



EnergyAustralia

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Mr John Pierce
Mr Neville Henderson
Dr Brian Spalding
Australian Energy Market Commission

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

Dear Commissioners

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AEMC 2016, Transmission Connection and Planning Arrangements, Discussion paper, 26 May 2016

We are one of Australia's largest energy companies with over 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market.

We thank the Australian Energy Market Commission (the Commission) for their work in developing a thorough yet accessible report and the opportunity to provide feedback. The issues are well-described and our concerns are accurately represented. The Commission's proposed changes have largely been well-justified in the Discussion paper. The clarifications and definitions are welcome and should reduce uncertainty in negotiations and provide registered participants with a common understanding of the connection process.

Our key points relate to:

- general support to changes to the connection framework;
- further investigation into third-party access to dedicated connection assets, and
- our support for increased boundaries of contestability for Identified User Shared Assets.

General support for amendments

We endorse the proposed changes to the National Electricity Rules (NER) transmission connections framework including clarifications, transparency requirements, negotiating principles, and ability to engage an independent engineer. In particular we support:

- The proposed transparency requirements set out the minimum information that must be provided. This would be expected to be provided in a competitive market setting.

- Codification of the negotiating principles for prescribed services into the NER should improve the consistency across Transmission Network Service Providers (TNSP) with only limited adjustment required to current arrangements.
- A clearly defined process for engaging an independent engineer will allow parties to pursue this avenue without fear of significant delay to a connection.

Third party access to dedicated connection assets

We support the introduction of the defined term 'dedicated connection asset' and the provision of related services under full contestability. The case has also been made for the creation of a new sub-category of registration in the NER for owners of these assets. Under the proposal, registration would include obligations to provide third-party access.

We consider that third-party access and transitions to the shared network could be negotiated on a strictly commercial basis. We understand the Commission opposes this on the basis that guaranteed access and a negotiating framework are both necessary given the increased likelihood of these assets being shared:

"the development of the network is changing. Generators may, in future, locate further away from the existing shared network, e.g., wind-powered generators locating around favourable wind resources. Such connections are likely to require longer dedicated connection assets and are consequently more likely to provide options for other users wishing to gain access to the transmission network."¹

The above statement by the Commission indicates that dedicated connection assets may account for an increasing proportion of capital expenditure of a project. Our concern is that over-regulation of access and transition of dedicated assets to the shared network may introduce unnecessary uncertainty to the business case of a new connection. In isolation, the principle of no degradation to the service of the existing party may be a low standard that may still advantage second-movers over the initial connecting party (for example deteriorated loss factors, or less firm access under some conditions that were not envisaged) and therefore indirectly inhibit timely and efficient investment in generation. We would like to see this issue investigated further by the Commission before supporting either option, particularly how the principle of 'no degradation of service' can be realised in practice.

The Commission has outlined² that dedicated connection assets will transition to the shared network in two circumstances only:

1. where a Distribution Network Service Provider (DNSP) connects to the dedicated connection asset; or
2. where a TNSP is augmenting the existing shared network to facilitate additional capacity, and the most efficient option would be to utilise the dedicated connection asset (as identified in a Regulatory investment test for transmission (RIT-T) assessment).

If the Commission maintains that this transition would not occur by commercial negotiation, provisions must be made for connecting parties to be adequately compensated. Not only must the original owner be able to 'negotiate for a fair and reasonable price for the asset', but they also must be compensated for degradation of service - including during construction - and any additional expenses such as metering reconfiguration.

¹ AEMC 2016, Transmission Connection and Planning Arrangements, Discussion paper, 26 May 2016

² Ibid.

Support for contestability for Identified User Shared Assets

In our submission³ to the *Transmission Connection and Planning Arrangements Consultation Paper* we advocated for the introduction of contestability into additional services beyond those considered in the rule change request. Our position is that although construction and financing represent a significant portion of connection costs, effective competition in these services is limited due to the responsibility for commissioning, maintenance, and operation remaining with the incumbent TNSP. In order for third-parties to be competitive, they must be able to offer an integrated and complete service.

The Commission has outlined two distinct models for Identified User Shared Assets: Model A, the rule change request; and Model B, increased contestability with TNSP accountability. We thank the Commission for its consideration of our position reflected in Model B, and the work done in the Discussion Paper to expand on details and consequences from increasing the boundaries of contestability.

Complexities exist in both models but these do not appear to be a significant barrier to effective competition. Regulation should not be the default option for policy makers. The concerns put forward by the Commission do not meet the hurdle for justification of additional regulation, especially given the near consensus among generators and TNSPs for increased boundaries of contestability. Generators are seeing little benefit from the current regulated model as it stands.

If you would like to discuss this submission, please contact me on (03) 8628 4518.

Regards

Ben Hayward

Industry Regulation Analyst

³ <http://www.aemc.gov.au/getattachment/13ae07bd-6caa-4f7a-a8aa-80b04c1c827e/Energy-Australia.aspx>