

John Pierce  
Australian Energy Market Commission  
201 Elizabeth Street  
Sydney NSW 2000

9 April 2020

Dear John,

**Re: Consultation Paper, Connection to Dedicated Connection Assets Rule Change Proposal**

Enel Green Power (EGP) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) Consultation Paper on the Australian Energy Market Operator (AEMO) Rule Proposal "Multiple Facilities Connecting to Dedicated Connection Assets."

Founded in 2008, and part of Enel Group, EGP builds and operates large scale renewable generation capacity in energy markets around the world. EGP operates in 29 countries on 5 continents with a managed capacity of over 43 GW and over 1,200 plants. EGP is one of largest renewable energy companies in the world, generating approximately 100 TWh of renewable electricity from hydro, solar, wind and geothermal energy.

EGP welcomes those aspects of AEMO's rule change proposal that are focused on clarification of the treatment of connection points on Dedicated Connection Assets (DCAs). Given the one-to-one relationship in the National Electricity Rules (NER) between a connection point and financial responsibility for matters such as loss factors, performance standards and wholesale market transactions, it is important this relationship is clarified for circumstances where multiple generators seek to connect to a DCA.

We have reservations however, about AEMO's other main proposal in its rule change request, which is to extend the third party access framework to small DCAs. EGP considers that this may impose an unnecessary regulatory burden on small DCAs that is disproportionate to the size of the investment.

This also raises for us a broader concern with the third party access framework. In light of the lack of investment in large DCAs to date, we consider it is worth the AEMC investigating whether the third party access framework could be acting as a barrier to investment in large DCAs.

As a general principle, EGP considers that where generators fund network assets, they should not be forced to share that capacity with competitors, unless it is in their commercial interests to do so.<sup>1</sup>

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<sup>1</sup> We note here the distinction between a DCA and an Identified User Shared Asset (IUSA), such as a transmission substation. The latter forms part of the shared transmission network and is subject to network externalities. While a new substation may be necessary to facilitate a new generator connection to the network (and under the causer pays framework, the generator is required to pay), it would be impossible to exclude use of the asset by other parties, and it would not be desirable to do so (given network externalities and economies scope of a IUSA). It is therefore appropriate that IUSA facilities are subject to third party access (open access) arrangements and a cost sharing framework.

Presumably, a generator or group of generators agree to fund a DCA would do so only for the purpose of increasing their access to distant customers or spot market revenues. Allowing others to come along later to connect to and share the asset would simply increase competition for those customers and revenues, with the likely effect of truncating future returns (including by reducing loss factors for those already connected to the DCA).<sup>2</sup> Making it obligatory for those who have underwritten the DCA to share access at a later point in time undermines the underlying rationale for investing in that DCA.<sup>3</sup>

Rather, the incentive is in fact to avoid being the first mover and wait for others to build the asset. Seeking access later, when the asset is already built, avoids many of the upfront costs (including the administrative costs of coordination) and financial risks (stranding risk for instance) associate with large infrastructure investments.

If everybody takes a wait and see approach however, the DCA never gets built. EGP considers there is a risk the third party access framework, by disincentivising first movers, is deterring investment in construction of large DCAs.

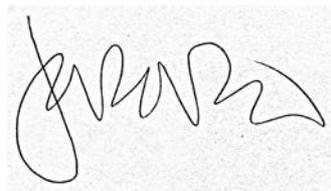
Similar concerns have been considered and addressed in the gas market. We note there are provisions in the national gas rules – the Greenfields pipeline incentive framework in Part 13 of the rules - which allow new pipelines to apply for a 15 year exemption from any kind of regulation, provided that there is a reasonable level of pipeline competition for supply of gas into end use markets. A similar provision could be introduced into the NER to support investment in large DCAs.

Introducing such an exemption from regulation could ignite private investment in DCAs to help unlock remote Renewable Energy Zones (REZ). The DCA framework could play an important role in REZs because it provides a mechanism for bypassing the lengthy, cumbersome and uncertain centralised transmission investment processes - allowing for more timely and privately funded investment in the network infrastructure needed to support REZ development.

In light of the importance of access considerations for DCAs and the key role DCAs might play in REZs, it may be prudent for the AEMC to consider the DCA access framework as part of the ongoing work the Energy Security Board (ESB) is undertaking on REZ development, to ensure all the issues are consistently identified and addressed in the ESB reform program.

Please feel free to contact Con Van Kemenade, Head of Regulatory Affairs, on 0439399943 to discuss anything we have raised in this submission.

Yours faithfully,



Javier Blanco  
Country Manager  
Enel Green Power Australia

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<sup>2</sup> It is worth noting that in some circumstances it would be in the commercial interest of DCA owners to share future access, for example if there is sufficient spare capacity on the DCA and/or a future connection party could build its own competing DCA nearby. There would be a natural incentive to share access in these circumstances. A third party access framework is no required.

<sup>3</sup> We note the provision in 5.2A.8 (l) requires that a DCA service provider “must not engage in conduct for the purpose of preventing or hindering access to large DCA services.” A similar provision applies in relation to provision of prescribed transmission services.