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Dear John

Discussion Paper: Transmission Connection and Planning Arrangements

AusNet Services welcomes the opportunity to make this submission to the AEMC's Discussion Paper on the Energy Council's proposed Rule Change to reform the Transmission Connection and Planning Arrangements. AusNet Services supports contestability in transmission connections to the maximum extent practicable. To this end, we welcome the AEMC's conclusion that the incumbent TNSP should not be required to provide dedicated connection assets as a negotiated service, as a deep enough market exists for these assets to be provided on a contestable basis.

Contestability is a key feature of the Victorian transmission connections framework, which has approximately 20 years of history and experience and a growing level of maturity. Many of the accountability issues foreshadowed in the AEMC's Discussion Paper regarding the contestability of identified user shared assets have not proven to be problematic in Victoria. This demonstrates that appropriate safeguards are available to allow the shared network to function reliably and accountably in the presence of a high degree of contestability. While there is complexity involved in the negotiations that underpin contestable connections (which varies appropriately depending on the nature and location of the connection), as a result of experience, contractual arrangements have reduced significantly over time for the benefit of all stakeholders. However, a degree of complexity is inevitable given the importance of ensuring the reliability, security and safety of the shared transmission network.

For connecting parties to realise benefits from contestability, it is essential that the full scope of the connection service, including the high level and detailed design, operations and maintenance of shared network assets, is opened up to contestability. This approach will promote innovation and ensure that whole-of-lifecycle costs are taken into account by connecting parties

AusNet Services supports the ENA's submission to the Discussion Paper, and would welcome further discussions with the AEMC to identify ways in which concerns raised about shared network accountability, and various implementation issues, can be resolved. Based on the Victorian experience, AusNet Services considers that appropriate solutions exist.

Further detail is provided in the attachment. Please contact Charlotte Eddy, Principal Economist on 03 9695 6309 with any inquiries. We look forward to opportunities to continue to provide input into the Rule Change process as it progresses.

Sincerely,



Kelvin Gebert
Regulatory Frameworks Manager

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

The attachment provides additional detail on AusNet Services' submission.

The Scope of Contestability

AusNet Services agrees with the AEMC's overarching assessment criteria regarding the desirability of services being provided on a contestable basis. That is, the AEMC considers which of its proposed models best:

- *improve[s] outcomes for connecting parties with regard to the transparency, timeliness, cost and complexity of connections to the transmission network; and*
- *maintain[s] clear accountability for outcomes on the shared transmission network¹.*

However, AusNet Services does not consider that maintaining clear accountability for outcomes on the shared transmission network limits the scope of services that can be deemed contestable. Clear accountability can be assured through the contractual arrangements which allocate risks and responsibilities between parties. Entering into contractual arrangements that set out how the risks and responsibilities will apply to the identified user shared assets provides the framework whereby the incumbent TNSP is able to ensure responsibilities for shared transmission network outcomes are fully assigned and managed commensurate with the risks. The incumbent TNSP would be able to contract with the connecting party to manage this accountability, in the way that AEMO does in Victoria. The contracts could (and in Victoria, do) cover aspects such as how connecting parties will be exposed to reliability penalties, such as those under the AER's Service Target Performance Incentive Scheme, the process for investigating and allocating responsibility following a fault and the responsible party were the connecting party to become bankrupt.

The Discussion Paper does not explicitly address whether contractual arrangements are perceived to have limitations in their ability to provide an effective safeguard for end use consumers reliant on the shared network. AusNet Services is not aware of any explicit examples of adverse shared network outcomes as a result of full contestability (including construction, ownership, operation and maintenance) of connection assets.

The AEMC's Discussion Paper outlines two models for the provision of services related to identified user shared assets – Model A and Model B. The key features of these models are summarised in the Table below.

Service	Model A	Model B
Setting the functional specification (including performance standards)	Not contestable. Incumbent TNSP provides as a negotiated service.	Not contestable. Incumbent TNSP provides as a negotiated service.
High-level design		Contestable
Cut-in works		Not contestable. Incumbent TNSP provides as a negotiated service.

¹ AEMC, *Discussion Paper – Transmission Connection and Planning Arrangements Rule Change*, page iii

Construction	Contestable	Contestable
Ownership	Contestable	Contestable
Operation	Not contestable. Incumbent TNSP provides as a negotiated service.	Contestable
Maintenance		Contestable

The main difference between Models A and B is the scope of contestability, namely whether high level design, operations and maintenance are deemed contestable, unregulated services, or negotiated, regulated services. We reiterate our position that, to realise the benefits of contestability, these services should be fully contestable. The reasons for this are outlined below.

- **High level design** – The contestability of high level design is a key means by which the benefits of contestability can be realised. If the high level design were determined by the incumbent TNSP, it is not clear that contestable construction would have any additional benefit over and above the existing situation, where TNSPs seek competitive quotes for the construction of assets from service providers.

Encouraging competition in the way functional and performance specifications can be achieved encourages innovation, as parties compete to provide the best value solution for connecting parties. As the models are being assessed against whether they improve outcomes for connecting parties, this should be a primary consideration when considering whether high level design should be contestable.

To demonstrate the value that has been generated by contestability of design, AusNet Services has been able to offer competitive solutions to connecting parties that in the past included a design that halved the footprint of the new substation, compared to a standard design. In another instance, it reduced the switching configuration to reflect the generator's preferred redundancy risk position. This did not impact on the security of the shared network but reduced the price of connection.

The functional requirements set by the incumbent TNSP will set out the technical and performance specifications of the assets to avoid detriment to the shared network. There is no compelling need for an additional specification of the high level design.

