



**Wednesday, 6 July 2016**

**Mr John Pierce**  
**Chairman**  
**Australian Energy Market Commission**  
**PO Box A2449**  
**Sydney South NSW 1235**

Lodged electronically

Dear Mr Pierce,

**RE: ERC0192 Discussion Paper on Transmission Connection and Planning Arrangements Rule Change**

AGL welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) Transmission Connection and Planning Arrangements Rule Change (Discussion Paper).

AGL is one of Australia's leading integrated energy companies and is the largest ASX listed owner, operator and developer of renewable energy generation in the country. AGL is also a significant energy retailer in Australia with over 3.7 million electricity and gas customers. AGL has a diverse power generation portfolio of over 10,500MW including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass.

AGL supports changes to the National Electricity Rules (NER) that will improve transparency and add clarity to the connections framework. AGL considers such changes would assist in redressing the imbalance in the connection process, which currently favours Transmission Network Service Providers (TNSPs). In particular, AGL wholly supports the full contestability of dedicated connection assets, which will be built, operated and maintained by a party chosen by the project proponent.

However, AGL does not consider that the form of contestability, which would likely produce the greatest net benefit, has been clearly articulated for Identified Shared Used Assets (IUSA). That is — is there evidence demonstrating that the cost savings (primarily in construction) will outweigh the costs of introducing potentially unproductive and overly complex regulatory requirements, and subsequent complex commercial and legal negotiations? This is a critical consideration, as the AEMC is considering significant changes to the NER connections framework that will impact many chapters of the NER.

AGL supports the premise that competition generally results in lower costs. However, AGL suggests that there should be a detailed examination, preferably a cost benefit analysis, to determine how far the proposed rule changes to promote contestability can go, before the potential benefits gained from increased contestability will be outweighed or diluted by the costs of the transaction.

In AGL's considered opinion, neither Model A nor B presents an appropriate way forward to improve the connections framework. Instead, AGL supports incremental changes to the existing connection framework to improve transparency and to add a degree of

Contestability to the process. AGL proposes a number of incremental changes to the current framework, which it considers more appropriate to the form and scale of contestability contemplated in the Discussion Paper. AGL considers such incremental changes could more effectively promote competition consistently across the NEM by enhancing the existing negotiating framework, as opposed to wholesale changes. Specifically, AGL considers the following amendments would greatly improve the current framework and process:

- Allow the parties to engage an independent engineer.
  - AGL suggests that this would correct the power imbalance, which is an entrenched problem for the industry, by establishing appropriate technical requirements between the parties (potentially exerting downward pressure on the quantum of the capital and operating costs). This process can be incorporated in the existing, or a modified negotiation framework, with minimal complexity and transaction costs — and is likely to produce significant net savings. Further, this rationalisation of scope is likely to yield much of the benefit which can be achieved by contestability — as TNSPs have already noted that competitive tendering applies to connection works.<sup>1</sup>
- Avoid added complexity around contracting by limiting contestability to construction for IUSA — having the asset owned, operated and maintained by the incumbent TNSP.
  - To clarify, the bulk of potential savings from connection works are construction costs, which are generally a small fraction of total power project costs. Limiting the scope of contestability to construction would allow the proponent to retain the savings derived from ordinary construction tenders, ensuring this is not compromised by increased regulatory burden. Importantly, this approach would not reduce the proponents' choice of contractors engaged to complete the construction works, as the process currently does.
- Increased transparency as to TNSP operating and maintenance services costs.
  - Currently, O&M costs are simply a percentage of TNSP capex, which does not demonstrate any correlation to actual costs. A rule change, or enforceable guideline changes, could provide greater transparency by ensuring cost reflective marginal pricing is adopted by TNSPs. Such an approach would ensure the services are properly budgeted and reflect the specific costs of providing such services; and
  - Further cost savings could be achieved by requiring the TNSPs to take into consideration the plant's operation requirements in planning its maintenance program including the timing of the outages or other service interruptions.
- Require incumbent TNSPs to construct, own and operate the assets at the regulated Weighted Average Cost of Capital (WACC) if requested by the proponent.
  - While the notion of a regulated WACC being applied to a contestable asset may have been considered in the Transmission Framework Review, AGL considers it a plausible mechanism to improve the competitive outcomes of the proposed rule change.
  - As monopoly service providers, TNSPs already own and operate a large asset base sanctioned under the NER to provide network services. In AGL's view, and in accordance with the National Electricity Objective on price, quality and reliability, TNSPs should be obliged to provide the option of IUSA as an extension of their existing shared service. This is consistent with TNSPs' broader obligation to provide regulated services if the connection proponents so choose. TNSPs universally require bank guarantees as part of their connection agreements to the value of the assets, even when the access seeker has an investment grade rating. This de-risks the TNSP's investment, putting it on a par with their regulated assets.

