

ELECTRICITY TRANSMISSION NETWORK owners

Technical Standards for Wind and Other Generator Connections

Response to AEMC Draft Rule Determination

24 November 2006



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1. Introduction

The AEMC is to be commended for its comprehensive and thoughtful treatment of this complex matter. The trade-off of considerations is complex and the consequences of incorrect judgements on this matter can be far reaching. The priority that the AEMC has given to ensuring the security and reliability of the system is supported.

The AEMC's process of first defining the respective roles of NEMMCO, TNSPs and connection applicants and then developing a framework consistent with these defined roles is also supported.

Nevertheless, ETNOF considers there are opportunities for further enhancing the NEM objective in the final determination on this Rule change package.

First and foremost the scope of NEMMCO's effective power to veto performance standards, negotiated between access seekers and TNSPs (access providers), is wider than can be justified. In this regard the draft determination is inconsistent with the respective roles of the parties involved. Furthermore, there is genuine scope for NEMMCO to unreasonably impede efficient trade offs between network augmentation and access seeker performance standards – a legitimate form of non-augmentation network capability enhancement.

This submission focuses on this issue and proposes an alternative approach. In addition it includes a number of quite specific suggested changes on a number of other matters also aimed at enhancing the NEM objective.

2. NEMMCO's 'Right of Veto' Is Too Widely Drawn

The draft determination finds that NEMMCO is responsible for the 'safe, secure and reliable operation of the power system' and that it, therefore, has a strong legitimate interest in ensuring performance requirements are clear, able to be complied with, and do not threaten the safe secure and reliable operation of the system'. By way of comparison a NSP's role is described as 'ensuring that connected plant does not impact unduly upon the quality of supply to other local network customers'.

These findings, as to the respective roles of NEMMCO and NSPs, appear to be a key justification for expanding NEMMCO's role in the negotiation of access standards. The draft determination amends chapter 5 in accordance with this distinction between the respective roles of NEMMCO and NSPs. In doing this it creates a defined term of 'NEMMCO Advisory Matters', which are defined as all matters that relate to NEMMCO's functions under the NEL and in relation to schedules 5.1, 5.2, 5.3 and 5.3a.

In relation to negotiated access standards, NEMMCO is specifically empowered to advise on all 'NEMMCO Advisory Matters' and its advice relating to 'system security' and 'supply reliability' issues is binding upon an NSP (clause 5.3.4A). This effectively provides NEMMCO with a wide, relatively unfettered power of veto in relation to matters negotiated between access providers (NSPs) and access seekers. NEMMCO does not appear to be provided with any guidance on the exercise of this power and would, naturally, be inclined to be conservative in its assessments as it is not impacted commercially by its decisions, nor is

there an imperative, incentive, or mechanism for NEMMCO to arrive at an economically efficient outcome.

While ETNOF recognises the central importance of ensuring power system security and reliability the final Rule needs to be amended to reflect the following considerations:

- The Proposed NEMMCO Role is inconsistent with the current roles of NEMMCO and NSPs in the NEM.
- TNSPs are best placed to efficiently trade off access seeker performance standards with network augmentation options.
- The proposed arrangements are inconsistent with the conceptual basis of Part IIIA of the Trade Practices Act. The terms of access should only be imposed by a regulator when negotiations between an access provider and seeker have failed.

Each of these matters is discussed in more detail in the following sections of this submission. ETNOF then proposes amendments that address the AEMC's concerns while taking these matters into account.

The Proposed NEMMCO Role is Inconsistent with the Current Roles of NEMMCO and NSPs in the NEM.

Under the National Electricity Law and Rules NEMMCO's responsibilities in relation to the NEM include:

- 'to maintain and improve power system security' (section 49(e) NEL); and
- 'Subject to Chapter 4, *NEMMCO* must manage the day to day operation of the *power system*, using its reasonable endeavours to maintain *power system security* in accordance with this Chapter' (3.2.3 NER).

