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Via electronic lodgement

Dear Ms McCowan

Draft Rule Determination: Connection to dedicated connection assets

AusNet Services welcomes the opportunity to make this submission to the AEMC's Draft Rule Determination which proposes a new framework to replace current arrangements for large dedicated connection assets (DCAs). AusNet Services supports contestability in transmission connections to the maximum extent practicable and therefore does not support the proposed designated network asset (DNA) framework in its current form.

The AEMC has underestimated the impact of the DNA framework on maintaining the contestability of 'large DCAs', particularly in circumstances where asset sharing is unlikely. It also imposes higher technical standards and risks adding significant additional cost burden to connection assets.

Under the DNA framework connecting parties will have no option but to negotiate with the Primary TNSP with respect to design, operations and maintenance, removing the opportunity to innovate, or create efficiencies that may be available through third party providers. As a result, customers will not receive the full benefits of competition and innovation driving down the cost of network services. In addition, there are many circumstances where asset sharing is unlikely. In these circumstances, the AEMC's DNA framework may unnecessarily limit competitive tension.

The AEMC should consider alternative solutions (or amendments) to the DNA framework rather than risk a significant reduction in contestability. There are several changes that the AEMC could pursue that better align with its policy objectives. AusNet Services welcomes the opportunity to discuss these with you.

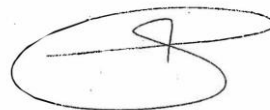
The attachments provide further evidence in support of these concerns with the proposed DNA framework. If you have any questions regarding our submission please contact Jason Jina, Energy Policy Lead by email at jason.jina@ausnetservices.com.au.

We look forward to opportunities to continue to provide input into the Rule Change process as it progresses.

Sincerely,



Adrian Hill
Acting EGM, Regulation and External Affairs
AusNet Services



Chad Hymas
EGM, Growth and Future Networks
AusNet Services

Attachment A: Information supporting AusNet Services' submission on the Connection to dedicated connection assets: Draft Rule Determination

The AEMC's DNA framework reduces the contestability of services for large DCA's compared to the current framework (i.e. the TCAPA Rule). The changes in contestable services proposed in the AEMC's Draft Rule Determination are summarised in the table below. The DNA framework gives the Primary TNSP greater control over the asset specification, and full responsibility for control and operation so to align with contestability arrangements for IUSAs. It also removes the ownership restriction on funded network assets and \$10m threshold (i.e. the monetary limb) for IUSA contestability.

	IUSA - TCAPA Rule	DCA - TCAPA Rule	DNA framework
Contestability			
Functional specification and cut-in works	Non-contestable	Contestable	Non-contestable
Detailed design and construction	Contestable		Contestable
Ownership	Contestable ¹		Contestable
Operation and maintenance	Non-contestable		Non-contestable
Monetary limb	Yes (\$10m threshold applies)	NA	No
Separability limb	Yes (New components must be distinct and definable from existing network)	Yes (New components must be distinct and definable from existing network)	
Ownership restriction on generator or load	Yes	NA	No (provided NOA is in place with Primary TNSP)

Source: AEMC, analysis by AusNet Services.

The AEMC's Draft Rule Determination identifies "minimising additional complexity", "providing for access protections", and "maintain contestability to the greatest extent possible" as the defined policy objective that the new framework for DNA was developed to achieve.²

In considering the latter policy objective, the AEMC's assessment found the DNA framework represents a "limited reduction in contestability."³ It argues that the reduction in contestability is, on balance, warranted on the basis that:

1. It facilitates an effective solution to the issues raised by the rule change request; that is the ability for different parties to effectively and efficiently share the assets in question.
2. Setting of the functional specification, operation and maintenance of DNAs by the Primary TNSPs will support the reliable, safe and secure operation of the transmission system.
3. Detailed design, construction and ownership of DNA's can be contestable services, which could help lower capital costs for investors and promote efficient investment.⁴

We note that as a 'declared network jurisdiction', Victoria has unique transmission planning and implementation arrangements that differ from other NEM jurisdictions and that the TCAPA Rule does not apply. As a result, AusNet Services does not expect that the proposed DNA framework would apply in its role as operator for the majority of the Victorian transmission network. However, the AEMC's Draft Rule Determination will impact the ability of TNSPs, including AusNet Services from other jurisdictions to compete for DNA (currently large DCA) projects interstate.

AusNet Services' view is that the AEMC has underestimated the impact of the DNA framework on maintaining the contestability of 'large DCAs', particularly in circumstances where asset sharing is unlikely. It also imposes higher technical standards and risks adding significant additional cost burden to connection assets. These arguments are detailed further below and in Attachment B.

¹ Under the current TCAPA rule the IUSA assets need to be passed back to the PTNSP at the end of the contract.

² AEMC, *Connection to dedicated connection assets: Draft Rule Determination*, page 45.

³ Ibid, page 51.

⁴ Ibid, pages 96-104.

Giving the Primary TNSP greater control over asset specification and full control over operations and maintenance will leave connection parties with no alternative option

The DNA framework materially changes the attractiveness of tendering for connection assets for third parties (e.g. a TNSP that is not the Primary TNSP in a particular jurisdiction). Such organisations will be required to seek a quote for the operation and maintenance from the Primary TNSP as part of their tender for the services (rather than provide such services themselves).