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<sup>1</sup> ENA, submission on AEMC consultation paper, p7.

- In the above scenario, the capex and opex for the IUSA will be fully funded by the proponent under the connection agreement (or part thereof if the TNSP has futureproofed the asset size) and will pose no greater financial and operational risk to the TNSP than the regulated services. It will potentially further simplify the economic regulatory process when future proponents decide to connect to the IUSA, which could then be provided as an option (in addition to the contestable option) consistent with TNSP's wider shared transmission services.



In conclusion, AGL considers it important that the AEMC conduct a cost benefit analysis of the proposed rule change against an alternative approach, which involves minimal or incremental changes to the NER, before a decision is made on the final form and depth of connection contestability settings.

Further comments on the proposed rule change are provided at Attachment A: Detailed Response to the Discussion Paper.

Please contact Kong Min Yep on 03 8633 6988 if there are any issues raised regarding this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux', is positioned below the closing text.

Simon Camroux  
**Manager Wholesale Market Regulation**

## **Attachment: Detailed Response to the Consultation Paper**

### **Section 2 Objective of the Rule Change**

AGL agrees with the AEMC on the issues identified with the current connection framework, which creates an imbalance in the negotiation process for access and can lead to a lack of clarity for access seekers. This has resulted in unpredictable outcomes, increased complexity and delays, all of which have cost implications.

AGL supports the objectives of the rule change to improve outcomes for the connecting parties with respect to transparency, timeliness, cost and complexity of connections, and maintaining clear accountability for the safe, reliable and secure supply of electricity across the transmission network.

However, AGL strongly urges the AEMC to perform a cost benefit analysis or equivalent on the net benefits of the proposed rule change. In AGL's view, the proposed changes may lead to the connection process being more complex and costly than the current arrangements, both in regulatory and commercial terms. In the context of the relative magnitude of the cost of the connection process to the overall project cost, it is important to keep in perspective the potential diminishing benefits of the proposed rule change if it results in an overly complex structure of contestability.

AGL would like more detail from the AEMC describing the basis on which it will determine the appropriate or optimum level and form of contestability to produce positive net benefits for the market.

In terms of accountability for the safe and reliable operation of the network, AGL concurs with the AEMC that TNSPs are fully accountable for the network performance with respect to power system security. AGL notes that TNSPs have a legislated role as the owner and operator of the wider shared network and that a connection point is a small but integral part of the whole network under a TNSP's control. As such, it is AGL's view that while contestability is an effective mechanism to reduce construction cost, any changes that add complexity to the relationship between the connecting parties is likely to add complexity, and cost over the operating life of connection assets.

### **Section 3 Proposed Changes to the Transmission Framework**

AGL supports the AEMC's intent to provide clarity in the NER regarding network assets, and in particular the economic regulatory treatment of connection assets. AGL considers that delineating clear boundaries between assets will help to avoid confusion in the contracting process around connection.

In the context of AGL's preferred approach, which is for minimal changes to the current framework (to preserve maximum positive net benefits), AGL is unsure of the benefits of introducing the "Identified User Group" category. In AGL's view, it is possible that other users may want to access the same connection assets but this rarely, if ever, happens in AGL's experience.

Even if there is a request for third party access in future, it would be commercially negotiated between the new access seeker, the incumbent party and the TNSP. Accordingly, AGL is unsure if it is worthwhile laying down a regulatory framework in anticipation of potential future access seekers. While AGL concurs that it may make economic and regulatory sense to ensure future access is equitable and least cost, access can be provided through light handed regulation that ensures a third party access seeker has recourse to seek regulatory intervention — if it considers the incumbent is behaving in an anti-competitive manner.



AGL supports the AEMC’s proposal to require TNSPs to publish detailed connection requirements. This is a key factor that could facilitate transparency and fit-for-purpose outcomes for the connection applicant. AGL considers that TNSPs should be required to publish non-locality specific technical details, which are highly relevant and correlate to what is required from connection applicants in the NER Chapter 5 connection process.

**Section 5 Identified User Shared Asset Model A**

AGL supports Model A or a modified version of Model A if it is shown to be the better option to AGL’s proposal of minimal changes to the current framework, as outlined in the letter.

**Section 6 Identified User Shared Asset Model B**

AGL does not support Model B.