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Transmission Frameworks Review - Second Interim Report

A: Introduction

EnergyAustralia welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Second Interim Report in its Transmission Frameworks Review (TFR).

The AEMC has taken a significant step forward in the TFR by completing the Second Interim Report. We generally support the proposals in relation to planning and connections, and can see some potential merit in the proposed Optional Firm Access model.

However, further work is required to better define and explain the basic principles that underpin the Optional Firm Access model to allow stakeholders to determine whether it will deliver efficient outcomes. The depth of analysis presented in the second interim report is not sufficient to allow even an 'in principle' assessment of its merits.

The AEMC should provide more detail on the Optional Firm Access model, and release a Draft Report for consultation, before making its recommendations to the Standing Council of Energy Resources (SCER). This would require another stage to the TFR, and may delay consideration by SCER; however it is necessary to allow an informed decision.

Below, we set out our key positions on the Second Interim Report for the AEMC's consideration.

Overall, we:

Access

- suggest that the removal of clause 5.4A under the current Non Firm Access model is inconsistent with the original intent of the National Electricity Rules (NER).

- consider the Optional Firm Access model could have some merit. In particular, the Optional Firm Access model may strengthen locational signals for new generation, support more efficient contract markets (inter and intra regional) and help co-optimise transmission and generation investment.

- believe that the AEMC should better define the proposed Optional Firm Access model and undertake more detailed analysis of the anticipated market impacts of the Optional Firm Access model before making its recommendations to the Standing Council of Energy Resources (SCER). This would require another stage to the TFR and may delay consideration by SCER, however it is necessary to allow an informed decision.

- believe more detailed analysis is needed in relation to procurement, pricing, settlement, transitional access, interregional access, transmission regulation and the firm access standard.

Planning

- support the changes proposed by the AEMC to the planning arrangements in the National Electricity Market (NEM). A stronger National Transmission Planner (NTP) coupled with improved coordination between the TNSPs should deliver more efficient investment outcomes.

Connections

- support the introduction of a more competitive model to the supply of connection services, and believe the AEMC should reconsider its position on this issue.

- support the improved efficiency in the transmission connection arrangements proposed by the AEMC.

- support the additional transparency that the AEMC would require TNSPs to provide to generators that seek connection services in the NEM.

- support the AEMC's proposed treatment of "extensions" in the NEM. However, we do not support the automatic third party access that the AEMC considers to be appropriate to privately funded extensions undertaken by third parties.

B: Access

Non Firm Access

EnergyAustralia considers that the original intention of clause 5.4A in the NER was to establish a mechanism for a connection applicant to seek an increased power transfer capability and to negotiate compensation arrangements if that level of power transfer capability was unable to be delivered in certain circumstances.

Section 5.4 A of the NER should not be abolished.

Generators should always have the option of procuring a firmer level of transmission service, even under the Non Firm Access model – if they so desire. It is what the NER intended from the beginning. Therefore, we consider Section 5.4 A of the NER should remain part of the Non Firm Access model.

Optional Firm Access

EnergyAustralia considers the Optional Firm Access model may have some merit.

It could strengthen locational signals for new generation, support more efficient contract markets (inter and intra regional) and help co-optimise transmission and generation investment.

However, as noted above, we request that the AEMC provide more detail on the Optional Firm Access model by releasing another Draft Report before making its recommendations to the Standing Council of Energy Resources (SCER).

Optional Firm Access: Benefits

Optional Firm Access could potentially provide the following benefits for generators that include:

1. Optional Firm Access may provide generators with the option to purchase firm access

The Optional Firm Access model may provide generators with the option of buying firm access to help them get their product to the Regional Reference Node (RRN) and mitigate the risk of being "constrained off".

Under the Optional Firm Access model, firm generators that are not dispatched and "constrained off" would receive compensation for their lost profit margin. That compensation would be funded by non firm generators that are dispatched ahead of firm generators. The Optional Firm Access Model would do this by separating "dispatch access" from "network access" and providing generators with the option of buying the network access. This would ensure that a firm generator maintains its profit margin when it is "constrained off" the transmission system.