NEMMCO has no express role under the NEL or NER in relation to system reliability and, in recognition that the actual operating constraints of individual networks are delivered by the NSPs, its obligation in relation to maintaining power system security is put in terms of it 'using reasonable endeavours'. NEMMCO's relevant function under the NEM is, therefore, to operate the power system, which, together with a clear definition of network limits and limits imposed on the system by access seekers, is delivered to it by NSPs. This enables NEMMCO to operate the system in a manner that preserves system security.

Indeed, NEMMCO cannot be responsible for reliability per se. As the AEMC is aware the Reliability Panel has been conducting a comprehensive reliability review and the focus of this review has been on the adequacy of the market design in achieving reliability outcomes that meet public policy expectations. That is, those aspects of reliability related to supply demand balance over time are an outcome of market conditions. In addition, network reliability outcomes are determined by a combination of reliability standards (Schedule 5.1a of the Rules) and regulatory settings that support NSP achievement of those standards.

NSP's, as the owners and operators of their networks, and in accordance with both the NEL and Rules, are primarily responsible for the delivery and development of the transmission system. So, for example, under clause 5.2.3:

All Registered Participants must maintain and operate (or ensure their authorised *representatives* maintain and operate) all equipment that is part of their *facilities* in accordance with:

- relevant laws;
- the requirements of the Rules; and
- *good electricity industry practice* and applicable *Australian Standards*.

This includes all aspects effecting the reliability of a network and is nowhere limited to NSPs merely ensuring that 'connected plant does not impact unduly on the quality of supply provided to other local network customers', as is suggested in the AEMC's draft rule determination. NSPs need to have this central role in setting access standards because new connections impact upon transmission capability and system standards, as well as power quality.

The proposed approach to negotiated access standards in the draft rule is inconsistent with the established roles of NEMMCO and NSPs under the NEM, and the characterisation of these roles in the draft determination is neither accurate, nor appropriate.

TNSPs are Best Placed to Efficiently Trade Off Access Seeker Performance Standards with Network Augmentation Options

As already discussed, the draft determination proceeds on the basis that NEMMCO is responsible for ensuring system reliability and security, and that TNSPs are responsible for local quality of supply.

However, the draft determination appears silent on which of these parties is, or should be, responsible for developing transmission capability in the most economic fashion. This is of some concern given that this was an important component of recent ETNOF submissions regarding technical standards to be met by access seekers.

TNSPs maintain that they are best placed to carry out this role because:

- TNSPs are currently responsible for planning and investing in transmission system development;
- TNSPs are encouraged to adopt 'non-network' solutions in favour of augmentations where this is economic. The regulatory test process requires the adoption of the least cost option to meet reliability standards and maximisation of net benefits. The ex-ante capex incentive arrangements, and scope for parties to dispute a regulatory test assessment (with the AER as the dispute resolution body), provide incentives that reinforce this.
- Most performance standards have an impact on system capability. The AEMC clearly recognises that as a result of lower performance standards *"NEMMCO may then be placed in the position where it must operate the power system more conservatively and therefore less efficiently, in order to ensure that the system is not put at risk."*¹
- As the access provider a TNSP can enter into commercial arrangements with access seekers that 'trade off' the reasonable costs of higher access seeker performance standards with the costs of network development.

The reactive power capability of generators and generator stabiliser settings are excellent examples of this last point. These are both matters that impact on system security and that can be set to achieve more capability from the transmission system. Indeed, ETNOF observes that NEMMCO has proposed, in the context of the AEMC's congestion

¹ P. 60 AEMC Draft Rule Determination – National Electricity Amendment (Technical Standards for Wind and other Generator Connections) Rule 2006

management review, that consideration be given to TNSPs assuming responsibility for the procurement of reactive power capability (NCAS) from generators.

Furthermore, one of the benefits of having a range of possible performance standards (between automatic and minimum) instead of a single defined standard is to allow the access provider to achieve this trade-off. NEMMCO should not be allowed to unreasonably fetter the outcomes of such trade-offs with an unqualified scope of veto, particularly given the absence of any obvious incentives or situational capability to address efficiency consequences.