In all respects, the removal of the operation and maintenance from the new competitor leaves too much control in the hands of the Primary TNSP, who faces limited pressure to provide competitive terms to the third party and consider the whole of lifecycle costs in establishing the connection. Given its incumbent position, the Primary TNSP will want to ensure it is not left out of pocket over the operating and maintenance lifetime of the asset. As a result, it will either take a worst-case approach to the future costs (e.g. assume failure of the major components during the lifetime) and pass them on to the connecting party or it will seek to influence the design (e.g. specification of assets to ensure extremely low failure rates and/or high maintenance costs).

For connecting parties, we expect the DNA framework will leave them with no option but to engage the Primary TNSP to develop the required connection assets due to complexity of working with an additional party (i.e. the third party organisation). This is because the ability for the third party to provide an innovative solution is limited by the Primary TNSP having greater control over functional requirements, and operations and maintenance. In addition, having control of the asset removed from the ownership may be perceived by financiers as adding risk to the owner, and increase the connecting parties cost of finance and/or insurance.

Case Study 1 in Attachment B provides a commercial in confidence example of AusNet Services' experience competitively tendering for an interstate IUSA, from which comparisons to the DNA framework can be drawn. It provides further evidence that the DNA framework is unlikely to maintain contestability or lower capital costs for connecting parties.

Requiring the functional specification of DNAs to be set by the Primary TNSP, leaves little opportunity for third parties to develop more innovative solutions

The contestability of high-level design is a key means by which the benefits of contestability can be realised. In addition, encouraging competition in the way functional and performance specifications can be achieved incentivises innovation as parties compete to provide the best value solution for connecting parties.

Recently, connecting parties have approached AusNet Services requesting competitive solutions that provide a bespoke technical solution compared to the standard design being offered by the Primary TNSP (or other competitors). Case Study 2 and 3 in Attachment B provide commercial in confidence examples of how third parties can present connecting parties with solutions that provide better value for money (i.e. lower connection costs), while meeting the functional specification and not impacting the secure operation of the shared network and/or operations and maintenance requirements.

Had the DNA framework been applicable, the efficiencies and cost/time savings demonstrated in these case studies would not have been achievable. Instead, the Primary TNSP would have had greater control over asset specification potentially stifling third party innovation and raising costs for connecting parties.

The above provides further evidence that retaining detailed design, construction and ownership of DNA's as contestable services is, in practice, unlikely to be sufficient to lower capital costs for investors and promote efficient investment.

There are many circumstances where the benefits of asset sharing are unlikely to justify limiting competition and raising technical standards

The AEMC's DNA framework addresses concerns made by some stakeholders about the current rules for large DCAs being unintentionally unworkable where there is more than one proponent by giving greater certainty to connecting parties through their individual connection to the DCA. In the process, the DNA framework increases technical standards and reduces the contestability of services for large DCAs compared to the current framework.

As a transmission network operator, AusNet Services understands that there are circumstances where technical standards consistent with the existing network are appropriate. For example, to maintain power system security for large DCAs that are shared assets.

However, there are also many circumstances where third parties such as AusNet Services are pursuing opportunities to provide large DCAs where asset sharing and/or future incorporation into the shared network is unlikely or impractical. For example, where connecting parties developing large renewable projects (e.g. onshore and offshore wind farms, and pumped hydro projects) can support a DCA for their use only and are unlikely to specify a connection solution above the rated capacity of their own generation assets. In these circumstances, the AEMC's DNA framework is unnecessarily limiting competitive tension and opportunities for third parties to provide innovative solutions for large DCAs, compared to the current framework.

In addition, the DNA framework is expected to raise the technical and performance standards of large DCAs so to "allow power system security to be managed in the same way as for other elements of transmission networks" (i.e. consistent with the rest of the Primary TNSPs shared network).⁵ AusNet Services' questions whether all parties connecting to large DCAs should be required to meet shared network standards. By enforcing this standard upon all large DCAs, the AEMC is reducing the solutions available to connecting parties and increasing their connection costs, when a more efficient solution may be available that does not impact the secure operation of the shared network.

The AEMC should consider alternative solutions (or amendments) to the DNA framework that provide consumers with the full benefits of competition and innovation driving down the cost of network services

The AEMC is asking stakeholders to accept a significant reduction in the contestability of large DCAs and has not provided compelling reasoning to suggest this is justified, particularly in circumstances where asset sharing is unlikely.

AusNet Services does not support the DNA framework in its current form. The AEMC should consider alternative solutions (or at a minimum amendments) to the DNA framework that provide consumers with the full benefits of competition and innovation driving down the cost of energy services.

There are a number of different frameworks and amendments that the AEMC could pursue that better align with its policy objectives. A potential alternative could be to provide connecting parties with the option to choose whether services for a DCA are provided under the DNA framework or the TCAPA Rule's large DCA framework, regardless of the line length. The decision could instead be based on the number of connecting parties. The parallel application of the TCAPA Rules and private or exempt network configurations that can facilitate multiple connection points for generating systems behind a grid connection point might also be worth exploring.⁶

AusNet Services welcomes the opportunity to discuss alternative solutions (or amendments) to the DNA framework to address the concerns raised.

⁵ AEMC, *Connection to dedicated connection assets: Draft Rule Determination*, page 49.

⁶ AEMO, *Fact Sheet – Registering a Hybrid Generating System in the NEM v3*, pages 4-5

Attachment B: Case studies supporting AusNet Services' submission on the Connection to dedicated connection assets: Draft Rule Determination

Confidential information has been omitted for the purposes of section 24 of the Australian Energy Market Commission Establishment Act 2004 (SA) and sections 31 and 108 of the National Electricity Law.