

TRANSMISSION FRAMEWORKS REVIEW

Transmission Operations (Australia) Pty Ltd (TOA) welcomes the opportunity to provide the following submission on the Australian Energy Market Commission's (the Commission) Second Interim Report entitled, 'Transmission Frameworks Review' (Second Interim Report) dated 15 August 2012.

The creation of TOA is an exciting and positive step forward for Victoria in terms of provision of competitive energy connection. TOA is committed to providing its customers a commercially viable alternative to the incumbent TNSP. TOA intends to be an active market participant and to undertake the design, construction, operation and ownership of transmission assets.

The following submission outlines TOA's operations and the implications of the Commission's recommendations on an existing contestable market. TOA understands that there are issues around the current model and are keen to work through these with the Commission.

Background

The purpose of the Transmission Frameworks Review is to test whether the arrangements for transmission in the market are workably efficient and effective for accommodation of future climate change and energy policies. The Second Interim Report addresses three broad areas of transmission arrangements:

- generators' certainty of access to their regional reference price
- planning frameworks
- arrangements for connecting to the network

In respect to the arrangements for connecting to the network, the Commission does not consider that the end-to-end provision of extension occurs within workably competitive market. Therefore, the Commission does not propose that connection applicants should be allowed to build a substation on the shared network. Rather, the connecting party, which is paying for the connection, should have access to contractor bids and that the transmission business commissioning the work should consider the connecting party's preferences in final contractor selection.

Unlike the construction of substations on the shared network, the Commission notes that connecting parties already have the option of running competitive tenders for the construction of extensions. Therefore, the Commission proposes that the connecting party could provide the extension itself, with the transmission businesses being able to tender for elements of this work or the connecting party could have the option of requiring the transmission business to provide an extension as a negotiated transmission service.

Transmission Operations (Australia)

TOA is ultimately 50% owned by Cheung Kong Infrastructure Holdings Ltd (CKI) and 50% owned by Power Assets Holdings Limited (Power Assets). CKI and Power Assets also have combined ownership of 51% of the CHEDHA group of companies which include Powercor Australia Ltd and CitiPower Pty. TOA intends to utilise via contractual arrangements the expertise of the CHEDHA group of companies to support its operations on an ongoing basis.

CKI is one of the largest overseas infrastructure investors in Australia. It has investments in electricity and gas distribution as well as water businesses and includes SA Power Networks; Powercor, CitiPower and Envestra Limited. In the United Kingdom, CKI has a comprehensive portfolio of investments in gas and electricity distributions; water and wastewater services as well as electricity generation. They include Northern Gas Networks, a major gas distribution business that serves the North of England and UK Power Networks, one of the United Kingdom's largest power distributors supplying electricity to London, South East England and East of England.

TOA has already finalised contractual agreements with Meridian Energy Australia Limited's (Meridian) entity Mt Mercer Wind Farm Limited. Meridian plans to build a 130MW Mt Mercer Wind Farm (MMWF) which is located in Powercor's area. The New Zealand Government is the ultimate owner of Meridian. Meridian is an experienced wind farm owner with 6 wind farms in New Zealand and currently constructing one other in Australia.

The Mt Mercer project involves TOA building, owning and operating the connection assets for the MMWF. The project involves the following components:

- 21km single circuit monopoly overhead line from the gantry at the Wind Farm substation through to the terminal station;
- 2 transformers 132kV to 220kV; and
- a terminal station linking into the existing SP AusNet 220kV transmission line.

It is expected that the transmission line work will commence in October 2012, the terminal station work will commence in January 2013 and finally it is expected that the practical completion of works will be completed in September 2013.

TOA's intention is to proceed with a transmission licence application to the Essential Services Commission of Victoria (ESCV) in order to provide transmission services to Meridian and future Victorian customers.

The most immediate opportunities for TOA to build own and operate transmission assets are in Victoria, facilitated by the current arrangements allowing for competitive tendering for connection assets. TOA seeks to grow its business beyond Victoria and strongly advocates that the Commission provide for arrangements in other NEM jurisdictions that allow for competitive bidding for shared transmission assets. As discussed below, TOA believes that encouraging competition will be more effective in delivering efficient pricing rather than as proposed, adding regulatory requirements.

