



Session 3: Connections

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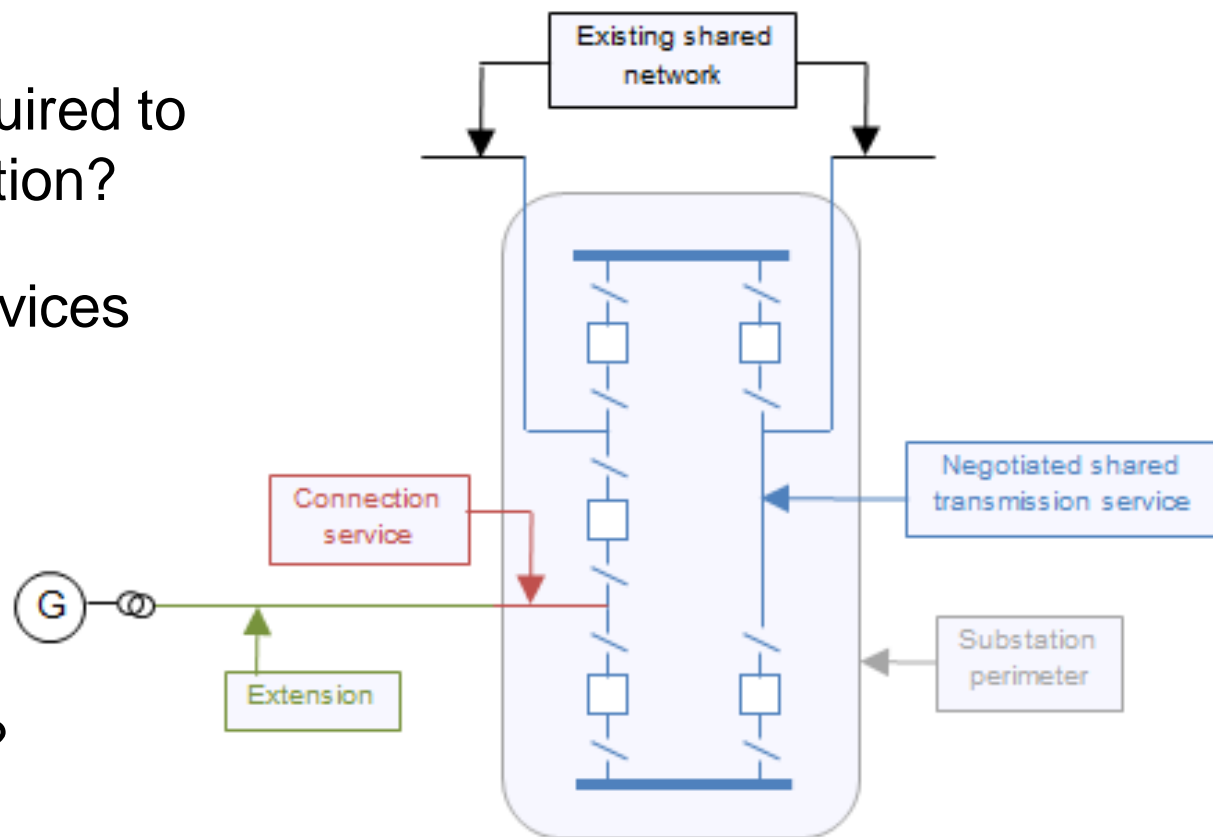
Connections – overview

- This session is divided into 3 parts:
 - what is the problem?
 - which services should be regulated?
 - where it is necessary, how should services be regulated?



