



# **TRANSMISSION CONNECTION AND PLANNING ARRANGEMENTS**

Response to AEMC Discussion Paper – ERC 0192  
30 June 2016

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# EXECUTIVE SUMMARY

## Key messages

ENA supports:

- Extending contestability to dedicated user connection assets
- That in principle, a workable Model B is a more preferable outcome to Model A in treating identified user shared assets
- Working with the AEMC and other stakeholders to ensure there is a clarity around what these assets comprise of in a range of scenarios, and how appropriate risk allocation and fair access is achieved for first mover connecting parties, existing customers, and subsequent connecting parties
- A level playing field in the obligations that apply to new and existing registered transmission network service providers, and in the basis of participation in contestable markets

The Energy Networks Association (ENA) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) in response to the Discussion Paper on the *National Electricity Amendment (Transmission Connection and Planning Arrangements) Rule 2016* published by the AEMC on 26 May 2016.

The ENA is the national industry association representing the businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

The ENA acknowledges that consideration of this rule change request is an important part of a suite of rule changes undertaken by the Council of Australian Governments' Energy Council and the AEMC in response to the AEMC's Transmission Frameworks Review. As the AEMC notes, these initiatives are intended to improve the transparency, contestability and clarity in the transmission connections framework while maintaining clear accountability for shared network outcomes in the national electricity market (NEM).<sup>1</sup>

The ENA understands that the AEMC is currently considering how contestability may apply to generator and non-Distribution Network Service Provider loads via new substations. The ENA seeks clarification of whether any proposed changes from this rule change apply to connections to existing transmission substations.

The AEMC's Discussion Paper requested stakeholder feedback on which of the two proposed models for contestability were more likely to achieve the National Electricity Objective. This submission compares the impact of two models for connections to new substations.

The ENA supports the AEMC's current approaches on the following matters:

- » The AEMC's proposed positions for *Dedicated connection assets* (i.e. for the transmission equipment between a substation and a connecting parties' plant) to remain contestable and therefore a non-regulated service.
- » The AEMC's proposed concepts for introducing the asset category of *Identified User Shared Assets*.
- » All providers of these proposed connection services are required to be registered with AEMO. They will also need to comply with relevant rules and potential obligations resulting from this consultation process. ENA notes that these obligations may not be as exhaustive as those already mandated for existing TNSPs, as proposed for the sub-category of owners of *identified user shared assets* on page 42 of the paper).
- » The inclusion of a fully independent engineering expert in the proposed dispute resolution process. An appropriately qualified and experienced independent expert should be in a position to explain and provide clarity on some of the definitions in the rules, and have access to all relevant information needed (subject to

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<sup>1</sup> The ENA also notes that the AEMC has set aside the transmission planning elements of this rule change and does not address these issues in this submission.

relevant confidentiality arrangements). Such an expert can be engaged by either party to advise on technical aspects of a potential connection through the likely Australian Energy Regulator's proposed panel.

- » Third party access provided on a consistent basis. For example, it would be appropriate to preserve the rights of existing users to ensure they are not disadvantaged, consistent with existing connection agreements. Access should continue to be provided on a non-discriminatory basis and see additional users pay incremental costs; and
- » Defining the negotiating principles in the National Electricity Rules.

The ENA would welcome further engagement with the AEMC and interested stakeholders to address these issues over the coming months. ENA members would support workshops and opportunities to progress solutions to address the aforementioned implementation issues in developing practical Model B arrangements.

## EXTENDING CONTESTABILITY

The ENA recognises a key focus of the proposed changes to the transmission connection arrangements is to improve the efficiency of transmission connection processes for generator and load connections. The changes proposed involve clarifying and expanding contestability for transmission connections and amending the *National Electricity Rules* (NER). Any changes to the current framework must also consider and balance short term and long term costs and benefits to demonstrate that the outcomes are in the long term interests of consumers.