2. Optional Firm Access may provide more certainty of dispatch for generators that choose to be firm

The Optional Firm Access model may enhance the certainty of dispatch for generators that might be "constrained off" the transmission system

The Optional Firm Access Model may provide generators with the option of buying firmer service to their regional reference node. This could help strengthen a base load generators' ability to recover its fixed costs by ensuring it is dispatched when there is congestion on the transmission system. Under the current energy only market design in the NEM, base load generators recover their fixed costs during tight demand/supply conditions when prices are high. However, they need to ensure they are dispatched during these periods.

3. Optional Firm Access could reduce the ability to hedge against inter regional price differences

The Optional Firm Access model could provide firm access to the interconnect and provide a mechanism for hedging price differences between regions. This could have significant benefits for the contract markets and overall efficiency of the NEM.

Generators and retailers could procure inter–regional access on interconnectors, which connect different NEM regions, and may benefit from hedging their inter regional price difference. Under the Optional Firm Access model, the generator that caused the problem on the interconnect would compensate the inter-regional access holder to ensure that despite the reduced inter-connector flow, the access settlement payment did not reduce. Whilst access payments would be scaled back if transmission capacity was reduced, holders of inter-regional access rights could receive a firmer service.

4. Optional Firm Access may reduce the incentives for disorderly bidding in the NEM

In the current NEM design, disorderly bidding occurs when congestion occurs in a region. The reason for this is that the current NEM design does not delink network access from dispatch. However, under the current NEM design, depending on the contract positions of the major generators in that region, when a constraint binds a race to bid to the market floor price begins in order that a generator is dispatched. This is a necessary and efficient response to congestion under the existing rules.

Because the Optional Firm Access model delinks network access from dispatch it could potentially reduce disorderly bidding. However it should be remembered that congestion and access to the reference node is the underlying issue that may lead to inefficient dispatch, disorderly bidding is a symptom not a separate problem.

5. Optional Firm Access could improve locational incentives for new generation

The Optional Firm Access model may help provide a stronger locational signal to new generators.

Whilst the current transmission arrangements do provide a locational signal to potential new generation investors, that signal is marginal and has often been ignored. The Renewable Energy Target (RET) which provides incentives outside the energy market framework can exacerbate this inefficiency.

The Optional Firm Access model could potentially price firm access to new generators in accordance with the costs they impose on the transmission system. So, if a generator chooses to locate in a congested area, it would need to pay for the incremental costs of an augmentation in order to facilitate its connection. Where a generator chooses to locate in an area which is remote to its regional reference node, then the generator would be required to pay a cost reflective access charge for its locational decision. Hence, the Optional Firm Access model could potentially provide a strong locational investment signal to new generation.

Optional Firm Access: Key concerns

We consider that the Optional Firm Access model may have merit.

Nevertheless, we are concerned that the Optional Firm Access model has insufficient detail for us to determine whether the scheme would be efficient. As most stakeholders discovered at the AEMC's Public Forum on the Second Interim Report in Sydney recently, there are a range of questions and issues regarding the Optional Firm Access model that need to be better understood. The AEMC needs to flesh out all of the basic principles of Optional Firm Access and undertake further analysis before the merits of the scheme can be understood.

Below, we outline our key concerns relating to the operation of the key elements of Optional Firm Access model for the AEMC's consideration.

1. Procurement

The AEMC's proposal suggests that access procurement under the Optional Firm Access model could allow a generator obtain firm access by contracting with its local TNSP. The generator would pay for an access charge that reflects the service parameters and the default service that is offered.

We would welcome further information in the draft report on:

- How a TNSP would provide a firm access service for a location and duration.
- The time it would take to procure a firm access service.
- How a TNSP would be able to offer "peak" and "off peak" firm access service.
- Whether a generator could get a cost breakdown for a firm access service to determine whether its cost is fair and reasonable.