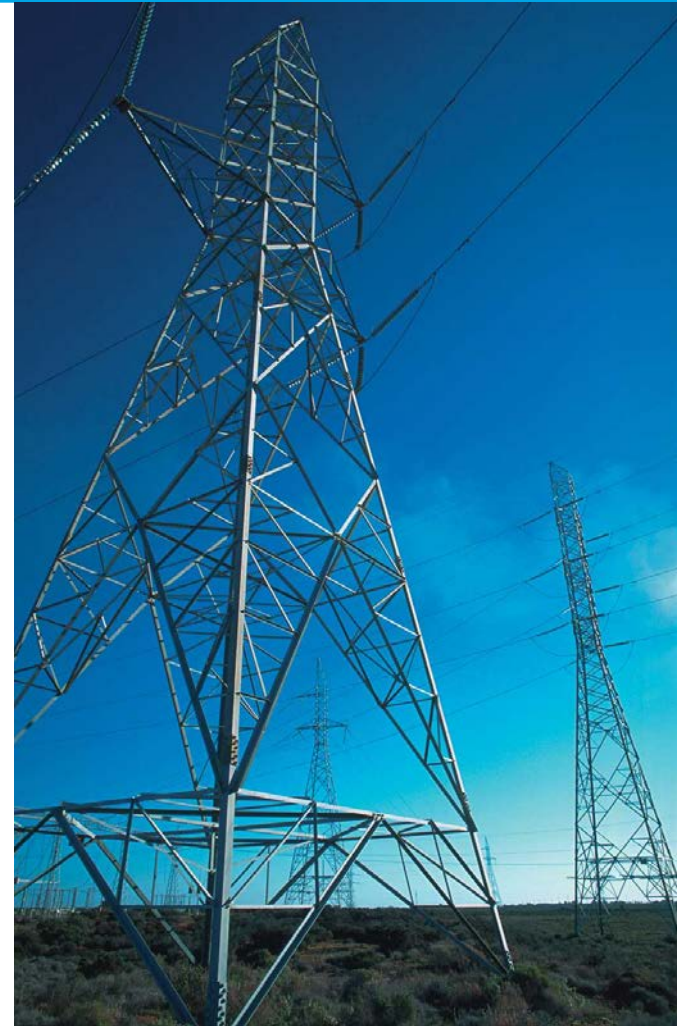
What is the problem?

- What services required to facilitate a connection?
- How are those services regulated?
 - Pricing
 - Access
- What guidance do the Rules provide?
- What do TNSPs do in practice?



Contestability in connections and extensions

- Contestability is an appropriate test for whether a service should be economically regulated
- Is it possible to separate out:
 - contestability in the construction of assets?
 - contestability in their subsequent ownership/operation/control?



Who should be able to provide extensions and what does this mean for economic regulation?

- Are there any barriers to entry or other reasons why extensions may not be truly contestable in practice?
 - requirement to be a licensed and registered TNSP
 - desirability of possessing land acquisition powers
- Are there benefits from “incumbent TNSPs” owning all network infrastructure, even if competition is effective?

- Only incumbent TNSPs

Economic
regulation

- Any registered TNSP or any third party infrastructure owner
- Network users

Non-regulated

Should third parties be able to access extensions?

- There is a view that generators have sole use of connections/ extensions - this is not explicit in the Rules
- Obligations on TNSPs to connect subsequent users are unclear
- View on ability of third parties to connect may inform decision as to who should be able to provide extensions

