

28 January 2016

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

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Dear John

Consultation Paper: Transmission Connection and Planning Arrangements

AusNet Services welcomes the opportunity to make this submission to the AEMC's Consultation Paper on the Energy Council's proposed Rule Change to reform the Transmission Connection and Planning Arrangements.

AusNet Services agrees that additional clarity in the Rules regarding network connections will provide investment certainty to connecting parties and increase the overall efficiency of the connection process. In addition, exposing the provision of connection assets (both generator and network-to-network assets) to competitive forces enables connection applicants to select a service provider whose offer best aligns with the applicant's preferred price, risk allocation and timeframes.

Contestability is a key feature of the unique Victorian transmission planning arrangements. Since these arrangements commenced, the market for the provision of transmission assets has become more competitive. Several service providers now operate as credible alternatives to AusNet Services, the incumbent TNSP. Opening up the market in other jurisdictions is likely to encourage additional service providers to enter, increasing competition and benefitting connecting parties.

As the Victorian experience demonstrates, service reliability and allocation of risk can be adequately managed through contractual arrangements. For this reason, AusNet Services considers that the Rule Change should promote contestability to the extent possible.

Further detail is provided in the attachment. Please contact Charlotte Coster, Principal Economist on 03 9695 6309 with any inquires. We look forward to opportunities to provide further input into this review as it progresses.

Sincerely,



Tom Hallam
Manager Regulation and Network Strategy
AusNet Services

Attachment to AusNet Services' Submission on the Transmission Connections and Planning Rule Change: Consultation Paper

AusNet Services notes that as a 'declared network jurisdiction', to a large extent the proposed Rule Change will not apply in Victoria. However, as the incumbent TNSP in Victoria, where currently all network growth assets which are technically able to be provided by a party other than AusNet Services are deemed 'contestable', AusNet Services can offer a unique perspective on the benefits of contestability and the workability of the proposed arrangements.

Benefits of Contestability

AusNet Services agrees with the Council that clarifying the NER to enhance the contestability of connection assets is likely to improve the efficiency of connection processes. Formalising a connection applicant's ability to engage alternative service providers to the incumbent TNSP will expose the construction, operation and maintenance of the asset to competitive pressures. This will encourage parties to offer lower cost and more timely options. In the absence of economic regulation governing these connections, a greater degree of flexibility in allocating risks between the parties can be provided.

The application of economic regulation is appropriate to protect stakeholders from market power. Where there is a market however, it is appropriate (as a first best solution) for the competitive market to be the means of reaching efficient outcomes. The role for regulation in this context is diminished.

Over the last few years, an increasing number of service providers have bid for, and won, connection assets in various jurisdictions. This demonstrates that there is an active, competitive market for the supply and operation of transmission assets, negating the need for regulation to provide a 'fallback' option. Therefore, the ability for a connecting applicant to require the local TNSP to provide 'Identified Shared User' connection assets as a negotiated service (proposed by the Energy Council) is not required.

Victorian Experience

Contestability has been a key feature of the Victorian transmission arrangements for many years. While the Rule Change proposal is a step towards national consistency, it does not advance contestability to the degree with which it is present in the Victorian framework. In Victoria, all connection and augmentation assets with a capital cost of greater than \$10m and deemed by AEMO to be 'separable' i.e. able to be constructed and operated by a party other than the incumbent TNSP, are contestable. Network-to-network connection asset augmentations are planned by the relevant DNSP and, in this case, AEMO ran the tender process for these assets. A recent example of this is the new Deer Park Terminal Station, built to connect Powercor's and Jemena's distribution networks to AusNet Services' transmission network. This was bid for, and ultimately won by, a service provider other than the local DNSP or TNSP.

Contestability in the Victorian context is underpinned by numerous contracts that clearly set out the roles and responsibilities of various parties. These have ensured that AusNet Services continues to provide safe, reliable and efficient transmission services. This is demonstrated through AusNet Services' historically strong reliability performance.

AusNet Services considers that, if implemented, the Energy Council's proposed Rule Change would result in an improvement compared with the current arrangements. However, the scope of contestability could be expanded to capture the potential benefits.

Proposed Scope of Contestability

It is recognised that the roles and responsibilities of different parties (including AEMO) in Victoria provide the best framework in which contestability can occur. The scope of contestability may be constrained by the framework in other jurisdictions. AusNet Services considers that the Rule Change should enable contestability to the extent possible, given these practical limitations.

A further consideration in assessing whether a service can be contestable is whether it is technically possible for a third party to construct, own, operate and control these assets (i.e., whether the service is separable). A technical assessment of separability will need to consider the following factors:

- Whether the asset providing the service is physically separable from the shared network;
- Whether the asset is operationally separable from the shared network; and
- Whether access to and operation of the assets is able to be carried out in a way which is safe.

Where the above considerations are satisfied, AusNet Services considers the Rule Change should open up the following to contestability:

- Operation and maintenance of 'Identified Shared User Assets';
- Connection assets built in existing prescribed stations; and
- Distribution connection assets.

This proposal is outlined in more detail below.