2. Firm access standard

Under the Optional Firm Access proposal in the Second Interim Report, a generator could choose to procure a firm access service from a TNSP. The firm access service would specify the service standard for this service. One network service standard would apply to all generators. However, a generator could choose to procure a higher level of service if it so desires. That access service would be firm but not fixed. This means that it cannot be expected to be there for 100% of the time.

We understand that a firm access service would be scaled down depending on the operating state of the transmission system. For example, the AEMC describes the range of different operating states in its Second Interim Report. There, they refer to Normal Operating State (Normal Operating State - Tier 1) (Normal Operating State - Tier 2) and Abnormal Operating Condition. In order to understand the basic operation of the principles of Optional Firm Access, we would welcome more detailed information on how a firm access service would be scaled back when there is a change to the operating conditions of the transmission system.

We would welcome further information in the draft report on:

- The range of operating conditions that may be applied under the Optional Firm Access model. Whilst the AEMC has proposed a range of operating conditions under which a TNSP could offer a Firm Access Service, hundreds of operating conditions can be applied to the transmission system. So, we request more specific information on the different types of operating conditions under which a Firm Access Service would be offered by a TNSP under the Optional Firm Access model.
- Whether the requirement to provide a firm access service may result in more transmission being built with a higher end cost to consumers. Under the Non Firm Access model, TNSPs could be incentivised to over build the transmission system to provide the required firm access service required by generators. Because, if they failed to do this, they may incur a financial penalty. As such, we request additional information from the AEMC on how this might be prevented.
- The idea that non firm generators would receive free firm access at settlement gates where there is remaining capacity on a flow gate. We understand that non firm generators compensate firm generators for being constrained off under the Optional Firm Access model. However, in some circumstances, non firm generators can get free access on a flowgate.

3. Access settlement

EnergyAustralia would welcome additional information on the access settlement proposal under the Optional Firm Access model to facilitate our understanding of the proposal to determine whether it would be efficient.

We understand that there would be revised access settlements payments introduced under the Optional Firm Access model. Under the Optional Firm Access model, flow gates are the points on the network represented by transmission constraints. Thus, firm generators who are not dispatched and "constrained off" would receive compensation for their lost profit margin. Entitlements on flow gates would be funded by non firm generators that are dispatched ahead of firm generators. To deliver this outcome, the Optional Firm Access model would separate "dispatch access" from "network access" and give generators the option of buying the network access. Optional Firm Access could ensure a firm generator maintains its margins where it was "constrained off" the transmission system.

There appears to be a risk that the Optional Firm Access model may be "gamed". It could be that this delivers a less efficient outcome in terms of co-optimising generation investment with transmission investment compared with the status quo. Under the Optional Firm Access model, firm generators that are "constrained off" the transmission system would maintain their profit margin. Additionally, non firm generators would be incentivised to bid at Short Run Marginal Cost (SRMC).

Therefore, we welcome the opportunity to investigate the Optional Firm Access model through a broader range of examples with scenarios that reflect the real world. We propose that this work be included in the additional Draft Report.

4. Access Pricing

EnergyAustralia considers that it is important to get more information on the access pricing proposal under the Optional Firm Access model to determine whether it would be efficient.

We would welcome further information in the draft report on:

- The issues associated with merging the planning process for reliability based augmentations and generator load augmentations together. The merging of both the reliability and generator based planning may create unworkable complexity for TNSPs. Some potential issues to consider include:
    - would a generator be required to pay for the capital costs of bringing forward an augmentation that was justified under the RIT-T on a particular part of the network to secure a firm access service or could it choose a lower cost augmentation for its firm access service requirements?
    - could a generator request for a firm access service provide an opportunity for TNSPs to game this process, to get generators to pay for more augmentations?
- The impact of having reliability based augmentations continue to drive the planning process. An application from a generator for a firm access service would require it to pay for the capital costs of bringing forward a reliability based augmentation. As such, a centrally planned reliability based augmentations would still be driving the need for network expansions. We are not convinced that this would be efficient.
- The problems of bringing forward demand based reliability based augmentation over long periods. For example, if an augmentation was brought forward, what principles would be applied to determine the incremental cost of bringing forward an augmentation over multiple regulatory terms given a TNSP's (WACC) is adjusted every five years.

