

Obligations of Network Service Providers

Connection Applications

25 January 2007

Energy Solutions Australia Pty Ltd

Overview

- The proposed Rule
 - Background
 - The Rules and Connection
- Issues raised in submissions and responses
- Discussion
- Conclusions

The Proposed Rule

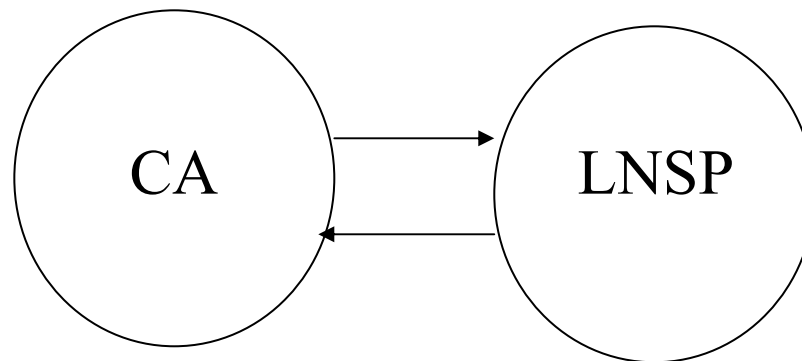
Background

- The services required by Connection Applicants (CAs) include both monopoly and contestable services
 - Monopoly services include modifications to the existing facilities of the Local Network Service Provider (LNSP)
 - Contestable services generally include the provision of new facilities e.g.
 - Connection assets for a generator might include a transmission line and associated substation assets
- The proposed Rule:
 - addresses issues facing new entrants attempting to set up a portfolio of connection assets
 - only applies to contestable services

The Proposed Rule

The Rules & Connection

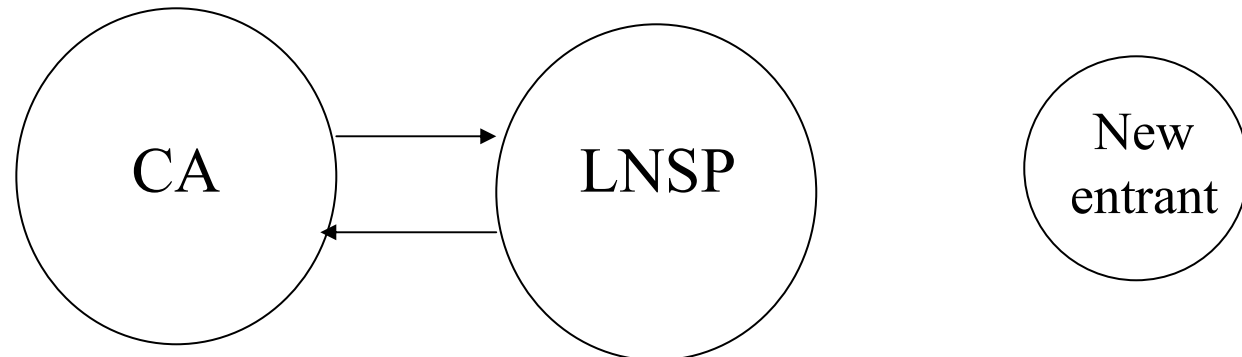
- The Rules provide for a 2 way dialogue between a LNSP and a CA
 - Connection enquiry by CA to LNSP
 - Response by LNSP to CA
 - Connection application by CA to LNSP
 - Offer to connect by LNSP to CA



The Proposed Rule

The Rules & Connection (cont)

