

222 Exhibition Street T: + 61 3 9929 4100  
Melbourne F: + 61 3 9929 4101  
Victoria 3006 E: [info@cleanenergycouncil.org.au](mailto:info@cleanenergycouncil.org.au)  
Australia W: [cleanenergycouncil.org.au](http://cleanenergycouncil.org.au)  
ABN: 84 127 102 443



Friday, 15 February 2013

John Pierce, Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235  
By Email

Dear Mr Pierce,

**RE: Clean Energy Council response to AEMO's proposed National Connections Model**

As the Australian Energy Market Commission (Commission) is aware the clean energy industry is, and will remain one of the market's key stakeholders in new transmission connections for some time. As was expressed in previous submissions to this review the importance of efficiencies in the connection process and delivery of the physical assets for new connections is paramount to ongoing investment in large-scale clean energy generation technologies in Australia. Along with many other stakeholders the Clean Energy Council's (CEC) firm view is that competition will be the most effective means to deliver on this outcome and is aware that this is the position of a large number of other stakeholders.

Given the extensive experiences (both good and bad) that AEMO has to date with contestable connections in Victoria, the market operator is well placed to develop a framework which includes those aspects of the Victorian connections arrangements which have shown efficient and competitive delivery to date. In conjunction, Victorian experiences are now demonstrating that a market does exist for competitive delivery.

Within the context of the specific comments below, the CEC is making this submission to express its support for AEMO's proposed contestable connections framework as submitted to the Commission on January the 23<sup>rd</sup> 2013.

***Management of generator and TNSP cross-ownership limitations***

In order for the proposal to achieve the most productive outcomes the rules framework must effectively manage the current limitations on generation ownership by TNSPs. The approach to do so must recognise that the cross-ownership limitations were established to prevent incumbent TNSPs from stifling competition in the generation sector. Restrictions on TNSP registration in most NEM jurisdictions have been effective at achieving this aim to date.

The AEMO proposal considers that a generator could construct, own and operate *network* assets up to the interface with the incumbent TNSP's *network*. Under this proposal these assets would be required to be held by a registered TNSP, rather than the generation entity.

As such the concerns which established the cross-ownership limitations initially will be appropriately mitigated. Third party access to any *network* owned by a generator-TNSP would be subject to the same access rules as any other TNSP.

The CEC's previous submission provided an alternative mechanism for third party access to independently owned *connection assets* and the inclusion of provisions within the minimum requirements for a *connection agreement* may be still be required<sup>1</sup>.

The proposed establishment of a national negotiating framework would also be expected to provide sufficient support for those wishing to gain access to existing *network* or *connection assets*.

### ***AEMO determination of the location of the connection point***

The AEMO proposal intends that the location of the *connection point* would be under agreement with the *connection applicant*. This arrangement should not override the current intent of NER clause 5.3.6(d) which establishes that a TNSP must meet the reasonable expectations of the *connection applicant*, including the proposed location of the *connection point* on the TNSP's *network*.

Under AEMO's proposal this negotiation would take place with AEMO, rather than a TNSP. The negotiation would be focussed on the *connection point* as defining the boundary of *network* assets delivered competitively by a TNSP and *connection assets* delivered by the *connection applicant*. This proposed framework is consistent with the current rules which, as highlighted in the CEC's previous submission to this review, never intended for TNSPs to own *connection assets*<sup>2</sup>. The CEC does not expect that any change to the current rules definitions regarding assets is necessary within this proposal.

As the rules also already have a framework to manage the interface between NSPs any negotiations between the incumbent TNSP and a TNSP engaged by a *connection applicant* can be managed effectively with minimal change to the current rules, including retaining the intent of clause 5.3.6(d).

---

<sup>1</sup> CEC, 2012, Submission to the Transmission Frameworks Review on Connections, p. 45.

<sup>2</sup> Ibid, Sect. 3.

### ***Enhanced role of the AER***

As expressed in previous submissions the CEC strongly supports enhancing the role of the AER in the connection process. Rather than indicating that the connections framework is working effectively, the fact that generators have avoided the AER's arbitration processes is an indication that the rules do not support it appropriately.

The proposed establishment of a NEM-wide negotiating framework by the AER would provide the following benefits:

- Enabling the AER to take ownership of the same processes which they are also then responsible for any arbitration over. As the AER would have visibility over any flaws or issues with the framework this arrangement would enable it to evolve efficiently.
- A single framework would reduce the AER's regulatory administration effort and enable freed up resources to focus on the regulation of outcomes consistently, rather than administering multiple TNSP specific negotiating frameworks.
- Enhanced access to the arbitration process by connection applicants.
- A more efficient arbitration process as the AER's resources would be more focused on the outcomes of the negotiating framework.
- A NEM-wide framework will harbour competition more efficiently by enabling TNSPs to move across borders more easily.

Combined these new functions would significantly advance the AER's role in the connection process, and provide *connection applicants* with confidence that the outcomes of the process are being realised efficiently and cost effectively.

### ***Provision of functional specifications for new network assets***

Under current arrangements the connection configuration is determined by the TNSP during the negotiation process. The final configuration of the connection can have a significant impact on costs. Despite this *connection applicants* are not provided with clear reasoning behind a more complex connection when a TNSP demands that this is required.

From the experiences of some of CEC members connection applications for similar projects connecting to the same voltage levels within one TNSP's network have produced very different connection configurations, with little explanation of how the final decision on a configuration needed was made by the TNSP.