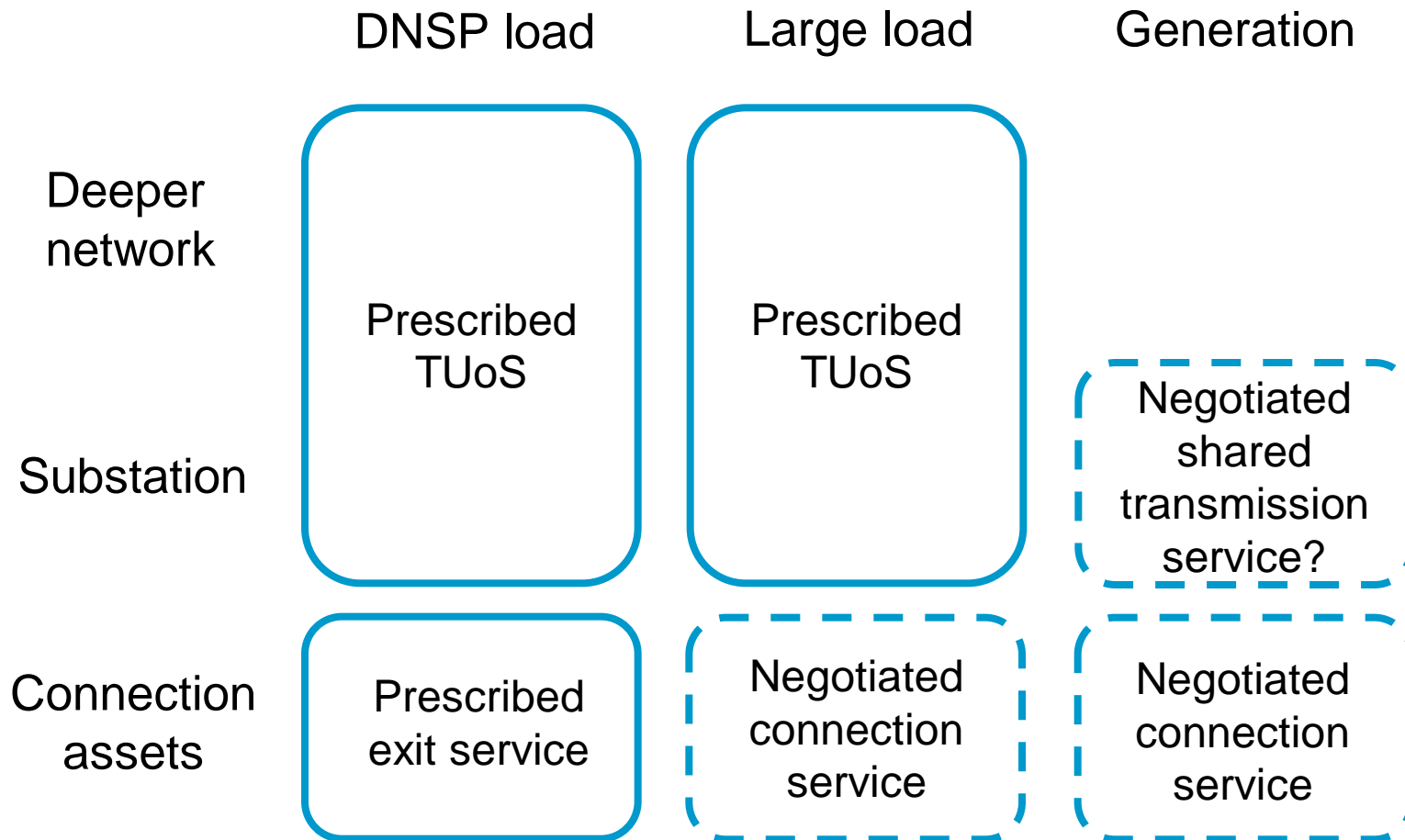
- Incumbent TNSPs
- Any registered TNSP

Third party
access

- Any third party infrastructure owner
- Network users

No third party
access

Current regulation of services required for connection



Options for reforming regulation of connections

Proposal 1

Dispute resolution framework