5. TNSP regulation

EnergyAustralia would welcome more detail on how TNSP regulation would be adjusted under the Optional Firm Access model to determine whether it would be efficient.

We understand that a firm access service provided by a TNSP on the shared network would be treated as a prescribed service. Therefore, because the shared network would receive income from both providing a firm access service for generators and TUOS, revenue from these services would be regulated in aggregate.

We are concerned that the changes to the way in which prescribed services are regulated for TNSPs could provide incentives for them to over–recover their regulated revenues.

We welcome further information in a draft report on:

- The potential for TNSPs to over-recover on their regulated revenues under the Optional Firm Access model. TNSPs could be incentivised to over build the transmission system in order to provide the firm access service to generators. If they failed to build out the transmission system to provide the required firm access service to generators, then they could be liable to pay compensation to firm generators that have been constrained off (i.e. this could occur where two firm generators are constrained off and the transmission system has not provided enough capacity to cater for their firm access requirements).

6. Transitional access

The AEMC does not recognise any current levels of de-facto access. However, it has proposed to provide incumbent generators with transitional access for a period of time to mitigate any changes to prices or margins on commencement of the Optional Firm Access model. The AEMC argues that providing transitional access will allow generators the time to adapt to the new scheme without creating any undue operational or financial risks during the learning period. As such, transitional access can be characterised as a smoothing process to facilitate the introduction of the Optional Firm Access model.

We consider that firm access should be an enduring service when it is provided to generators. This is in contrast to demand based reliability based augmentations which are not enduring because they change as electricity demand changes. Thus, if firm access can be considered to be an enduring service that is purchased by generators (compared to a non enduring demand based reliability augmentation) then this changes the way in which one should perceive transitional access. By accepting that firm access is enduring, then it flows that access for intra-regional transmission should not be scaled back over time but should remain at its initial level.

We would welcome more detail on how transitional access would be provided under the Optional Firm Access model to understand whether it would be efficient.

We welcome further information in the draft report on:

- The reasons why incumbent generators would only receive transitional access for a fixed period rather than enduring access.

- The proposal to charge incumbent generators for a firm access service following the transitional period - especially given incumbent generators do not impose any costs on the transmission system. Under a causer pays principle, we consider that it would be more economically efficient for new generators that create the need for additional capacity to pay for the cost of their access.

- The AEMC's reasons for believing hoarding problems would arise from providing access to incumbent generators. We suggest that as transmission rights are likely to be traded under the Optional Firm Access model, it is more likely than not incumbent generators would trade their capacity to optimise the value of their rights.

7. Inter regional access

EnergyAustralia supports the framework that the Optional Firm Access model establishes for inter regional access. Unlike the transitional intra-regional access, inter regional access would not be scaled back over time and would remain at its initial level indefinitely.

The holder of an inter regional access right would be entitled to the price difference between two regions on an access amount. Under the Optional Firm Access model, the generator causing the problem would compensate the inter regional access holder to ensure that despite being constrained off they would still retain their profit margin.

We would welcome further information in a draft report on:

- Whether inter connector rights could be traded in the future.
- How Settlement Residue Auctions would be scaled back to make way for inter connector rights under the Optional Firm Access model.

C: Planning

Energy Australia supports the changes to the planning arrangements proposed in the Second Interim Report.

A stronger National Transmission Planner combined with increased coordination of local TNSPs will improve the transmission planning arrangements in the NEM. For this reason, we consider that the proposed changes are consistent with the National Electricity Objective (NEO).

1. Enhancing the role as National Transmission Planner (NTP) to include a short, as well as long term, focus on nationally coordinated planning

EnergyAustralia supports the proposal to enhance AEMO's role as the National Transmission Planner to facilitate increased co-ordination in transmission planning across the NEM.

We consider that there is a useful role for the National Transmission Planner to undertake a broader more strategic role in the planning process to help drive consistency and coordination between TNSPs over the short to medium term. On the whole, we support the additional functions that would be provided to AEMO by the AEMC.