While connection applicants want to connect efficiently there is a need for the market to understand consistent decision making processes. Under AEMO's proposed framework the functional specification would enable a TNSP to deliver the connection competitively. While the CEC strongly supports this approach it must be supported by clearly defined decision making processes which are transparent to the market. The most effective way to achieve this outcome is for a central independent body to assume this function.

### ***Publication of TNSP technical design standards***

Previously the CEC has expressed a view that the publication of technical design standards by TNSPs should be mandatory on the basis that efficient regulation requires complete transparency. The AER's determinations should be supported by complete information transparency by TNSPs as this would be in the interest of the NEO and efficient transmission investment<sup>3</sup>. The CEC strongly supports AEMO's proposal for the publication of design standards within the proposed contestable connections framework.

### ***Independent assessment of power transfer capability***

In previous submissions to this review the CEC has expressed deep concerns that there are currently perverse incentives for TNSPs to connect new generation without limitation. Further, the current intent of the rules for a TNSP to provide sufficient information to *connection applicants* in order for them to manage the risks that inadequate *power transfer capability* across the TNSP's *network* could present is not evident in many cases<sup>4</sup>.

While the current rules framework enables a *connection applicant* and a TNSP to negotiate for compensation as part of the *transmission network user access* arrangements, no part of the rules *requires* a 'guarantee' of *power transfer capability*. Rather, the conscientious assessment of *power transfer capability* as a part of these user access arrangements is a clear matter of risk management for the *connection applicant*. NER clause 5.4A(e) recognises this by expecting the TNSP to provide sufficient information for a *Connection Applicant* to fully assess the commercial significance of the *transmission network user access* arrangements (including the *power transfer capability*) sought.

On the basis that *power transfer capability* is affected by a diverse range of network conditions and associated control schemes the CEC previously indicated that the TNSP is the only party who holds the requisite information to comprehensively assess it<sup>5</sup>. Despite this the perverse incentive issue discussed above is not managed directly by this approach.

As it is an independent body, these incentives would be more effectively overcome by placing this assessment in the hands of AEMO for a proposed connection application. In conjunction, as AEMO has the ultimate responsibility for system security and constraint management there should not be any barriers to this body having access to all of the necessary information to accurately assess *power transfer capability*. Appropriate rule changes could easily place this responsibility with AEMO while making TNSPs accountable for the accuracy of the information provided to AEMO to undertake the necessary studies.

---

<sup>3</sup> *Ibid*, p. 65.

<sup>4</sup> *Ibid*, p-p. 11-13.

<sup>5</sup> *Ibid*, p. 12.

### ***Preliminary information to the TNSP market***

While there may be benefits to transparency of proposed new connections the CEC questions the need for disclosure of connection enquiry information to the TNSP market at an early stage. The estimated success rate of connection enquiries is close to 10 per cent and the timeframe between a connection enquiry and a connection application is usually unknown. These factors indicate that, even if the market received this preliminary information, action would be premature in many cases.

A more effective approach may be to allow the applicant to control the release of information by tendering for the works at the appropriate stage in the process.

### ***Potential costs***

The CEC also recognises that there will be some costs associated with this new framework in the form of additional staffing for AEMO and possibly the AER.

AEMO's independence places it as the appropriate body to undertake the roles set out in the proposal. The CEC also understands that AEMO is currently increasing their staffing and is prepared to accept that the proposed framework may require further increases. The AER will gain some efficiency by avoiding the administration of multiple negotiating frameworks.

In summary, the poor efficiency of the current connections framework would be mitigated by substantial gains that market forces would deliver in a competitive connections framework. The envisaged gains will far outweigh any new costs.

### ***Summary***

The CEC believes that given the appropriate arrangements in the rules this proposed contestable connections framework would make significant enhancements to the efficiency of new connections. The CEC also recognises that the AEMO proposal meets a number of the objectives which the Commission identified in the Second Interim Report for a preferred connections framework, including:

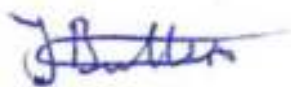
- Enhancing the transparency of the connection process, while maintaining system security, reliability and safety as the publication of TNSP design standards and allowing AEMO to provide functional specifications to the market retains these responsibilities with designated bodies.
- Enhancing the role of the AER in the connection process. The establishment of a national negotiating framework would remove administrative burden on the AER and allow the regulator to focus on the outcomes of the framework more freely. In conjunction access to the arbitration process should be more efficient and timely.
- Enhancing the confidence of *connection applicants* by placing the formulation of the negotiating framework with the independent body that is responsible for

administering it on an ongoing basis, while also enhancing the capability of *connection applicants* to properly assess risk.

- Enhanced confidence in the decision making process for new connections with the provision of a functional specification which can be developed under a consistent and transparent framework.
- Enhancing the role of *connection applicants* in the tendering process by allowing them to tender with consistent standards. Allowing market forces to deliver and innovate to reveal efficiencies will provide significant economic gain in the connections process.
- Clarifying the rules with regards to asset ownership and delivery by establishing a framework which is consistent with the rules definitions and intended purpose for *network assets* and *connection assets*, and the roles of TNSPs and *connection applicants*.
- Providing a consistent mechanism to manage third party access.
- Maintaining the reliability, security and safety of the transmission network on an ongoing basis for all consumers, while connecting new generation more efficiently.

Please do not hesitate to contact the undersigned for any queries regarding this submission.

Yours sincerely,



**Tom Butler | Network Specialist | Clean Energy Council**

**Direct** +61 3 9929 4142

**Email** [tom@cleanenergycouncil.org.au](mailto:tom@cleanenergycouncil.org.au)

**Media:** Mark Bretherton +61 3 9929 4111