work themselves. On this basis, the new approach to charging for costs of a new connection (ie through the Identified user shared network assets) is effectively immaterial from the point of consumers. However, a DNSP being able to source competitive offers for the new connection is of considerable value.

The discussion paper contemplates new end user direct connection points being treated the same as generators. Again, as with DNSPs, there is considerable value in the new end user connection being able to get competitive pricing for the new connection following the new approach. However, the MEU considers (as with DNSP new connections) that care needs to be applied when assessing the allocation of costs.

The MEU questions whether the new approach for generators is consistent with Chapter 5A⁷ of the rules. Chapter 5A recognises that new end users in a distribution network get a reduced cost allocation of the new connection cost due to their contributions to distribution use of system (DUoS). Similarly for a direct connection to the transmission network, the new end user will contribute to TUoS and TNSP common services. The presumption of the new approach is that this would no longer occur but is this equitable or appropriate? A difference between the rules applying to a new end user connecting to the transmission and to the distribution network will bias costs and potentially lead to less efficient outcomes with the end user seeking the

⁶ For example, DNSPs charge all consumers of the same class the same tariff regardless of where they are located, so the costs associated with a specific new connection to the transmission network are unlikely to be attributed to those consumers using that new connection point

⁷ In Victoria, the ESCV guideline 14 currently apply but essentially follows the same concept. ESCV guideline 15 addresses connection costs for embedded generation

most cost effective solution to it, even if this results in a higher cost for providing the new assets.

Overall, the MEU considers that the application of the new approach to end users is not consistent and the approach used in Chapter 5A (ie a customer contribution assessed based on the costs of the new connection reduced by the value to other customers because of the contribution made by the new customer) is a more appropriate approach than applying all of the costs of the identified user shared assets.

Dedicated connection assets

The MEU considers that a clear statement that dedicated connection assets can be provided by anyone (subject only to them complying with safety requirements) will be advantageous. The process for actually tying in the dedicated assets to the shared assets should be detailed.

Proposed planning arrangements

The MEU considers the proposed planning arrangements are sound and should be implemented as detailed.

Specifically, the MEU views that there is a problem in ensuring there is adequate inter-regional interconnection (whether for increased flows or to deliver the lowest cost solution for network augmentation) and the approached proposed should assist in ensuring a more efficient outcome is achieved for consumers.

These thoughts reflect a consumer view on the issues discussed in the consultation paper. Should you wish to discuss these observations or related aspects, please contact the undersigned on (03) 5962 3225 or at davidheadberry@bigpond.com.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Headberry". The signature is written in a cursive style with a small checkmark at the end.

David Headberry
Public Officer
Major Energy Users