These functions include:

Reviewing draft TNSP planning and investment test reports

EnergyAustralia supports formalising AEMO's role in reviewing TNSPs' draft Annual Planning Reviews (APRs) and draft Regulatory Investment Test (RIT-T) documentation. The National Transmission Planner's main task in this function would be to highlight instances where it appears that:

- individual TNSPs are planning investments which have complementarities.
- an investment need in a region could potentially be met by investment options in other regions.

We support the broader role of the National Transmission Planner that would aim to identify areas where coordination between the regions is likely to be beneficial.

Provision of demand forecasts

EnergyAustralia supports the proposal for the National Transmission Planner to produce a standardised set of demand forecasts for each region in the NEM and provide these to TNSPs.

Allocating the role of demand forecaster to the National Transmission Planner would ensure a consistent national approach in developing load forecasts. TNSPs would be able to deviate from the National Transmission Planner forecasts where the TNSPs local knowledge suggested that a revised forecast would be more appropriate. However, in such circumstances, a TNSP would be required to explain why they deviated from the National Transmission Planner's forecast. We understand that AEMO would have no legal right to over-ride a local TNSPs demand forecast. However, by requiring a local TNSP to explain why it has deviated from an AEMO demand forecast, this could help achieve more accurate demand forecasting from TNSPs across the NEM.

Provision of advice

EnergyAustralia supports the National Transmission Planner providing expert advice and planning knowledge to support decision makers such as the Australian Energy Regulator (AER) in relation to revenue regulation and compliance monitoring regarding RIT-T applications.

Last Resort Planning Power

EnergyAustralia supports AEMO taking over the Last Resort Planning Power.

We agree that the National Transmission Planner would be the appropriate body to hold the Last Resort Planning Power. The National Transmission Planner's planning expertise would provide it with the practical experience and knowledge to better discharge this function. In addition, the administrative costs associated with the Last Resort Planning Power could be reduced, since it is more closely aligned with AEMO's core competencies.

2. Enhancing the role of transmission businesses

EnergyAustralia supports enhancing the role of transmission businesses to facilitate increased coordination in network investment and to provide consistency across the NEM.

Cross regional investment

EnergyAustralia supports the introduction of a requirement for improved consultation between TNSPs in preparing Annual Planning Reviews (APRs).

TNSPs would be required to consider whether there were investment options located either wholly or partly in other regions that could address an identified need. These investment options would be identified and developed through consultation with neighbouring TNSPs.

TNSPs would be required to develop guidelines on assessing whether an investment could be met by another TNSP in another area.

Align the regulatory control periods

EnergyAustralia supports the proposal to align TNSPs regulatory control periods.

This would allow the AER to assess all of the regulatory proposals in a much more holistic manner and based on a more consistent level of assumptions. In addition, we agree with the AEMC that aligning revenue resets will allow the AER to facilitate cross regional investment.

Input into the NTNDP

EnergyAustralia agrees that it would be appropriate to enhance the role of TNSPs in providing input into the development of the National Transmission Network Development Plan.

We believe that the NER should be changed to make it compulsory for the informal working group that currently does this to be formally required to provide input on the NTNDP. This would involve TNSP representatives for all jurisdictions, which would comment on, and provide input to, the National Transmission Planner's development and preparation of the National Transmission Network Development Plan.

3. Alleviating AEMO investment decision making role in Victoria

EnergyAustralia agrees that the additional National Transmission Planning functions provided to AEMO would be inconsistent with AEMO's investment decision making role in Victoria.

We support a consistent approach to investment decision making across all TNSPs across the NEM.

TNSPs that own and operate the transmission system are in the best position to make the trade off between capital expenditure and operational expenditure. This ensures that we end up with a more efficient transmission network.

We support the AEMC's conclusion that the South Australian approach to transmission planning is an appropriate basis from which to develop a harmonised NEM wide approach to transmission planning. In addition, we support the implementation of probabilistic planning standards to be applied deterministically NEM wide.