Is increased contestability feasible?

TOA strongly disagrees with the Commission's view that the end-to-end provision of extensions does not occur within a workably competitive market. It is clear given TOA's operations that contestability is not only theoretically possible it is currently in operation.

Providing customers the choice to procure transmission services from suppliers other than the incumbent TNSP encourages competition in the market and in turn promotes the National Electricity Objective (NEO). A number of generators' have submitted that providing connection applicants with more control through contestable provision of service and choice of regulatory process to be applied to the connection process will be effective in reducing the imbalance in power.¹

It is true that increasing the choice of suppliers can provide additional complexity but 'choice' is an inherent characteristic of competitive markets and the substantial cost savings for customers more than outweighs any transaction costs. The fact that Meridian has chosen an alternative transmission services provider other than the incumbent TNSP clearly demonstrates this. Further TOA notes that the Commission's proposal for a connection to be a negotiated service with substantial information requirements imposes additional costs.

There are competition barriers in jurisdictions such as NSW and Queensland. However, these competition barriers are not due to the inherent nature of the electricity transmission market but rather due to imposed legislative and regulatory barriers. For example, in NSW TransGrid is a legislated monopoly and in Queensland the process for obtaining a transmission license is not transparent. TOA advocates that the Commission promote the removal of these barriers, thus enabling competition to occur within these states.

Transferring liability

The Commission's view is that there are inherent conflicts which mean contestability in ownership or operation of connection assets is unlikely to be efficient. The incumbent TNSP needs to be closely involved in the design and construction in order to ensure the security and reliability of the shared network. Liability lies with the TNSP, and transferring that liability would involve significant transaction costs which are likely to outweigh any benefit from increased contestability.²

Where appropriate, TOA in its operations has efficiently assumed the required liability. Under its agreement with the Australian Energy Market Operator (AEMO) it is required to adhere to the same reliability standards as the incumbent TNSP SP AusNet.

In addition, TOA considers that a fully contestable environment will foster the development of commercially viable availability incentive schemes. Such incentive schemes requires TOA or any other TNSP providing transmission services in Victoria with substantial financial exposure directly related to the performance of its network. Any network availability incentive scheme puts an explicit value on individual asset availability. The rate to be applied for an individual transmission system element should reflect the criticality of its outage, and the time period in which the outage occurs.

¹ AGL, Transmission Frameworks – First Interim Report, 2 February 2012.

² Second Interim Report, pg. 87.

Planning standards

TOA supports a consistent national framework for setting transmission reliability standards. Establishing a consistent national framework will ensure that all TNSPs, be it the incumbent TNSP or an alternative TNSP in providing transmission services, must adhere to the same reliability standards.

It should also be recognised that in order to obtain a TNSP licence and registration an entity must satisfy the Energy Services Commission Victoria (ESCV) and AEMO that it has financial and technical capability in providing transmission services.

Firm Access

TOA supports providing shared services deeper in the network. Further, if the arrangements are commercially viable TOA is receptive to providing generators 'firm access' requirements.

Conclusion

In conclusion, TOA strongly encourages the Commission to reconsider its recommendations in respect to the arrangements for connecting to the network. TOA passionately believes in increasing competition in the market and providing viable commercial alternatives to the customer. TOA has been explicitly established to create competition in these services and is firmly of the belief that it can provide cost efficient and reliable end-to-end transmission services including connection and extension services. The fact that it has signed undertakings with Meridian and has a long term strategy to bid for future tenders is clear evidence of TOA's commitment.

TOA welcomes the Commission's proposal to enhance the transparency of the connection process and establish a consistent national framework for setting reliability standards. However, the Commission does not satisfy the NEO by establishing a framework that entrenches the incumbent TNSP as the only transmission service provider. Further, the Commission by entrenching the incumbent TNSP it will extinguish competition and any further prospects of long term benefits that workable competition delivers to customers. TOA urges the Commission to reconsider its recommendations and its competition implications on an existing contestable market.

TOA is keen to meet with the Commission to discuss this submission. If you have any questions about any matters raised in our submission please do not hesitate to call Eric Lindner our Chief Executive Officer on 0403582555.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Lucas', with a long horizontal stroke extending to the right.

Simon Lucas
Company Secretary
Transmission Operations Australia