

31 March 2020

Mr John Pierce
Chair
Australian Energy Market Commission
PO BOX A2449
Sydney South NSW 1235

Via online submission

Dear Mr Pierce,

RE: ERC0294 – NATIONAL ELECTRICITY AMENDMENT (CONNECTION TO DEDICATED CONNECTION ASSETS) RULE

TasNetworks welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on the Dedicated Connection Assets (DCA) rule change.

TasNetworks is the Transmission Network Service Provider (TNSP), Distribution Network Service Provider (DNSP) and Jurisdictional Planner (JP) in Tasmania. TasNetworks is also the proponent behind Marinus Link, a new interconnector between Tasmania and Victoria. The focus in all of these roles is to deliver safe and reliable electricity network services to Tasmanian and National Electricity Market (NEM) customers at the lowest sustainable prices. TasNetworks is therefore appreciative of the AEMC's efforts to review DCA arrangements in the NEM.

TasNetworks supports Energy Networks Australia's (ENA) submission and would like to make several further comments with a particular focus on the Tasmanian context. The critical points in this submission are:

- TasNetworks recognises the requirement to improve the regulatory and economic framework governing DCAs with multiple proponents.
- TasNetworks considers that it is important to maintain a clear boundary between the shared transmission network and the DCA. TasNetworks does not support the shared transmission network connection point being located inside the DCA network.
- Principally, TasNetworks agrees with applying all existing NEM processes including registration, metering, settlement and performance standards to each DCA connection point. In practice, TasNetworks considers this can only be achieved by defining DCA connection point in the Rules.
- TasNetworks considers performance standards should be negotiated between each DCA proponent and the DCA Service Provider (DCASP) with the Primary TNSP providing

appropriate guidance to ensure and maintain the integrity of the shared network. This solution is analogous to the current arrangements where TNSPs undertake studies for DNSPs to quantify and mitigate impacts to the shared transmission network from sizable distribution network generation connections.

- To the extent that new DCA connections 'do harm' to the security of the power system or the access of the incumbent DCA proponents, TasNetworks considers the new connecting generator should pay for the necessary transmission works to ameliorate this impact.
- TasNetworks considers transmission loss factors should be calculated by AEMO in line with the existing marginal methodology using each DCA proponent's individually metered, DCA connection point.
- TasNetworks supports changing the access policy arrangements for large DCAs to the extent that the additional administrative impost to smaller connections is outweighed by the benefits of lowering the large DCA threshold below 30kms.
- TasNetworks supports existing DCAs being grandfathered with flexibility for these DCAs to transition to the newer arrangements where all DCA parties agree.
- TasNetworks suggests further consideration be given to DCA 'boundary cases' to ensure a robust and fit for purpose DCA framework results.
- TasNetworks also suggests an integrated and coordinated approach is taken to Rules changes given the potential for overlap between this and the Energy Security Board's (**ESB's**) Renewable Energy Zone (**REZ**) consultations.

TasNetworks responses to specific questions are below. We welcome the opportunity to discuss them further with you. Should you have any questions, please contact Chantal Hopwood, Leader Regulation, via email (chantal.hopwood@tasnetworks.com.au) or by phone on (03) 6271 6511.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'W. Tucker', with a stylized flourish at the end.

Wayne Tucker

General Manager, Regulation, Policy and Strategic Asset Management

QUESTION 1: CREATING INDIVIDUAL CONNECTION POINTS

Should each Registered Participant connected to a DCA be required to have an individual connection point? What would be the consequences of creating a transmission network connection point at the point where each participant's facility connects to the DCA? Should the DCA connection point to the shared transmission network also continue to be a transmission network connection point, or would this 'DCA connection point' need to be defined differently? If so, how? Would a metering installation continue to be required at the DCA connection point? How should TUOS charges be levied for load customers connected to a DCA?

TasNetworks supports the intent of the Australian Energy Market Operator's (AEMO) rule change proposal to improve the regulatory and economic framework governing Dedicated Connection Assets (DCAs) with multiple proponents. Despite this, TasNetworks has a number of concerns associated with the current rule change.

AEMO has proposed a separate transmission network connection point and metering installation for each proponent in an identified user group. These would be located where each facility connects to the DCA. At face value, this would seem to allow existing National Electricity Market (NEM) processes such as settlement and registration to apply, along with addressing issues with performance standards, metering and calculation of losses. However, without defining 'DCA connection point', and without a major overhaul of the National Electricity Rules (NER), this would create a host of fundamental incompatibilities between the desired DCA outcomes and existing shared network arrangements. For example, moving the shared network connection point onto the DCA would see the NEM open access framework apply to the DCA, effectively overriding the changes from the AEMC's 2017 Transmission Connection and Planning Arrangements (TCAPA) rule change. Beyond this consequence, it is unclear how Transmission Use of System (TUOS) charges and the Service Target Performance Incentive Scheme (STPIS) would, or could, be applied.

To remedy this situation, TasNetworks suggests that:

- the current transmission network connection point to the shared network be maintained and metered;
- separate DCA connection points and metering installations be established for each proponent within a DCA;
- DCA connection point is defined in the NER so that all relevant, required NEM processes such as registration, settlement, performance standards and the calculation of Marginal Loss Factors (MLFs) are applicable; and that
- TUOS charges are calculated based on the metered shared network connection point with the DCA Service Provider (DCASP) responsible for levying appropriate charges to load or generator connections within the DCA.

TasNetworks considers this is the only way to support the intent of the rule change proposal without introducing any irreconcilable conflicts between the DCA, TCAPA and shared network rules.

