

5 May 2011

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Dear John

### **Submission in response – Draft Rule Determination Scale Efficient Network Extensions Rule Change - ERC0100**

AEMO appreciates the opportunity to respond to the AEMC's SENE Draft Rule Determination. We have and continue to support the AEMC's investigation of a more efficient and effective network expansion and connections process.

The success of SENEs as they are now envisaged will depend on the clarity of the access/property rights obtained by a party investing in scale efficiency and the service level a generator can expect from these network extensions. AEMO has concerns that the proposed preferable rule change does not fully address these issues. Further, to be effective, the availability of information to support good investment decision making is also important.

This submission addresses three aspects of this draft determination which we believe can deliver immediate benefits:

- Service classifications under the rules
- Access rights
- Information disclosure for new connections.

Each of these is discussed in turn below.

#### **1. What's proposed?**

AEMO's understanding of the AEMC's proposed preferable rule change is that it reduces the original SENE rule from one that establishes and manages the stranding risks of SENE to one that is limited to studying the opportunities for scale efficiencies, design and costings of a new network extension. Under the preferable rule:

- Any person can require a TNSP to study the potential for scale efficiencies at a particular part of the network.
- That person bears the cost of the TNSP's report.
- That person can decide, on the basis of the reports or otherwise to proceed with a SENE or a standalone connection.
- Anybody, including a connecting generator can fund a SENE and after it is built, future network users may apply to connect to the SENE and share capacity with any existing generator.

- There is no obligation on AEMO to identify generator cluster zones or the on the AER to approve the final SENE design
- There is no compulsion on a TNSP to proceed with the construction of a SENE.
- A SENE does not constitute a new service classification under the rules (that is if a network extension is built it will be classified within one of the currently existing service classifications) and funding generators/investors have no access rights in respect of the network extension.

## 2. Service Classification

The Rule proposal defines a SENE as an augmentation to the existing transmission network. It is also made clear in the Draft Determination that a SENE is a distinct asset type built with excess capacity to accommodate forecast future generation.

While a SENE is a distinct asset type, it is AEMO's understanding that a SENE, in the absence of access rights, should not constitute a totally new service classification. However, the Draft Determination fails to make this clear. Accordingly, the Final Determination should clarify that a SENE provides, either a negotiated or a prescribed transmission service depending on how it is justified and funded.

AEMO believes that a SENE provides either negotiated or prescribed transmission services because being an augmentation to the transmission network<sup>1</sup> it is not a connection asset and therefore does not provide an entry or exit service.

Being primarily reliant on private investment, it is more likely that SENEs would provide a negotiated service. That said, if a SENE provides "system-wide benefits" they may properly fall within the prescribed service class and therefore funded through transmission use of service (TUOS) charges. As the AEMC is aware, and has already acknowledged in its Directions Paper on the Transmission Frameworks Review, AEMO is in the process of examining alternatives to its existing Victorian transmission network connections process. One element of that examination is the potential cost sharing for the connections to multiple connection terminal stations. We are still in the process of finalising our options but we believe that an augmentation may be funded through TUOS charges if it can be demonstrated to deliver system-wide benefits. This is something that we believe a TNSP is permitted, but not obliged, to consider under the current rules.

As noted above, in the absence of access rights, AEMO believes that the proposed rule would benefit from a clarification as to its service classification because it would:

- Minimise the potential for novel service classifications not defined in the rules.
- Ensure that any generator seeking access to the network through a SENE:
  - Can be sure that the open access regime<sup>2</sup> applies
  - Can rely on the TNSP's negotiating framework
  - Obtains a "fair and reasonable" offer as required by the rules.

In section 3 below, we discuss the value of offering access rights in relation to this type of private network investment. If this were done, we think that regulatory supervision of the

<sup>1</sup> See definition of Scale Efficient Network Extension in proposed rule.

