



24 January 2017

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

Dear Mr Pierce

### **ERC0192: Transmission Connection and Planning Arrangements Draft Determination**

Transmission General Holdings (Australia) Pty Ltd (**TGHA**) welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) draft determination relating to transmission connection and planning arrangements.

TGHA is a Transmission Network Service Provider (**TNSP**) providing competition in the provision of transmission connection services in Victoria. TGHA has provided a commercial alternative to the incumbent TNSP and delivered cost efficient and reliable transmission services for our customers. TransGrid has also competed for transmission connection services in Victoria and has been selected to build, own and operate the Deer Park Terminal Station. The success of the current Victorian contestability model demonstrates that such competition is in the long term interests of consumers.

### **Background**

TGHA is the parent company of two subsidiaries that have been contracted to build, own and operate contestable transmission connections in Victoria. TGHA encompasses Transmission Operations (Australia) Pty Ltd (**TOA**), and Transmission Operations (Australia) 2 Pty Ltd (**TOA2**).

TOA constructed, owns, operates and maintains the connection for the Mt Mercer Wind Farm which was commissioned in late 2013. The connection involved the establishment of the Elaine Terminal Station and a 132kV power line from the windfarm to the terminal station. The transmission connection of the Mt Mercer wind farm was constructed on time and is operating with a very high level of reliability.

In 2014, the Mt Mercer Wind Farm achieved full operational capacity allowing TOA to transmit 415 GWh of electricity. TOA received a high commendation award from the Australian Institute of Project Management for the Elaine Terminal Station project.

TOA2 constructed, owns, operates and maintains the connection for the Ararat Wind Farm, which was commissioned in 2016. The connection involved the establishment of the Ararat Terminal Station and a 132kV power line from the windfarm to the terminal station. The transmission connection was delivered ahead of time.

**Transmission Operations (Australia) 2 Pty Ltd**

40 Market Street Melbourne VIC 3000

ACN 605 734 129 ABN 34 605 734 129

## Model A fails to promote competition

The draft determination prefers Model A for jurisdictions other than Victoria/where AEMO is authorised to exercise its declared network functions. This proposed model allows for full contestability of the management of 'dedicated connection assets' and only partial contestability of the management of 'identified user shared assets (**the asset**)' – namely contestability in detailed design, construction and ownership of the asset, while high-level design and operation and maintenance (**O&M**) of the asset remain the responsibility of the incumbent TNSP.

In AEMC's view, under Model A, the full accountability of the performance of the shared network and shared assets remains with the incumbent TNSP. The AEMC indicated in the draft determination that it has not considered any model where accountability can be divided, as the regulatory framework under the National Electricity Law (**NEL**), the National Electricity Rules (**NER**) and jurisdictional licensing regimes does not currently allow for the responsibility of the shared network to be divided between multiple owners or operators.

However, TGHA's assessment is that Model A fails to promote competition in transmission connection and fails to address the very need for the rule change – improving the cost effectiveness, transparency and timeliness of the connections, while providing connecting parties with bargaining power to negotiate a better connection process or outcome. The main characteristics of Model A that dissuade competition are as follows:

- *Contestable TNSPs are unable to manage their assets' performance.* Asset performance is determined by the combination of all asset management elements: design, construction and O&M. If an asset owner is not in complete control of managing their assets over commercial lifetime, investment returns are exposed to significant risks through ambiguity in the allocation of liabilities associated with service provision and inability to negotiate with connecting parties without full accountability for the performance of the assets. This aspect of the rule goes against the typical business model of the contestable TNSP and **TGHA considers that it would not be viable to invest in a market where full accountability for the performance of the assets is not possible.**
- *Incumbent TNSPs' risk exposure increases if they are fully accountable for the performance of the assets but have not managed design and construction, leading to higher costs.* In order to take on the full accountability of the performance of the assets they do not own, the incumbent TNSP will need to develop mechanism to mitigate the associated risk. In doing so, the incumbent will be able to take an extremely conservative risk position and impose onerous O&M requirements on the connecting party, without bearing any of the associated cost. The cost of the increased risk and onerous O&M would be passed on to the connecting party, **and would ultimately lead to higher costs to all consumers.**
- *Engaging an independent engineer may prove too costly and time-consuming.* If the incumbent TNSP is responsible for the performance of the assets that are constructed and owned by other parties, there is an increased likelihood of a dispute over the functional specification set by the incumbent TNSP. The dispute is likely to be caused by the functional specification being or perceived to be more onerous than is needed in order to provide the incumbent with negligible risk associated with the

performance of the assets. While the engagement of an independent engineer will assist in solving the issues that arise, the cost and time associated with the same may prove to be unprofitable. Given that connecting parties' profits are maximised on timeliness of operations, they may accept non-preferable competition-distorting conditions, without engaging the independent engineer, in order to minimise the risk of delay. It is also noted that incumbent TNSP is not bound to accept the functional specification determined by the independent engineer.