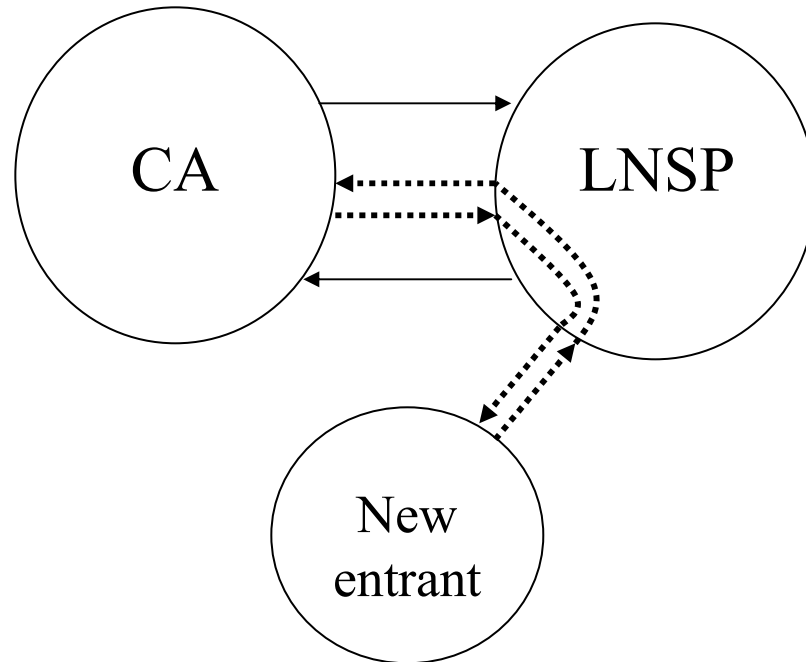
- The 2 way dialogue between the LNSP and CA provides the LNSP with a competitive advantage over a new entrant
- The LNSP has information regarding:
 - commercial opportunities not likely to be known to the market as a whole
 - the identity of potential customers
- In contrast the new entrant has to spend time and money to obtain this information
 - Often, by the time the new entrant obtains the information it is too late and the CA has signed an agreement with the LNSP



The Proposed Rule

The Rules & Connection (cont)

- The proposed Rule puts the new entrant into the picture



Issues Raised in Submissions

Issue #	Issue	Raised by	Response
1	The proposed Rule places a new obligation on LNSPs	<ul style="list-style-type: none"> •Powerlink 	Agreed
2	The proposed Rule has not adequately considered the scope of existing NSW jurisdictional arrangements	<ul style="list-style-type: none"> •EnergyAustralia •AGL •Energy & Water Ombudsman NSW •Energy Networks Association •Country Energy •Integral Energy 	<ul style="list-style-type: none"> •Providers of contestable services include both owners and contractors •The NSW arrangements (overseen by DEUS) focus only on contractors – owners are not considered •Only owners need to be the focus of the proposed Rule (refer to Energy Solutions Australia Pty Ltd submission dated 13 October 2006)
3	The proposed Rule has not adequately considered the scope of existing Victorian, Queensland and South Australian jurisdictional arrangements	AGL	<ul style="list-style-type: none"> •Victorian arrangements apply to contestable augmentations (as opposed to connections) •Qld provides for contestable services •SA provides for contestable services

Issues Raised in Submissions (cont)

4	The proposed Rule has not adequately considered whether there needs to be an appropriate accreditation scheme to underpin the registers	<ul style="list-style-type: none"> •EnergyAustralia •AGL •Electricity Transmission Network Owners •Energy Networks Association 	<ul style="list-style-type: none"> •Accreditation for contractors is already adequately provided for by the existing jurisdictional arrangements •A new accreditation scheme for owners is not required as that would duplicate the need to obtain the proper licences, registrations, etc
5	The proposed Rule does not address the implications of the proposed obligation of NSPs to provide details of connection applicants	EnergyAustralia	Details of connection applicants are only provided with their consent
6	The LNSPs are not the appropriate parties to maintain the registers	EnergyAustralia	<p>The appropriate party needs to:</p> <ul style="list-style-type: none"> •be involved in the connection process – only the LNSP meets that criterion •have obligations under the National Electricity Rules:

Issues Raised in Submissions (cont)

7	For each LNSP to maintain a separate register is inefficient & a single central register is required	<ul style="list-style-type: none"> •EnergyAustralia •Electricity Transmission Network Owners •Energy & Water Ombudsman NSW •Energy Networks Association •VENCorp •Country Energy 	The effort in maintaining the register is incremental to existing obligations on LNSPs
8	The issue should be addressed outside the NSP and most importantly outside the Rules	<ul style="list-style-type: none"> •EnergyAustralia 	<ul style="list-style-type: none"> •This suggestion does not insert the new entrant into the connection process •The register needs to be maintained by a party with obligations under the Rules
9	Is this a matter on which the AEMC can make a Rule?	<ul style="list-style-type: none"> •EnergyAustralia •Energy Networks Association •Integral Energy 	The proposed Rule facilitates the competitive provision of contestable services