4. Contestable augmentations in Victoria

EnergyAustralia agrees that the additional National Transmission Planning functions provided to AEMO would be inconsistent with AEMO's investment decision making role in Victoria.

Nevertheless, we can see that there are benefits in maintaining the contestable augmentation framework that currently applies in Victoria. Contestable augmentations are defined in the NER as those which are permitted by the laws of the relevant jurisdiction to be provided by more than one NSP on a contestable basis.

We support the procurement of large augmentations in a contestable manner. We believe there are some real benefits to generators from being able to control the construction of these assets. Generators who face the risks of construction can take responsibility for managing these risks if they can oversee and control the project costs and timings of connection assets. Additionally, we believe that control of a connection asset lends itself more to contestability and improved commercial outcomes. On the whole, we consider this to be consistent with the NEO.

Currently, AEMO is required to tender out the construction and operation of augmentations with a capital cost which is reasonably expected to exceed $10 million. The process enables contestable augmentations to be constructed and operated on a competitive basis i.e. to address the monopoly power that the incumbent TNSP would otherwise have with respect to charging for the construction and operation of certain augmentations to its transmission network. In this way, the resultant competitive costs flow through to the charges levied on connected generators for their use of contestable augmentations.

Our preferred model would be that for contestable augmentation, the generator can, for the construction and operation of the augmentation:

- negotiate with the incumbent transmission network owner, or;
- negotiate with a third party to provide the augmentation.

D: Connections

1. Connection services

EnergyAustralia supports the proposed changes to the connection arrangements proposed in the Second Interim Report.

As a major developer of generation in the NEM, we have experienced problems when connecting a generator and negotiating with monopoly TNSPs.

We would welcome a change to the NER that allows us to procure connection services located on the shared network inside the "switching station" in a contestable manner. We believe that there are some real benefits to generators from being able to control the construction of connection assets. Generators who face the risks of construction can take responsibility for managing these risks and can oversee and control the project costs and timings of connection assets. Additionally, we believe that control of a connection asset lends itself more to contestability and improved commercial outcomes. On the whole, we consider this to be consistent with the NEO.

There is no question that enhancing competition in the provision of connection services provides quantifiable benefits. To achieve such benefits it is necessary to have a fully defined framework that clearly states which shared network works qualify as contestable. This can be done by clearly delineating services that are capable of providing distinct services from the bundle of services provided by the incumbent TNSP.

We consider that the following transmission services can be provided as a competitive service (this can include circuit breakers, transformers, additional bus bar extensions, CT/VTs including the complete terminal station civil works that houses these components) and should be offered on a contestable basis. Those parts that may not be contestable include cut-in works, existing tower realignments, dropper lines, security and other communications works and services etc.

Increasing contestability in the transmission sphere has substantial benefits for the market. A framework that opens up contestability to works occurring "inside" the switching station is entirely feasible and desirable. To limit it to "extensions" risks limiting the potential competition benefits because:

- transmission tends towards a natural monopoly and TNSPs can exclude any competitive conduct on any part of their network or aspect of network planning or operations roles; and
- lack of information about network operation and development places connecting parties at a substantial disadvantage when negotiating against a monopoly incumbent TNSP.

Nevertheless, in practice we accept that there could be some problems associated with procuring connection services located inside "switching stations" in a contestable manner. Grid Australia has raised some concerns with regard to the reliability of the transmission system in going down this path. Therefore, if the AEMC decides to reject the contestable model for procuring works inside the "switching station", then generators will be forced to rely on the regulated monopolies to provide connection services as "negotiated services". If this occurs, then we consider that all of the changes proposed by the AEMC that enhance the transparency and the efficiency of connection services that are provided by TNSPs as "negotiated services" to be beneficial to all generators.

We provide more detail on the form of our support in the following section.

Enhancing transparency in the connection process

EnergyAustralia supports the increased transparency of cost and other information to help strengthen a generator's negotiating position.

We agree with the AEMC that generators have little confidence that connections will be provided at a competitive cost, in a timely manner and to efficient scale. Therefore, improved transparency could improve our negotiating position when connecting.