QUESTION 2: NEGOTIATION AND ENFORCEMENT OF PERFORMANCE STANDARDS

Do the current arrangements give rise to issues in terms of negotiating, monitoring and enforcing performance standards? What would be the costs of leaving the negotiation of NER responsibilities up to the contractual arrangements with other proponents/the DCASP compared to AEMO's proposed solution? If performance standards were to be negotiated at individual connection points to a DCA, should these be negotiated by the DCASP or the Primary TNSP? Would both NSPs need to be involved? Which parties should have responsibilities for maintaining system strength? Are there alternatives to AEMO's proposal, e.g. could the negotiation and enforcement of performance standards for parties connected to a DCA occur at a point other than a facility's connection point to the DCA?

TasNetworks agrees with AEMO that performance standards should be measured at and applied to each proponent's connection point to allow the full benefit of the proposed rule change to be realised. TasNetworks considers these 'allocated' performance standards should be negotiated between each DCA proponent and the DCASP, with Primary TNSPs providing oversight and input to ensure and maintain the integrity of the shared network. That is, via a 'coordinating' performance standard at the point at which the DCA connects to the shared transmission network. This solution is analogous to the current arrangements where TNSPs undertake studies for DNSPs to quantify and mitigate impacts to the shared transmission network from sizable distribution network generation connections.

TasNetworks considers that responsibility for system security should remain with the Primary TNSP. That is, rather than the DCASP if it is not the Primary TNSP, who is unlikely to have the resources or technical facility to manage system security obligations. To the extent that new DCA connections 'do harm' to the security of the power system or the access of the incumbent DCA proponents, TasNetworks considers the new connecting generator should pay for the necessary transmission works to ameliorate this impact. Further, that consultation with the Primary TNSP and DCASP be required to ensure the optimal economic outcome results. For example, it might be more efficient if the connecting generator pays the Primary TNSP for a network augmentation outside the DCA rather than the DCASP for a solution within the DCA.

TasNetworks notes that in preserving the current DCA cost recovery arrangements, this solution could have impacts on subsequent generator investment in DCAs. In particular, if a new generation connection would see costs incurred for older generators to meet new connection standards. Despite this, TasNetworks considers this is the lesser of two evils. The alternative is that the existing generator is liable for something outside its control, or that all proponents within a DCA pay for the required investment. Beyond introducing an economically inefficient cross-subsidy and violating the economic causer pays principle, this may lead to the curtailment of initial DCA investment given uncertainty about costs arising from the actions of future DCA generation proponents.

QUESTION 3: TRANSMISSION LOSSES

Should MLFs for individual facilities in an identified user group connected to a DCA be calculated consistent with the rest of the NEM? Should the DCASP instead calculate average DCA loss factors for DCA connected proponents to reflect losses on the DCA? Are there any other alternatives to calculate transmission losses?

TasNetworks considers that transmission loss factors should be calculated by AEMO in line with the existing marginal methodology using each DCA proponent's individually metered, DCA connection point. That is, instead of average loss factors which TasNetworks strongly suggests should be avoided for this purpose. Aside from being inconsistent with the AEMC's recent Final Ruling on Transmission Loss Factors, average loss factors which have many significant and deleterious drawbacks. These include:

- increasing transmission charges to customers;
- undercutting the existing, economically efficient market arrangements based on a marginal pricing philosophy;
- diluting locational investment signals;
- altering market dispatch outcomes;
- decreasing NEM operational efficiency; and
- moving the market farther away from the long term direction use of Dynamic Loss Factors (**DLFs**) which has been supported by TasNetworks and other stakeholders as part of the Coordination of Generation and Transmission Investment (**CoGaTI**) review.

QUESTION 4: ACCESS FRAMEWORK

Should all DCAs be required to have an access policy? If not, what would be an appropriate threshold for the differentiation between DCAs that should have an access policy, and those that need not? Is there any merit to an approach that would limit DCA access to one proponent?

TasNetworks considers that, in principle, requiring all DCAs to have an access policy would best support the intent of the rule change and minimise access issues. However, in practice, it is not clear that this would be administratively efficient, particularly for smaller connections. TasNetworks, therefore, suggests that the AEMC investigate the potential economic impacts on DCA proponents associated with lowering the 30km access policy threshold in the TCAPA rules. If these are lower than the benefits from imposing access policies on more proponents, TasNetworks would support a change to the TCAPA access policy threshold.

QUESTION 5: TRANSITIONAL PROVISIONS AND OTHER ISSUES

Are AEMO's proposed transitional provisions appropriate? Would additional or alternative transitional provisions be required to address the issues identified in the rule change request? Are there any other issues that the Commission should consider in relation to the proposed rule change?

TasNetworks supports existing DCAs being grandfathered with flexibility for these DCAs to transition to the newer arrangements where all DCA parties agree. As above, TasNetworks acknowledges this may obligate future DCA connections to pay for additional work to minimise their impact on the access of other parties already within the DCA.

In terms of other issues, the rule change prohibits one DCA connecting to another DCA. However, TasNetworks notes there is no such guidance on other 'boundary cases' such as where a DCA connects to another part of the shared network, an Identified User Shared Asset (**IUSA**) or a different TNSP's shared network. TasNetworks suggests consideration be given to these situations to ensure a robust and fit for purpose DCA framework results.

TasNetworks notes that the Energy Security Board (**ESB**) has recently been tasked with developing rules for the enhanced implementation of Renewable Energy Zones (**REZs**). These rules would see the jurisdictional planner required to create a detailed and staged development plan for each priority REZ identified in the ISP. To the extent that these changes impact or touch upon the same areas of the Rules as this consultation, TasNetworks suggests a coordinated and integrated approach. This is so that an appropriate degree of regulatory parsimony is achieved with any Rules changes.