The Proposed Arrangements are Inconsistent with the Conceptual Basis of the TPA

As noted in the draft rule determination, Part IIIA of the TPA provides the basis for third party access to electricity networks. Part IIIA is based upon the concept that the owner of a facility providing an essential service retains ownership and control of their asset. Their property rights are only impacted to the extent that is necessary to allow effective third party access. For this reason the model adopted in the TPA for determining access terms is a 'negotiate/arbitrate' model. In other words, only where commercial terms cannot be agreed between the access seeker and access provider, does the ACCC's/AER's right to impose access terms, through a process of arbitration, arise.

We note that the AEMC acknowledges this in its draft determination when it refers to the need for 'to the fullest extent possible, terms of access to be on terms agreed between the owners of facilities and the person seeking access'.

Giving NEMMCO a right of veto over a negotiated access agreement, where it advises the NSP that it would adversely affect power system security or reliability of supply beyond the extent specified in schedule 5.2, is however giving an express power to NEMMCO to override commercially agreed terms. This approach is inconsistent with the model for third party access under Part IIIA TPA.

3. Alternative Approaches to Address the AEMC's Concerns

ETNOF members acknowledge that NEMMCO has a legitimate interest in ensuring that connection terms do not have a negative impact on system security.

However, ETNOF understands from the draft determination that the reason for proposing the NEMMCO 'veto' powers is NEMMCO's prior experience with deficient connection agreements. Putting aside that this issue has not been raised with the TNSPs until now, we suggest that this would be better dealt with by way of consultative processes between ETNOF members and NEMMCO, ideally with reference to particular connection terms that are of concern to NEMMCO. ETNOF's preference would be for this issue to be settled by consultative processes in lieu of the interventionist regulatory response that is currently proposed.

Alternatively, if the veto right is to be given it should be limited. Specifically, the scope of NEMMCO's authority to require changes to connection agreements ought to be limited to ensuring clarity of the agreed performance standard, rather than the level of performance. In general, the level of performance should only become an issue for NEMMCO when it is less than the minimum access standard. Accordingly, NEMMCO should be required to not unreasonably withhold approval of a performance standard where such a standard is:

- Clearly defined for the purposes of establishing power system security constraints and monitoring and testing purposes; or

- Of a higher standard than the minimum access standard.

Furthermore, NEMMCO should be required to not unreasonably veto arrangements that economically enhance system capability.

A relevant consideration in establishing whether NEMMCO is exercising its discretion reasonably would be where NEMMCO can demonstrate that the exercise of its veto is required to avoid giving rise to a material adverse power system security impact.

Suggested drafting to give effect to this proposal is being developed and will be provided to the AEMC for wider consultation shortly.

4. Other Proposed Improvements

Reference is made to the following sections:

- 5.7.6(b)(2) - NEMMCO may direct a Network Service Provider to require a Generator to conduct a test under paragraph (a), and NEMMCO may witness such tests.
- and (i) Each of the Generator, the Network Service Provider and NEMMCO must bear its own costs associated with tests conducted under this clause 5.7.6 and no compensation is to be payable for financial losses incurred as a result of these tests or associated activities.

It is not apparent to ETNOF how these amendments contribute to the stated objective of NEMMCO's proposal. It is also inconsistent with the principle that generator compliance should be at the generator's cost.

ETNOF supports the following principles with respect to generator testing:

- the generator is the causer of the generator testing;
- the generator is the beneficiary of generator testing by way of ongoing demonstrated compliance with Rules requirements; and
- based on the above, the generator should be responsible for all costs associated with performing the tests as per the existing arrangements under the Rules.

S5.2.5.6 (e) (General Access standard) begs the question as to how the actual rejection performance could be recorded in the connection agreement, if the connection agreement is signed before the unit is commissioned and tested. It seems to require the NSP to commit to testing. This could be clarified.