- **Operations and maintenance** – If the operation and maintenance of the shared assets is not contestable, the connecting party will have no incentive to consider the whole-of-lifecycle costs in establishing the connection. For example, the lowest capital cost project may come with the highest on-going asset management costs. The trade-off can only be captured in a lifecycle assessment of options, i.e. where bidders submit offers where they are accountable for the full network service.

It also means that the connecting party would have no choice but to contract the incumbent TNSP for these services, which would leave it with fewer options than if it had a wider pool of providers to choose from. Enabling the design, construction, operation and maintenance of identified user shared assets to be provided by a single, competitive provider will maximise the efficiency of the connections process as all of these aspects can be covered in a single agreement, without the connecting party needing to undertake a separate negotiating process with the incumbent TNSP for operation and maintenance alone. It also allows for the optimal lifecycle cost to be considered by the project proponent.

In addition, if the TNSP is required to operate and maintain identified shared user assets, it is not clear which party is responsible for deciding whether to, and pay for, the replacement

of these assets. If it is the incumbent TNSP that is responsible for replacement, will the connecting party be automatically liable for the cost of this, and be willing to accept ownership of the asset? While transferring responsibility for operations and maintenance to the incumbent TNSP may appear to resolve some issues, it creates others. It is not clear that requiring operations and maintenance to be provided by the incumbent TNSP will better provide clear accountabilities for shared network outcomes.

In addition, as under Model B, the operators of the identified user shared assets are required to be registered as a TNSP, they will be subject to the relevant obligations of the NER which relate to the safe, reliable and secure operation of the transmission system. This provides assurance that shared network performance will be upheld where operation and maintenance is provided by a party other than the incumbent TNSP.

The Discussion Paper considers the matter of whether contestability addresses the perceived power imbalance between the connecting party and the incumbent TNSP². The AEMC suggests that Model B will not necessarily redress the imbalance, as, because the incumbent TNSP remains responsible for the performance of identified shared user assets, it will seek to have more control over the design and operation of the assets. However, the NER can clearly define the responsibilities and obligations of the incumbent TNSP and the connecting party; it is the incumbent TNSP that would provide the functional requirements, while the connecting party would run a tender process against this. However, AusNet Services considers that, if the incumbent TNSP is able to manage its risk through contracts, it would not be in its interests, including its good faith participation in the process, to exert further and undue influence. If an imbalance is perceived to have created a non-intended outcome that is unjustified (for example, if the functional requirements were perceived to be unduly stringent), the dispute resolution process will address this.

The requirement for parties operating and maintaining the shared network assets to register also means that it would be subject to the requirements of Schedule 5 of the NER in relation to ensuring the reliability, safety and security of the shared network. There would be very clear obligations on it to ensure the assets are fit for purpose. This should provide the incumbent TNSP comfort that there will be no undue detriment to the shared network. In any event, the incumbent planner in each state will continue to set functional requirements that must be met by connecting parties that protect the integrity of the network.

Moreover, under Model A there is far more likely to be a power imbalance between the incumbent TNSP and the connecting party. The wider the scope of connection services that are required to be provided on a regulated basis, the greater the involvement and influence of the incumbent TNSP. As the issue of power imbalance was a major driver of the original rule change proposal, this should be a primary factor of consideration when choosing between the two models.

AusNet Services supports the ENA submission in welcoming further discussion with the AEMC about how clear accountabilities for shared network outcomes can be maintained under Model B.

The Bounds of Contestability

In Victoria, AEMO has some discretion in determining whether or not a service can be deemed to be contestable. Specifically, contestability is limited to circumstances where:

² AEMC, *Discussion Paper – Transmission Connection and Planning Arrangements Rule Change*, page 55

- Expected capital cost is greater than \$10m; and
- A distinct and definable (or separable) service will be provided.

Introducing these criteria, which are equally applicable to both Models A and B, would help to avoid a disproportionate administrative burden of contestability of minor projects. It also ensures consistency with the arrangements in Victoria.

Whether or not contestability arrangements should apply equally to connections into existing, as well as into new, substations has been discussed during the consultation process. AusNet Services considers that the principles governing whether or not a service would be contestable apply equally in both types of connection. Therefore, there does not appear to be a good reason why contestability should not be extended to existing substations. There may be an incremental level of complexity in connections into existing substations due to the need to agree access to the facilities and potentially lease space from the substation owner. Additional complexity due to the inclusion of another party cannot be avoided as the pre-existing generator must be party to negotiations whether or not contestability applies. The application of the thresholds, proposed above, will help avoid additional complexity where there may be no corresponding payoff.

Complexity of Contestable Connections in Victoria

In light of concerns raised about the potential complexity and time spent negotiating connection (whether or not there is contestability), in AusNet Services' experience the management of complex situations has improved with experience, as parties have become more familiar with the process and are able to find innovative ways to streamline processes.

For example, in 2009, one particular generator connection required 27 individual contracts to connect to the Victorian transmission network. Today, as few as three contracts would be required. The competitive landscape in Victoria has been a key driver of this outcome and will continue to drive the reduction of complexity.

If contestable service provision for proponent initiated network augmentation is standardised in the NER, it can be expected that there is every opportunity for processes to improve further. It is the likely complexity that will eventuate in the longer-term, following an inevitable learning process, that should be considered in assessing this Rule Change proposal. The pace of evolution of the Victorian connections arrangements implies that significant steps could be taken to reduce the perceived degree of complexity of either of the models presented by the AEMC.