- *Standardisation of information.* Standardisation of the information provided in Annual Planning Reports can lead to a generic approach to connections, which could limit innovation. There is little benefit to connection applicants from the publication of generic information such as design standards and philosophies. TGHA has been able to innovate in design of its two projects in Victoria without relying on information provided by the incumbent TNSP.

### **Model B and Victorian experience**

As mentioned in the previous submission, TGHA strongly supports Model B as it effectively replicates the Victorian arrangements which are operating successfully. The main characteristics of Victorian arrangements that promote contestability are as follows:

- *Cost efficiency.* Cost efficiency is only achieved by optimising the combination of all asset management elements: design, construction and O&M. TGHA has improved cost efficiency of its two projects in Victoria through innovation in the four stages of asset management, and continues to find innovative solutions for new planned projects. This would not be possible if the incumbent TNSP was responsible for the O&M services and passing on the higher cost of associated risk.
- *Service timeliness.* Efficiency in delivery time is commercially advantageous for generators with earnings on investment commencing earlier. Due to the ability to negotiate with the connecting party on the full spectrum of asset management services, TGHA was able to deliver its projects in Victoria either on time or ahead of time, improving the expected standard of delivery for connecting parties.
- *Reliability, safety and security of shared assets.* Victorian arrangements show that contestable TNSPs can provide reliable, safe and secure transmission connection services with full accountability of the performance of their assets, from design to construction, ownership and O&M. This is achievable through the following arrangements:
  - *Contracts* - In Victoria, AEMO is singularly accountable for the reliability of the shared transmission network. However, AEMO passes this responsibility to declared transmission system operators (**DTSOs**) via contractual arrangements. Contractual negotiations process can be complex in terms of risk allocation; however, contracts' burden is easing over time, with experience. AEMO is currently proposing to replace the reliance on contracts by a regulatory framework that would enable AEMO to enforce its network planning, performance and service requirements thereby removing it from being an integral party in the contracts.
  - *Licensing* – all TNSPs in Victoria are licenced and regulated under the same rules and compliance requirements as the incumbent. Non-compliance with the

standards can lead to loss of licence with severe financial penalties, for both contestable and incumbent TNSPs.

- *Incentives* – all TNSPs in Victoria are incentivised to provide a safe and reliable service within contracts with AEMO, and are also financially incentivised from the generators to maximise the availability of the connection to the generator.
- *Technical regulation* – the Victorian safety regulator, Energy Safe Victoria (**ESV**) requires and regularly monitors high levels of safety in all transmission services.
- *Contestability in additional connection to connection assets.* In situations where an additional connecting party wishes to connect to assets owned and operated by a contestable TNSP, the existing rules are fully transferrable. If the additional asset requirements are over \$10 million, functional specifications are determined by AEMO and all TNSPs can compete for the connection of the additional party.

TGHA recognises that the Victorian framework will not be replicated in other states; however, responsibilities similar to those of AEMO in Victoria can be applicable to the incumbent TNSP under Model B. The incumbent can remain to be the only planner of the network and provide functional specifications for the required connection, albeit passing on the responsibility of reliability of asset management to the contestable TNSPs through contracts.

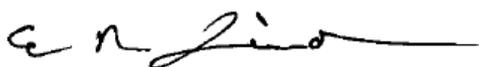
TGHA also recognises that these changes would require the NER to be amended as well as an introduction of new licensing provisions in some jurisdictions, in order to have full contestability in the management of identified user shared assets (with the exception of setting the functional specification and providing cut-in works). TGHA is firmly of the view that the benefits of contestability and the consequent overall long-term benefit to consumers will outweigh the short-term costs to make modifications to legislation and regulation.

### **Victoria should not adopt Model A**

TGHA welcomes AEMC's recommendation that Victorian arrangements should not be amended under the preferred rule change. As Victorian arrangements are operating successfully at facilitating competition, and are improving over time, any changes in the short- or long-term could lead to lack of certainty, efficiency losses, operational setbacks and ultimately larger costs to consumers.

If you have any questions in relation to this submission, please contact Sonja Lekovic on 03 9683 4784 at first instance.

Yours sincerely



Eric Lindner  
Chief Executive Officer