

1. Alternative model

Transmission Operations Australia Pty Ltd (TOA) considers the Victorian model allows a new entrant to compete for new transmission connections and further allows for the relevant parties to negotiate via contractual arrangements agreed risk sharing and service performance incentives for the provision of transmission services.

However, TOA considers that the Victorian procurement model requires a number of reforms in order to ensure more effective and efficient competition for connection and extension assets. The requirement for the customer, the owner of the extension and connection transmission assets and the incumbent Transmission Network Service Provider (TNSP) to negotiate with Australian Energy Market Operator (AEMO), rather than the parties directly creates higher transaction costs.

The section below outlines the following:

- a. an explanation on why in states other than Victoria, there are significant barriers to competition
- b. the relevant stakeholders' roles and responsibilities under the Victorian procurement model
- c. a description of the Mt Mercer contractual risk sharing and performance incentives between each of the relevant stakeholders
- d. TOA's proposed alternative model.

1.1 Barriers to competition

A principle underlying new transmission connections is that all parties are provided the opportunity to form a connection to, and have access to, the network. The terms and conditions of that connection must be fair and reasonable between the TNSP and the intending connection applicant.

The process has not delivered competitive provision of network services in states other than Victoria. The reasons for this include:

- a) Information asymmetry. The incumbent TNSPs have the greatest level of information in relation to the network and, further, have control over what information is supplied to the customer. In practice the incumbent TNSPs have the power to exclude any competitive conduct on any part of their network or aspect of network planning or operational roles.
- b) Allowing third parties to conduct work on transmission assets on property and assets owned by TNSPs (for example, work within substations or work on

circuits and other assets owned by TNSPs) presents a risk to the TNSPs assets and therefore been prevented, rather appropriately managing those risks.

- c) All guidelines developed focus on the physical configuration of network augmentations to enable a connection, rather than the services. Focusing on the technical requirements limits innovation in the connection services and therefore delivers standard results which are uncompetitive.

1.2 Victorian procurement model

1.2.1 Roles

Victoria's planning framework differs considerably from all other regions in the National Electricity Market (NEM). AEMO is responsible for planning and directing new transmission connections in Victoria, and it plans and procures services to achieve this.

SPI PowerNet is the incumbent Victorian TNSP and is responsible for ensuring reliability in the transmission network in Victoria is maintained, subject to the planning decisions made by AEMO.

TOA is a TNSP. TOA has commenced being an active market participant to undertake the design, construction, operation and ownership of transmission assets and intends to participate across States in the NEM where barriers do not prevent it from doing so.

1.2.2 Procurement

TOA considers that the Victorian procurement model incorporates unnecessary complexity. The requirement for the customer, the owner of the connection assets and the incumbent TNSP to negotiate with AEMO, rather than the parties directly creates inefficiencies in both higher transaction costs and in the time to deliver projects. For the Mt Mercer project, six contracts were required to govern the arrangements between the parties

1.2.3 Contractual risk sharing and performance incentives

TOA considers that the Victorian model does allow for the relevant parties to negotiate via contractual arrangements agreed risk sharing and performance incentive mechanisms for the purposes of constructing and operating connection and extension assets.

In the case of the Mt Mercer project, TOA, MMWF, AEMO and SPI PowerNet have entered into a *Project Co-ordination Deed* (Deed). The Deed sets out the governance, limitation of liability, variations and other arrangements between the parties during

the construction of the Elaine Terminal Station and Interface and the operation of those assets.

1.2.4 Alternative model

The Victorian model allows a new entrant to compete for new transmission connections and further allows for the relevant parties to negotiate, via contractual arrangements, agreed risk sharing and service performance incentives for the provision of transmission services. However, the Mt Mercer project illustrates that the number of Agreements required to be put in place is onerous and a potential barrier to competition.

TOA considers that the incumbent TNSP, the customer and the TNSP providing the transmission connection and extension assets should deal directly with each other. AEMO should not be involved in the commercial negotiations of the provision of transmission connection and extension assets.

TOA's new approach modifies the current connection process in the following key ways:

- a) One model applied across the NEM providing for competition in each of the constituent states.
- b) The application is submitted to AEMO independently to conduct national system security assessments (as per the current Victorian model). This ensures that the information supplied to the customer is independent and is not affected by vested financial interests in the outcome.
- c) AEMO provides the customer with the necessary requirements that focus on the underlying services but do not prescribe the assets that are required to ensure compliance with the service requirements. This allows customers to propose unique solutions, providing competition in both the provision of the physical infrastructure as well as the solution provided.
- d) Information is supplied to the market at the time of the connection enquiry and connection application by AEMO. This provides potential service providers with the ability to approach the customer and propose a specific augmentation proposal and the incumbent TNSP the ability to prepare for the connection. It reduces the information asymmetry between the incumbent, the customer and other potential service providers.
- e) Most importantly the negotiations are between the customer, the incumbent TNSP and any other potential service providers (if applicable). The framework specifying the roles of the TNSP, AEMO and the Connecting Party will be set out in the NER with recourse to the AER to administer the sharing of information, cost sharing and arbitrate dispute. AEMO would be the AER's technical adviser.

This model would enable, and bring forth, competition in the NEM states where there has, as yet been none. The model will provide certainty to parties entering into the tendering process, and subsequently to those operating transmission connection and extension assets. It would make the process more efficient, thus ultimately benefiting customers across the NEM.

2. Customer funded extension

TOA does not agree with the AEMC's proposal to enable a customer funded extension to be converted to a regulated asset should another customer(s) connect to that extension.

If it is more economic to connect to the extension assets rather than the new transmission connection assets then the connecting party should utilise normal commercial negotiations to obtain agreement. Those negotiations would involve the original connecting party, the owner of the extension assets and the party seeking connection.

TOA does not believe substantial barriers would occur as the original connecting party and the owner of the extension assets would have incentives to derive financial benefits which would be appropriately balanced by service provision impacts caused by the new connecting party. As each situation will be relatively unique, TOA considers that the conversion of an extension into a regulated asset would not provide the flexibility warranted to be able cater for individual circumstances.

If TOA has entered into contractual arrangements those contractual arrangements must be honoured regardless of whether or not the services are prescribed, negotiated or non-regulated. If the customer funded extension is converted to a regulated asset then the revenue stream and service obligations must be locked in for the entire period of the contract.

If ultimately it is decided that extension assets can be converted to a regulated asset, the NER must prescribe arrangements that ensure the existing contractual arrangements are honoured.