- More effective and accessible dispute resolution

Proposal 2

Negotiated transmission services

- Add transparency and specify some parameters

Proposal 3

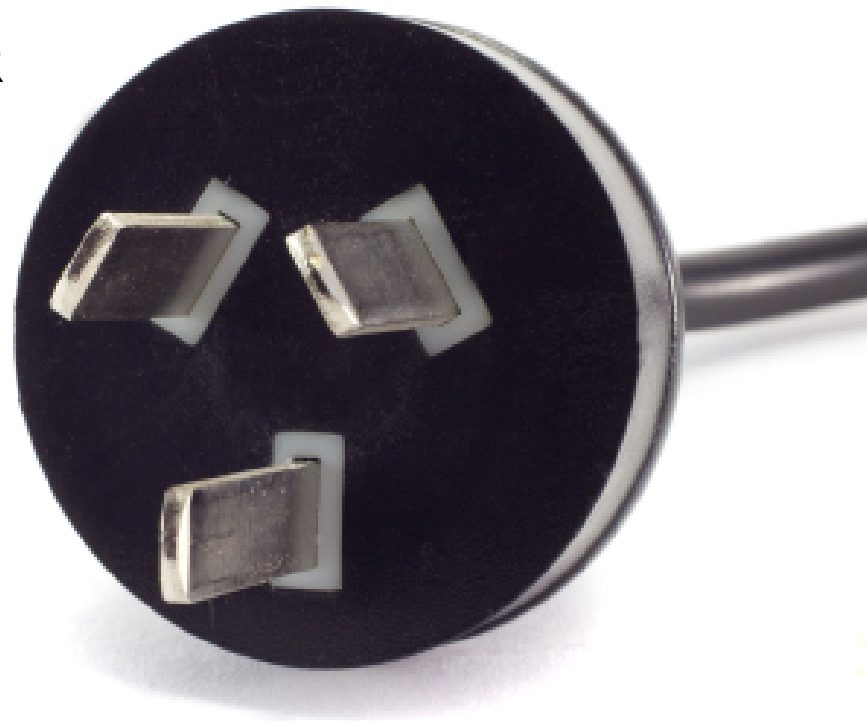
Prescribed transmission services

- Prescribe all services required for connections

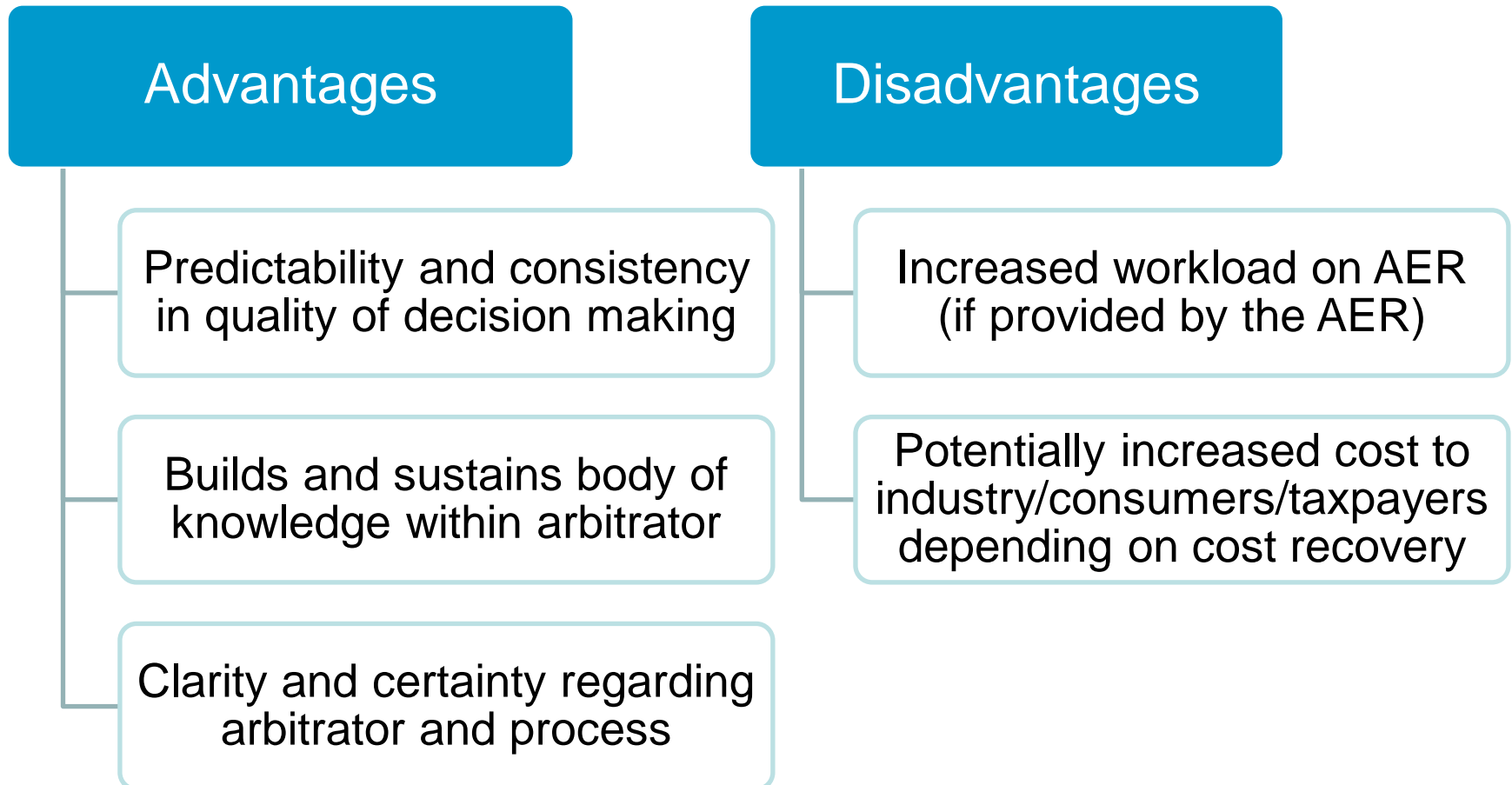
Increasing degree of regulatory intervention