The ENA considers that a large pool of competitive providers currently exists in the market to gain the potential benefits of increased contestability. Therefore, the proposal to oblige the local/incumbent Transmission Network Service Providers (TNSPs) to provide identified user shared assets beyond interface/'cut in' works to facilitate the connection is considered to be unnecessary.

Further, the local and incumbent TNSP should have the opportunity to compete to provide the contestable transmission connection on a level playing field without additional regulatory obligations related to these services which do not similarly apply to competitors.

The ENA considers that making the *operation, control and maintenance* of the assets also contestable would effectively reduce coordination issues, avoid the inappropriate allocation of risk, and ensure the owning party takes into account whole of life costs during the design and

construction phase. Consequently, the ENA considers that the approach proposed as Model B for the introduction of contestability of *Identified User Shared Assets* is more likely to lead to better overall outcomes compared to Model A. This would help to promote the efficient operation and use of transmission infrastructure in the long term interests of customers.

The ENA also recommends that the definition and treatment of 'cut in' or interfacing works is further considered by the AEMC. ENA provides further comments on secondary systems below.

The ENA looks forward to any further AEMC analysis of the anticipated costs and benefits to be provided by the current options to ensure that the proposed solutions will lead to total system benefits.

### Recommendation

- » In further developing the rule change the definition and treatment of cut in or interfacing works (secondary systems are covered below) should be further considered and clarified by the AEMC.

## COMPARING MODEL A AND MODEL B

The ENA understands the key elements of the models as:

**Table 1: AEMC’s proposed models for Identified User Shared Assets**

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
<b>High-level design (layout/configuration of the assets to meet the functional specification)</b>	Not contestable. Incumbent TNSP provides as a negotiated service	Contestable
<b>Cut in works (including interface design)</b>	Not contestable. Incumbent TNSP provides as a negotiated service	Not contestable. Incumbent TNSP provides as a negotiated service
<b>Construction</b>	Contestable	Contestable, but incumbent TNSP is accountable for the impact for the provision of these services has on the shared network
<b>Ownership</b>	Contestable, subject to agreement with TNSP regarding O&M	As above for construction
<b>Operation and Maintenance</b>	Not contestable. Negotiated Services. TNSP accountable for impact of provision on shared network.	As above for construction

- » Under Model A, the high level design will not be contestable, but will be provided by the incumbent TNSP as a negotiated service. While some stakeholders

may consider this will reduce the scope for innovation in the design of connections, it is not clear that this approach would have benefits beyond the current approach whereby the incumbent TNSP determines the design and often tenders for the construction of the asset. Model B does not contain this limitation.

- » Under Model B, the contestable providers must consider the whole of lifecycle implications of the *identified user shared assets*, including operation and maintenance. This will encourage a more efficient overall solution to be proposed and potentially adopted by the connecting party. This also avoids complications in Model A associated with decisions to replace the assets in the longer term - if the incumbent TNSP is responsible for operating and maintaining the *identified shared user assets* as a negotiated service (and also the performance of the assets). ENA seeks further clarification as to whether (under Option A) the connecting party is required to accept a TNSP decision to replace such assets and bear the relevant cost? This complexity does not arise under Model B.
- » Under Model B the registered TNSP has to comply with regulatory obligations to maintain appropriate performance standards, and the incumbent TNSP can pass through reliability incentives incurred due to the third party's assets. Contractual arrangements can help to provide an adequate safeguard for end use customers reliant on the shared network.
- » Under Model A, the incumbent TNSP must accept responsibility for assets it did not construct. ENA questions without significant; increasing complexity and uncertainty in additional contracts and negotiations. A number of uncertain issues on which the ENA seeks further guidance include:
  - If a construction issue is identified by the incumbent TNSP prior to accepting responsibility for the assets, does the connecting party retain liability for e.g. faults resulting from this issue going forward?
  - If the TNSP requires the issue to be resolved before it 'accepts' responsibility for the assets, which party is accountable in the interim?
  - Which party is responsible where a fault can be attributed to a construction issue not identified by

### Recommendation

- » The ENA recommends that the category of secondary system assets be deemed non-contestable where they are utilised for power system security purposes.

the TNSP when it accepts responsibility for the assets?