Issues Raised in Submissions (cont)

10	The proposed Rule places undue obligations on the LNSP	EnergyAustralia	<ul style="list-style-type: none"> •The Rules already require that LNSPs advise CAs which services are contestable. •The proposed obligations are only incremental to existing obligations
11	The proposed Rule places a formal obligation on the LNSP to facilitate a competitive market	EnergyAustralia	The proposed Rule only requires LNSPs to disseminate information – there is no obligation to facilitate a competitive market
12	The issues identified in the proposed Rule are real and substantive i.e. an information asymmetry exists which provides LNSPs with a competitive advantage	<ul style="list-style-type: none"> •Bovis TPC Pty Ltd •AGL Hydro •Metropolis 	Agreed
13	There are few service providers other than the LNSPs and new entrants need to be encouraged	<ul style="list-style-type: none"> •AGL Hydro •Origin Energy 	The real and substantive issues with the existing Rules impede new entrants
14	The proposed Rule should not place major obligations on the LNSPs	AGL Hydro	The proposed Rule is a minor change to existing obligations
15	A fuller review of this issue should be carried out at a later date	AGL Hydro	-

Issues Raised in Submissions (cont)

16	The cost of the proposed Rule will exceed the benefits (because of accreditation issues)	<ul style="list-style-type: none"> •AGL •Energy Networks Association •Country Energy 	There are no accreditation issues for LNSPs as other arrangements are already in place for owners
17	The proposed Rule would require LNSPs to develop processes and systems for maintaining registers for connection applications, connection contractors, etc	<ul style="list-style-type: none"> •AGL •Energy Networks Association 	<ul style="list-style-type: none"> •Requiring LNSPs to maintain registers of connection contractors duplicates existing jurisdictional arrangements •The requirements of the proposed Rule are only incremental to existing obligations •There are no accreditation issues for LNSPs
18	The proposed Rule is an attempt to regulate the market in contestable services	<ul style="list-style-type: none"> •Electricity Transmission Network Owners •Energy Networks Association 	Incorrect – rather, the proposed Rule encourages the market in contestable services

Issues Raised in Submissions (cont)

19	There are legal issues regarding endorsement of names on the registers	<ul style="list-style-type: none"> •Electricity Transmission Network Owners •Energy Networks Association •VENCorp •Integral Energy •EnergyAustralia 	An appropriate disclaimer is required
20	Connection applicants should be able to source and procure service providers themselves	Electricity Transmission Network Owners	AGL Hydro has already highlighted that there are few alternative providers, suggesting barriers to entry
21	The proposed Rule is inconsistent with the market objective	<ul style="list-style-type: none"> •Electricity Networks Association •Integral Energy 	The proposed Rule overcomes impediments to delivering on the market objectives
22	The information provided by the registers will be imperfect and its benefits doubtful	Integral Energy	Possibly – but it’s an improvement over the present situation
23	Difficulties in reaching agreement on price and commercial terms arise with only a single LNSP	Origin Energy	-
24	CAs face a one sided negotiation process	Origin Energy	-

Discussion

- The submissions highlight that there are presently few alternatives to the LNSPs
 - Information asymmetry is one significant contributing factor which the proposed Rule addresses
- The proposed Rule relies on the ‘good will’ of the LNSP
 - Not ideal but an improvement on the existing situation
- The initiative to set up a portfolio of connection assets is consistent with overseas trends e.g. the UK (www.ofgem.gov.uk)
 - Independent utility infrastructure providers have entered the ‘new build’ market for both gas and electricity
 - Licensees include Laing O’Rourke Energy Ltd, Independent Power Networks Ltd, Global Utility Connections (Electric) Ltd & The Electric Network Company Ltd

Conclusions

- The proposed Rule contributes to the NEM objectives through:
 - providing greater scope for the provision of contestable services
 - greater variety in the scope of services offered
 - greater flexibility in the commercial terms and conditions
 - promoting greater investment efficiency
 - reduces the potential for the exercise of market power by the LNSPs
- The submissions raised that there are few alternative service providers – this is considered to be a direct result of the present information asymmetry
 - The intention of the Rules will not be achieved unless the Rules are modified
- The proposed Rule is a first step consistent with the NEM objectives