Proposal 1 – Dispute resolution framework

- Aim to improve predictability and quality of decision making
 - permanent independent arbitrator
 - potentially to be provided by AER
- Should reduce barriers to dispute resolution
- Could lower barriers further by changing cost recovery provisions
 - a threshold required to avoid frivolous or vexatious claims



Proposal 1 – Advantages and disadvantages



Proposal 2 – Negotiated transmission services

- A package of complementary measures to increase the transparency associated with negotiations, potentially including:
 - a full breakdown of the services and costs associated with the connection
 - evidence of costs and any changes in costs
 - publication of standard contract templates
 - publication of indicative costs and standard designs these are based on
- Could include specifying the WACC
 - based on that for prescribed services, subject to risk/prudential considerations



Proposal 2 – Advantages and disadvantages

Advantages

Acts as a constraint on TNSPs; users can negotiate on a more informed basis

Highlights cost differences between TNSPs; may drive convergence in terms

Continuation of negotiated approach allows for flexibility in connection solutions

Disadvantages

Increased compliance costs for TNSPs

If prevailing WACC used, charges levied on users will change over asset life-cycle

Proposal 3 – Prescribed transmission services

- All transmission services required for connection would be migrated from negotiated to prescribed:
 - connection services; and
 - for generation, would also need to capture the shared network elements
- Assets would be funded from TNSP revenue cap
 - uncertainty of generator entry might require a mechanism to adjust the revenue cap
 - assets would be rolled into the RAB at the next revenue reset
- Charges would be targeted at connecting users



Proposal 3 – Advantages and disadvantages

Advantages

Strong incentive on TNSPs to minimise connection costs

Resolves generator concerns about inability to negotiate effectively with TNSPs

Clear, transparent framework – strong linkage between assets, services and revenues

Disadvantages

Reduces flexibility; risk that TNSPs seek to under-build

Some risk to connected users through changing charges

Risks in setting revenue adjustment mechanisms at too high or too low a level

Summary

- Connections are largely separable from the policy packages
- The Rules for connections could usefully be clarified
- The Commission is seeking further evidence regarding:
 - the case for making changes to the economic regulation of connections
 - the provision of, and access to, extensions to the network



Industry perspective

- [Carl McCamish](#), Executive General Manager Public Policy and Corporate Affairs, Origin Energy
- [Merryn York](#), Chief Executive Officer, Powerlink

Options for reforming regulation of connections

Proposal 1

Dispute resolution framework

- More effective and accessible dispute resolution

Proposal 2

Negotiated transmission services

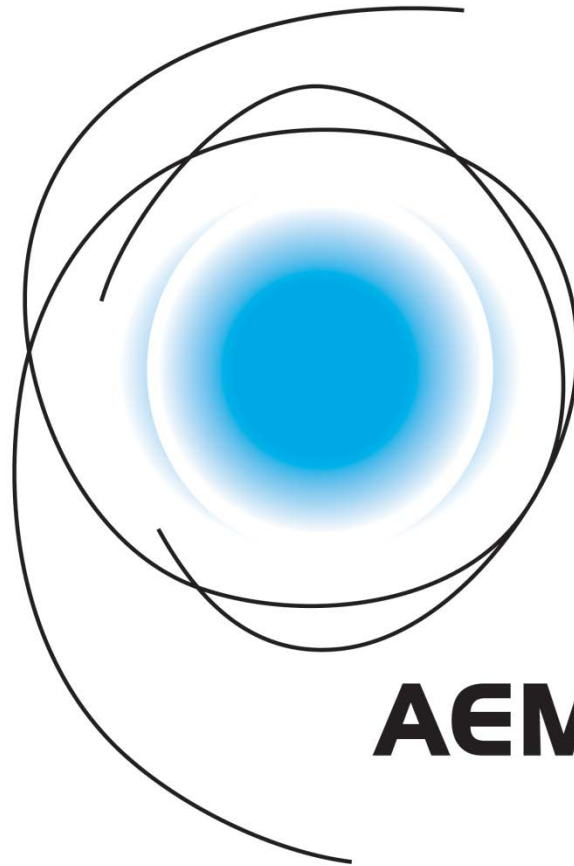
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Proposal 3

Prescribed transmission services

- Prescribe all services required for connections

Increasing degree of regulatory intervention



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