<sup>2</sup> In the NEM context, we believe that the concept of open access is consistent with access rights. Under an open access regime that incorporates access rights, a transmission network owner may be obliged to permit a new connecting generator to connect at a commercial cost inclusive of the costs of preserving the access rights negotiated and paid for by prior generators. If capacity is fully subscribed, the new connection applicant may pay for the stand alone cost of the incremental augmentation required for itself but it cannot be excluded.

open access regime is still necessary albeit with some necessary modifications to the negotiating framework and the “fair and reasonable” offer requirement. Ultimately, if an access regime was adopted, a new service type would need to be introduced modelled on the negotiated services model.

We note that in some jurisdictions, TNSPs may offer new connecting generators a “non-regulated transmission service”. While a corresponding definition exists in the rules, AEMO has trouble with the concept of permitting a non-regulated service to be provided by a natural monopoly. The reason for this is that a for-profit monopoly may be financially motivated to require a connection applicant to fund a SENE design that incorporates robustness for the TNSP’s benefit rather than the generator. The prescribed and negotiated transmission services framework was designed to curb this incentive and should therefore be used in this context.

### **3. Access rights**

As noted above, the SENE’s success will depend on investors having confidence that they can obtain appropriate access/property rights to the additional scale efficient investment. We believe that investments in SENEs are less likely unless a potential investor has reasonable certainty that it has a transport right to offer to a connecting generator and the generator must also have reasonable certainty that it can rely on such right. However, we believe that the issue of property and transport rights should be addressed under a system-wide framework that deals with the issue in a comprehensive and holistic manner along with associated revenue and planning arrangements.

The AEMC has committed to look at access rights according to the terms of reference of the Transmission Frameworks Review. AEMO looks forward to working with the AEMC on that review in the expectation that it will provide some clarity to negotiation processes and property/access rights to SENEs in particular and the broader network in general.

### **4. Disclosure of information to generation and potential SENE investors**

An impediment to clustered generator connections is the difficulty in finding suitable places to share entry connection facilities. Generators can potentially make more efficient investment decisions if they have access to specific information about other potential generation connections.

Given the right information, a generator might be able to capture scale efficiencies if it could cooperate with other generators in developing a shared point of connection.<sup>3</sup> It can only do this with the right information.

The type of information that would be valuable to potential connection applicants include the approximate location of the connection point and timing, size, type and location of the proposed generating plant. We note that this has been a contentious issue in the past but AEMO believes that much of this information will be in the public domain by the time a proponent makes a connection application. This is because the proponent will have already made an application and/or representations to local councils and government bodies for planning and environmental permits that will require the public disclosure of such information.

The purpose of obliging TNSPs to disclose this information is to make it easier for other potential connection applicants to consider where, among a number of prospective connection points it is best able to share in the development and running costs of a proposed SENE. This is much easier to do where the information can be found in a single repository.

Grid Australia proposed a similar rule change in 2009 which was rejected by the AEMC.<sup>4</sup> The reason for not allowing the rule change was that the AEMC believed that that there was

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<sup>3</sup> This was accepted by the AEMC. See first full paragraph of page 35 of Draft Determination.

sufficient scope in the existing confidentiality rules to allow NSPs to disclose this type of information. We note that despite the AEMC's advice, TNSPs have been reluctant to release information of this type and therefore seek a positive obligation to this effect. This could be achieved through publishing connection application and enquiry information either on the TNSPs website, or in their Annual Planning Reports.

AEMO's recent Victorian connection initiatives work revealed a consensus among AEMO, Grid Australia, generators and other interested parties to have information of this type disclosed at the time of making a connection request and/or application and that it would be a positive move. Consequently, We believe that, in the context of this rule change proposal that the AEMC should reconsider the issue. AEMO would be pleased to assist the AEMC develop any alterations to the proposed rule to effect this.

We look forward to working with the AEMC further on this rule change proposal. If you have any questions regarding this submission, please do not hesitate to contact me on (08) 8201 7371.

Yours sincerely

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<sup>4</sup> Rule Determination - National Electricity Amendment (Confidentiality Provisions for Network Connections) Rule 2009, 12 November 2009, <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/Confidentiality-Provisions-for-Network-Connections.html>