

28/01/2016

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

Lodged online via: www.aemc.gov.au

Dear Mr Pierce

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

TransGrid welcomes the opportunity to respond to the AEMC's Consultation Paper on the Transmission Connection and Planning Arrangements rule change request submitted by the COAG Energy Council.

TransGrid is the operator and manager of the high voltage transmission network connecting generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, providing an electricity system that makes interstate energy trading possible.

TransGrid understands that at this stage in its assessment, the AEMC is seeking high level comments from stakeholders on the proposed policy changes and the potential solutions. As such, this submission focuses on the high level themes and principles relevant to the AEMC's consideration of the COAG Energy Council's proposal. TransGrid has also contributed to, and supports, the more detailed submission from the Energy Networks Association in relation to this matter.

Connections to a transmission network are generally bespoke to meet the unique needs of the connecting party, as well as maintaining technical standards and system security requirements of the network. Therefore, transmission network services providers (TNSPs) tend to have a common yet flexible approach to connections. In TransGrid's experience, every generator and load customer seeking to connect to its transmission network has had different commercial drivers and requirements which need to be taken into account in the connection process.

Since the conclusion of the AEMC's Transmission Frameworks Review in 2013, TransGrid has actively improved its approach to engagement with prospective connecting parties, including through its Transmission Annual Planning Report and process improvements for connection

enquiries. TransGrid has received positive feedback from recent connection processes, particularly in terms of the technical expertise it has provided and the timeliness of project delivery.¹

Outlined below are some issues for further consideration by the AEMC in its assessment of this rule changes request.

The National Electricity Objective

TransGrid understands that, at a very high level, the intent of this proposal is to reduce the complexity, cost and time to connect to a transmission network. The process to connect to a transmission network is inherently complex in several ways including technical complexity, contractual complexity and risk complexity. In its consideration of this proposal, the AEMC will need to carefully consider the National Electricity Objective and ensure that any changes are justified, evidence-based and proportionate in addressing an issue with the current regulatory framework.

The allocation of risk and a level playing field

Achieving efficient outcomes requires regulatory certainty and appropriate risk allocation over time. The proposal, if implemented, may result in a shift in the allocation of risk (and therefore the costs associated with that risk) from the construction phase to the operating and maintenance phase. A connecting party is likely to be incentivised to choose the least cost construction solution for itself at that point in time. Even if the construction solution adheres to the overall design standards of the local TNSP, the provider has no obligation or incentive to take into account the risks associated with the ongoing operation and maintenance and replacement/renewal of assets.

Best practice regulation would be to take a life cycle cost approach which includes quantified and monetised risk, costs, opportunities and benefits. A simpler approach to the current proposal would be to extend contestability beyond construction to also include the operation and maintenance of these assets. Furthermore, it may also be prudent to remove the ultimate obligation on a local TNSP to operate and maintain these assets (particularly if it considers that doing so would pose additional risks to its role in managing the network).

In addition, the current proposal does not appear to provide a level playing field for competition between a local TNSP and other potential providers. Under the proposal, a local TNSP is obliged to provide the service as a negotiated service (which is subject to regulation) whereas other providers can tender for it as a contestable (non-regulated) service. In essence, this implicitly requires a local TNSP to be the 'service provider of last resort'.

¹ See TransGrid's case study of the Gullen Range Wind Farm in the Southern Tablelands of NSW, available at: https://www.transgrid.com.au/what-we-do/business-services/Infrastructure/Case%20Studies/Documents/151002_Connecting%20wind%20farmsWEB%202.pdf

Also, while the requirement on local TNSPs to publish design standards and philosophies may assist in providing information ahead of the connection process, the requirement to also publish standard form contracts and indicative cost breakdowns is likely to inhibit the ability of a local TNSP to effectively compete with other providers on a level playing field. It is worth noting that there is no such requirement on companies primarily working in Victoria (where contestability for connections to the transmission network already exists) to disclose indicative cost breakdowns for potential works.

Harmonisation of arrangements across the National Electricity Market

The framework for transmission connection arrangements should endeavour to be as consistent as possible across the National Electricity Market. A consistent set of connection arrangements is likely to provide a level playing field across the National Electricity Market for connecting parties and providers of connection services, which in turn is likely to deliver the most efficient investment decisions across the National Electricity Market.

The AEMC should also consider the differences in how contestability for transmission connections in Victoria is applied as compared with the proposal. In Victoria, contestability applies to the ownership and construction phase, as well as the operation and maintenance phase. While the proposal (in the case of identified user shared assets) seeks to apply contestability only to the ownership and construction phase. As mentioned earlier, TransGrid is concerned that this will place undue risk on the local TNSP in being required to operate and maintain these assets.

Timing of the rule change request

The AEMC has indicated that given the complexity and broad scope of issues covered by the rule change request which affect many areas of the Rules, the standard rule making process may need to be extended. TransGrid supports the AEMC's plan to extend the timeframe for this rule change process.

If you would like to discuss any matter raised in this submission, please contact TransGrid's Regulatory Affairs Manager, Caroline Taylor, on (02) 9284 3715. We look forward to engaging further with the AEMC and other stakeholders on this rule change request.

Yours faithfully,



Greg Garvin

Executive General Manager/ People, Strategy and Stakeholders