Operation and maintenance of 'Identified User Shared Assets'

The Energy Council proposes that the local TNSP is required to operate and maintain 'Identified Shared User' assets. This proposal is not consistent with the current Victorian framework where these assets can be operated and maintained by any suitably licensed party. As an example, this could be the construction of a new sub-station. Where practicable, AusNet Services considers that the operation, maintenance and control of the sub-station should also be contestable. This would have the following advantages:

- Contestability is extended beyond the tendering out of construction currently conducted by TNSPs.
- A more efficient allocation of risk is made. The local TNSP would not have to operate and maintain unfamiliar assets, which could require it to procure different skill sets and additional spare parts to provide this service to a suitable standard. Requiring the local TNSP to provide this service also exposes it to additional reliability risks that it could find costly to manage. Instead, it is proposed that the contestable service should be the provision of an on-going network service required by the proponent, and hence include responsibility for supply of the infrastructure and on-going operating and maintenance. The connection agreement with the local TNSP would include accountabilities and liability provisions relating to impact on the safety, security and reliability of the shared network.

- It would encourage the connection applicant to consider the whole-of-lifecycle costs when selecting its connection assets, and not to focus solely on the up-front construction cost.
- The contractual arrangements governing the connection would be simplified where the connection applicant has the option to engage a single party to construct, own, operate, control and maintain its connection assets (both its Dedicated Connection Assets and Identified Shared User Assets). This will streamline the process for the connection applicant.

As operating, maintaining and controlling transmission assets requires specific expertise, it would not be appropriate to exempt these parties from registering with AEMO. For this reason, AusNet Services considers that the owners and operators of these assets should be required to register with AEMO under Chapter 5 of the NER. In addition, it is anticipated that authorisations which recognise the specific expertise required to provide and operate transmission assets would be necessary.

If the assets are only used by a single party, it would be unduly burdensome for economic regulation under Chapter 6A to apply. It is, however, noted that if another connecting party, or parties, wanted to utilise the established connection asset, then there may be a case for the original connecting party to be subject to economic regulation under Chapter 6A of the NER.

Given AusNet Services' proposals to:

- Remove the fallback option whereby a connection applicant can elect to engage the local TNSP to construct and own Identified User Shared Assets as a negotiated services, and
- Enable the operation, maintenance and control of the assets to be contestable,

there is no longer a need to distinguish between 'Identified User Shared Assets' and 'Dedicated Connection Assets'. A single category covering both these asset categories would greatly simplify the proposed Rule Change.

Connection assets built in existing prescribed sub-stations

In some circumstances it may be most efficient to expand an existing station when connecting to the network. For example, a new bus bar may be built, or a new connection may be made onto an existing bus bar. In either case, the construction, ownership, operation and maintenance of assets up to the point of separability (e.g. the first circuit breaker) may feasibly be contestable.

Third party access to established terminal stations of the incumbent TNSP and the liabilities associated with any impact of the connection on the shared network (i.e. reliability) can be governed via contractual agreements made between the parties, or even physically separated from other terminal station assets. There are precedents for these circumstances in Victoria, where third parties own and/or operate, control and maintain assets within the boundaries of AusNet Services' terminal stations.

For example, the capacitor banks owned and operated by TransGrid at AusNet Services' Dederang Terminal Station are located within the bounds of AusNet Services terminal station and connect to the terminal station bus. They are physically fenced off from other terminal station assets and access is provided to the enclosure.

Distribution connection assets

A new distribution connection asset (such as a terminal station) required to enable a DNSP to serve load in different geographical locations may also be contestable. Due to the high cost of

a new terminal station, it is appropriate that a contestable process is run for the construction and ownership of these assets.

As is described above, in Victoria AEMO has administered tender processes once the need for the new connection has been identified by the DNSP(s). However, it is recognised that this may be limited by the allocation of responsibilities between the parties in other jurisdictions, where AEMO has more limited responsibilities regarding network connections. A workable solution could be for AEMO to administer the tender process for a new network-to-network connection service if the local DNSP or TNSP is interested in supplying the service. This will warrant further consideration as the Rule Change process progresses.

AusNet Services' position on this matter departs from that expressed in the ENA's submission.

AER's Service Target Performance Incentive Scheme

AusNet Services' encourages the AEMC to use this opportunity to review whether the AER's STPIS promotes a level playing field in contestability. The current application of the scheme exposes the incumbent TNSP (i.e. AusNet Services) to penalties where its contestably-won assets lead to reliability incidents on the shared network, while assets won by other parties are exempt. Therefore, the risk of incurring a penalty for reliability under the STPIS must be priced in to tenders submitted by AusNet Services, but not by other parties. This disadvantages AusNet Services in tender processes. To ensure a level playing field exists, the treatment of reliability incidents under the STPIS should be neutral to the ownership of the asset. Either a penalty should be incurred in all circumstances (and passed on to the contestable asset's owner where this is not AusNet Services), or the incident should be exempt in all circumstances.

To ensure that a level playing field is established, and the maximum benefits of contestability are achieved, AusNet Services proposes that an additional Service Target Performance Incentive Scheme principle should be introduced to NER 6A.7.4 to require the AER to have regard to the impact of the STPIS on promoting contestability where relevant.

Planning Processes

Given AEMO is responsible for augmentation of the transmission network in Victoria, AusNet Services has not commented on the aspects of the Rule Change proposal associated with modification to planning processes. As the party responsible for planning transmission network replacements, AusNet Services will continue to work closely with AEMO to maximise synergies between replacement and augmentation works, including any inter-regional investment opportunities.