It is not clear that Model A provides more clarity around accountabilities for shared network performance than Model B.

## Identifying implementation issues

The ENA considers a functioning Model B approach to the proposed treatment of *Identified User Shared Assets* is more likely to achieve the National Electricity Objective, than Model A. However, there are a number of definitional, boundary and implementation issues that need to be addressed. Foremost, amongst these, is the need to clarify whether the new arrangements are intended to apply to existing substations, new substations or both.

The ENA also notes that there are a number of outstanding matters yet to be resolved, such as boundaries between prescribed, identified user and dedicated connection assets and the impact on TNSP Service Target Performance Incentive Schemes, amongst others.

It is anticipated that *identified user shared assets* built under the proposed new contestability regime may also be used for additional connecting parties. It is noted that the economic, technical and regulatory issues are different for these connections compared to new dedicated connection assets and will present different challenges that the TNSP will need to work through.

## Secondary systems assets

The AEMC has not yet addressed issues around certain “ancillary” prescribed assets, normally referred to as secondary systems.

These include building and amenities, Alternating and Direct Current supplies, fire-fighting equipment, communications, Supervisory Control and Data Acquisition (SCADA) systems, and associated contractual arrangements and agreements.

These secondary systems assets do not appear to readily sit under the new *dedicated connection assets* category, nor the new *identified user shared asset* category.

## PROVISION OF INFORMATION

The ENA, like most stakeholders, recognises that information should be provided between the connecting party and the local TNSPs to enable well-informed decisions and efficient

overall outcomes. However, where information obligations apply that are not proportionate or tightly defined, this can result in an increase in transactions costs with no offsetting customer benefit. The ENA considers that the extent and depth of information currently being proposed by the AEMC for publication is inconsistent with a contestable framework. Of particular concern is the disclosure of cost information for prospective contestable services.

The AEMC itself recognises in its Discussion Paper that “(p)arties seeking connection to the transmission network are considered to be sufficiently well resourced and knowledgeable to negotiate efficient outcomes for themselves, and therefore a fully prescribed approach is not required”. (p.9)

It is not clear that the additional information requested will provide benefits to connecting parties.

Electricity transmission networks cover a wide range of different geographies, population densities and network topologies. Transmission connections tend to be highly customised to the connecting party and the particular location within the network. Therefore, it is difficult to provide “typical” information without being so generic as to lose its practical value to connecting parties or other stakeholders.

The ENA also notes that TNSPs, currently provide information specific to an individual connection application in the normal course of the connection enquiry/connection application process and through the TNSP negotiating framework in accordance with Chapter 5 of the *National Electricity Rules*.

## ENSURING FLEXIBILITY AND AVOIDING ‘ONE SIZE FITS ALL’ OUTCOMES

While the ENA supports the overarching intention and approach of the proposed NER changes, it considers that much of the potential economic gains under the proposed framework are already captured through current approaches. For example, some of the economic benefits of contestability for construction are captured through current

TNSP outsourcing arrangements<sup>2</sup>. It is important that in considering these proposed changes AEMC does not inadvertently introduce new and unnecessary transactions costs, or introduce additional complexity for stakeholders.

The connection process in the majority of cases involves dealing with bespoke arrangements to meet the requirements of the connecting party and needs to take into account specific characteristics of individual TNSP networks and the connecting party. There is an on-going need for parties to a connection to have some flexibility in recognition of these factors.

## **HARMONISATION OF APPROACHES**

Where practical, the ENA supports harmonisation of the connection framework across the NEM. This will enable greater consistency when potential generators and/or loads that seek to connect to transmission networks in different regions of the NEM. This view also applies to the potential amended rules and arrangements that should apply to Victoria (as outlined in Chapter 7 of the Discussion Paper).

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<sup>2</sup> Refer to page 2 of the ENA's submission to the AEMC's Consultation Paper.