Information to be published

EnergyAustralia supports the proposal for TNSPs to publish more information such as design standards for connection applicants. In addition, we agree that it would be beneficial to connection applicants if the TNSP published the terms and conditions of standard connection contracts.

The standard contract should act as a default option and should be available to all connecting parties.

Information to be provided to connecting party

EnergyAustralia agrees that the level of information that we have received relating to a connection application when connecting generators in the past has contained little or no detail beyond a single cost figure.

In our experience in connecting generators in the NEM, Network Service Providers (NSPs) have failed to provide us with sufficient information on how they derived the cost of connecting our generator. On the whole, we consider that there needs to be more information provided to generators when they connect to the grid. This is especially true for information relating to the costs associated with the connecting generator.

We would welcome more detailed costing breakdowns from TNSPs when we are connecting a new generator. This would make us more comfortable that that connection services priced under the "negotiated services" framework reflect a fair and reasonable price.

Connection parties to have a greater role in the process of tendering for connections

EnergyAustralia supports the increased transparency of cost and other information to help strengthen a generator's negotiating position.

We support the AEMC proposal to amend the NER to explicitly require TNSPs to:

- provide to connection applicants all responses from contractors for the TNSP tender for construction of connection assets.
- provide to connection applicants detailed business cases for their decisions on their choice of contractors.

2. Extensions

EnergyAustralia supports the proposed change to the treatment of extensions that are being proposed in the Second Interim Report.

Connecting party to issue a tender for the provision of an extension

EnergyAustralia supports the proposal to allow a connecting party to issue a tender for the provision of an extension.

A market based approach to dealing with network extensions increases the incentive for a timely and on budget delivery of a connection related service.

A competitive approach to dealing with extensions minimises the level of regulatory intervention and increases the incentives through competitive pressures for innovation and cost reducing measures. This gives the connecting party the opportunity to build, own and operate an extension themselves or procure it from a third party. The flexible arrangements ensure that we end up with a more competitive outcome in the provision of extensions.

TNSP must undertake an extension if requested by a connecting party as a negotiated transmission service

EnergyAustralia supports the proposal that allows a connecting party to mandate a TNSP to provide an extension as a "negotiated service".

A connecting party would have the right to mandate a TNSP to provide the extension via a regulated solution. This would allow it to avoid all of the regulatory "red tape" associated with owning a transmission line.

Generators and third parties that own lines greater than 2 KM

EnergyAustralia supports the proposal that would allow generators and other third parties to own transmission lines that are greater than 2 KM.

Whilst the AEMC has proposed to insert a provision in the National Electricity Law to prohibit a single party from being both a registered generator and a registered TNSP, the Second Interim Report provides that where a generator or a third party proposes to own a transmission line that is longer than 2Km, it can request apply for an exemption from the AER to own and operate the asset.

Third party access

Energy Australia does not support the proposal to allow third party access to extensions.

Where a party chooses to pay for and own an extension, then third party access to that extension should not be automatically assumed. It is our understanding that those generators who have financed an extension have generally had sole use of those extensions. However, as generators locate further away from the grid, these extensions are likely to be larger and consequently more likely that third parties will request access to these extensions in the future.

Where a third party wanted to get access to a market based extension and could not agree to terms with the owner, then it could seek a 'declaration' under Part IIIA of the Consumer & Competition Act 2010.

E: Conclusion

EnergyAustralia supports the work undertaken by the AEMC in the Second Interim Report.

However, at this stage, we consider that that the AEMC needs to do more work in explaining the basic principles that underpin the Optional Firm Access model before we are able to determine whether it will deliver efficient outcomes. Therefore, we would welcome further information on the Optional Firm Access model in order that we can assess the merits of the proposal. In this regard, we consider that it would be prudent for the AEMC to release another Draft Report before making its recommendations to the Standing Council of Energy Resources (SCER).

We thank the AEMC for the opportunity to make this submission. For any questions regarding this submission, please contact Mr. Con Noutso - Regulatory Manager at TRUenergy on Tel: 03 8628 1240

Regards

Signed for email

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