

5 May 2011

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

Via website: www.aemc.gov.au

Dear John,

Scale Efficient Network Extensions, Draft Rule Determination - Submission

Grid Australia welcomes the opportunity to respond to the Draft Determination on the Scale Efficient Network Extensions (SENE) Rule issued by the Australian Energy Market Commission (AEMC) on 10 March 2011. The following comments address both the Draft Rule itself, and the related discussion in the Determination on the arrangements for connecting to a SENE under the current Rules.

Draft Rule

Grid Australia recognises the challenges the AEMC has addressed in reviewing the SENE Rule Change proposal and the extensive consultation process it has followed in developing and reviewing potential SENE options for consideration.

The Draft Rule appears to be an appropriate and proportionate response to the issues raised in the original Rule Change Request. In particular, Grid Australia notes that the Draft Rule creates a new mechanism to undertake specific locational studies to reveal to the market the potential efficiencies of coordinated connection of new generation to the network, as compared with the expected costs of a bilateral approach. Any consequent decision to fund, construct, operate and connect to a SENE would be facilitated within the existing Rules.

Grid Australia supports this approach, on the basis that the Draft Rule does not transfer extra risks to customers, does not unduly add complication to an already complex set of connection arrangements and is consistent with our support for commercially negotiated market-based solutions for the development of network extensions. Grid Australia also supports the referral of a number of wider issues to the AEMC's Transmission Frameworks Review where they can be addressed on a more holistic basis.

Grid Australia offers the following comments of detail on the Draft Rule as made:

- Clause 5.5A.2 requires that the TNSP and requesting party must first agree to the scope, timing and funding of a SENE Design and Costing Study before publishing a notice to seek any relevant information and data from other interested parties. However, it would be expected that information gathered through this process might impact on the scope, timing and cost of the SENE Design and Costing Study. It would therefore be preferable to establish an initial scope for the study with the requesting party and seek initial consultation from other interested parties to refine and settle the scope, timing and cost of the study based on the additional input secured. It is also conceivable that the SENE Design and Costing Study could be funded by more than one party based on the agreed scope.
- *SENE study information* is defined to include data or information provided by a person or NSP for the purposes of a *SENE Design and Costing Study*. *SENE study information* may subsequently be included in the *SENE Design and Costing Study* report published under clause 5.5A.5, excluding any identified *confidential information* provided by an NSP. This permits any interested party to divulge information it considers relevant for the purposes of the study, including subsequent publication. Grid Australia supports this approach as it is open and transparent. To clarify, it would be useful to include a specific reference to *SENE study information* in clauses 5.5A.2(e)(3) and (4) inviting parties to register interest and consent to subsequent disclosure of information for the purposes of the *SENE Design and Costing Study*.
- Given the disclosure arrangements discussed above, and protections for *confidential information* obtained from another NSP, it would appear unnecessary to include reference to National Electricity Rules clause 8.6 in clause 5.5A.6(a)(2). Grid Australia suggests this reference be removed.
- The defined terms *forecast generation scenario*, *Scale Efficient Network Extension*, *SENE Design and Costing Study*, *SENE Study Proponent* and *SENE study information* should be italicised throughout the Rule where used to avoid any potential ambiguity.

Grid Australia would welcome the opportunity to engage further with the AEMC in finalising the drafting of the Rule if that would be of assistance.

Negotiating connections to a SENE

The Draft Rule does not change the existing connections framework, as noted above. The Draft Determination includes a discussion of the possible classification of services provided by a SENE under the existing Rules in Appendix B. Grid Australia also notes the intention of the AEMC to consider issues associated with transmission service definition in the Transmission Frameworks Review. The following comments therefore address the detailed points raised in this discussion.

As noted by the AEMC, the classification of transmission services will be determined on a case by case basis in practice, based on the particular circumstances, and such matters are resolved during the commercial negotiation of each connection. It is therefore difficult to be prescriptive on the classification of services likely to be provided by SENEs.

With this in mind, drawing on the approach adopted by Grid Australia in its Categorisation of Transmission Services Guideline, the AEMC has offered an illustrative example to outline the possible classification of services in the case of:

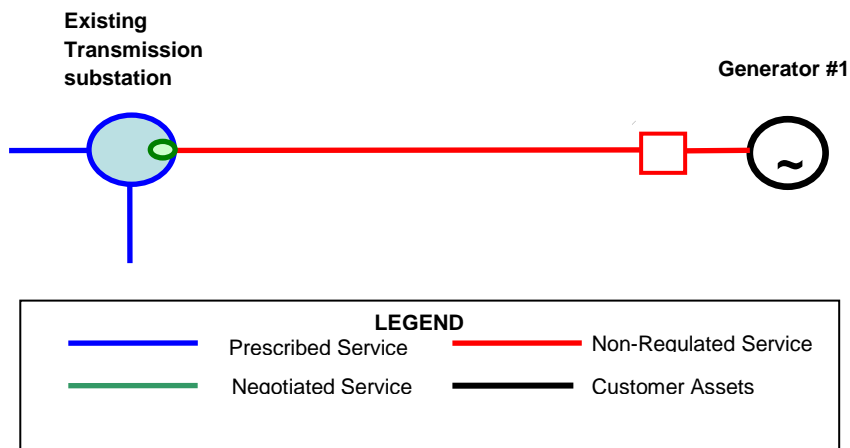
- a single initial generator connection prior to the development of a SENE; and
- a subsequent generator connection following the development of a SENE.

Grid Australia sets out below its understanding of the operation of the SENE framework under these two scenarios, in accordance with the established arrangements for generator connection under the Rules and its Categorisation of Transmission Services Guideline.

Outcome before the SENE is constructed

As illustrated below, an initial generator connection to an existing TNSP network through a new SENE would be developed based on current NER connection arrangements, involving commercial negotiation between the parties.

SENE – Initial Generator Connection



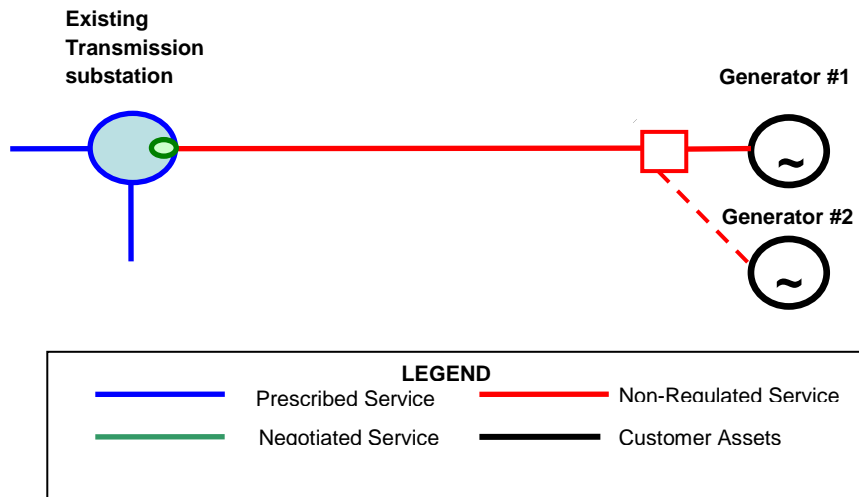
The new SENE required to connect the initial Generator #1 to the existing prescribed network would comprise two separate services:

- (1) Negotiated Transmission Services – the service within the boundary of the existing transmission network at the transmission network connection point is a *negotiated transmission service* (the area shaded in green) provided by connection assets between the existing prescribed transmission network (the area shaded and outlined in blue) and the Non-Regulated connection assets (shown in red).
- (2) Non-Regulated Services – The service provided by the extension beyond the boundary of the existing transmission network and the Negotiated Service (as indicated by the red line) would be:
 - a contestable service (i.e. it could be constructed / owned / operated by the TNSP, the generator or a third party); and
 - developed as a *non-regulated transmission service*.

Outcome once the SENE has been constructed

Any subsequent generator connection to the SENE would be treated on an equivalent commercially negotiated basis. That is, subsequent generator connections to a new SENE would be developed via commercial negotiations between all relevant parties.

SENE – Subsequent Generator Connection



The initial service provided by the SENE would remain as a *non-regulated transmission service*, as the nature of this service has not changed (as indicated by the solid red line above).

Equivalent to Generator #1, the new extension beyond the boundary of the SENE to accommodate Generator #2 (as indicated by the dashed red line) would be:

- a contestable service (i.e. it could be constructed / owned / operated by the TNSP, the generator or a third party); and
- developed as a *non-regulated transmission service*.

Grid Australia disagrees with the characterisation of the services provided to the second generator in the example included in Appendix B to the Draft Determination. Figure B.2 purports to change the service classification of the whole SENE at the time Generator #2 connects. As the non-regulated service to Generator #1 is provided by a SENE then the initial commercial arrangements for that development must, by definition, include provision for connection of subsequent generators to the SENE hub. In these circumstances Grid Australia can see no need for a regulatory mechanism to alter these pre-established non-regulated commercial arrangements.

Instead a portion of the charges payable by Generator #1 for the provision of the established *non-regulated* and *negotiated transmission services* would be reallocated by agreement between Generator #1 and Generator #2 and would commercially reflect the extent that the parties agree that the relevant assets are being used to provide services to each generator. This reallocation process would be determined through commercial negotiation and would therefore require no additional regulatory oversight. The level of access for subsequent generator connections would be the same regardless of the owner/ operator of the SENE, given the access obligations that would be expected to apply.

For any further information required in relation to the comments above, please contact Simon Appleby on (08) 8404 7324 or me on (08) 8404 7983.

Yours sincerely,



Rainer Korte
Chairman
Grid Australia Regulatory Managers Group