

28/01/2021

Ms Merryn York
Acting Chair
Australian Energy Market Commission
GPO Box 2603
Sydney 2001

Lodged online: www.aemc.gov.au

Dear Merryn,

Submission to draft rule determination on connection to dedicated connection assets

We welcome the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) consultation on its draft rule determination on connection to dedicated connection assets.

We understand that the AEMC's draft rule would establish a new regime for 'designated network assets' (**DNA**) which would replace the concept of 'large Dedicated Connection Assets' in the National Electricity Rules (**NER**). Unlike 'dedicated connection assets', DNAs will form part of the transmission network operated by a primary Transmission Network Service Provider (**TNSP**) and have a special third party access regime apply to it. DNAs would not be subject to the open access framework that applies to the rest of the shared network. Under the new regime, DNAs would be contestably designed, constructed and owned, similar to the existing contestability arrangements for identified user shared assets.

We understand the intent of the AEMC's rule is to allow for the more effective management of power system security and better facilitating the sharing of certain transmission assets which are appropriately funded by connecting parties.

We support the intent of the AEMC's draft rule as a means of delivering on this objective subject to several key issues, outlined in this submission, being addressed in the final rule if made.

In particular, it is important that any new rules do not undermine the existing framework in the NER for the development of shared transmission network in the National Electricity Market (**NEM**). The existing planning framework in the NER, in particular the recently developed rules to effectively action the Australian Energy Market Operator's (**AEMO**) Integrated System Plan (**ISP**) and the TNSP's role in this framework as jurisdictional planning body, should continue to be the primary means of planning and developing the shared transmission network in the NEM.

Any amendments to improve the current transmission connection arrangements in the NER should also meet the following criteria:

- > Enable clear accountabilities for assets connecting to the shared transmission network;
- > Provide clarity in terms of who is responsible for building, operating, maintaining and replacing assets;
- > Not require primary TNSPs to provide additional operating services, such as network operation and control services without being appropriately compensated for taking on these operating risks;

- > Not add complexity, reduce reliability or add cost to the connection process. The AEMC must provide evidence that there is a clear net benefit to any changes to the current framework that will result in more efficient outcomes for consumers;
- > Not compromise the ability of the primary TNSP to perform its functions in maintaining power system security and reliability; and
- > Provide clarity on how the proposed access regime is intended to apply.

These criteria are essential for providing investment certainty, ensuring that the reliability and security of the system is maintained at the lowest to consumers and, more broadly, the advancement of the national electricity objective (**NEO**) in the National Electricity Law (**NEL**), the test the AEMC must apply in considering rule change requests. We consider the draft rule does not currently meet these criteria.

The remainder of this submission sets out some specific issues that we have identified in the process of reviewing the AEMC's draft rule. We would support a final rule if these issues were properly addressed. We have also contributed to Energy Networks Australia's submission on the AEMC's draft rule determination and support the views raised in that submission.

Potential inefficiencies in the planning and development of transmission networks

It is important that the AEMC's connection to dedicated connection assets rule does not undermine the broader transmission planning framework in the NER, in particular the recently developed rules to effectively action AEMO's ISP.

The incremental development of shared transmission networks on a larger scale under the AEMC's draft rule would likely result in the inefficient design of the transmission network as a whole. It could also give rise to unintended reliability and security concerns due to the necessary complexity of the relationships between the parties involved. It is essential that the final rule, if made, clarifies the primacy of the existing planning framework to avoid these concerns. It should also be made clear in the final rule how TNSPs, as jurisdictional planning bodies, should take DNAs into account when planning the transmission network.

The rule should provide clarity on how a DNA can transition to shared network providing prescribed transmission services over time

There is a lack of clarity in the draft rule on whether a DNA can transition to shared network providing prescribed transmission services owned by the primary TNSP and how this would occur. The final rule, if made, must clarify how and if this can occur under the NER. This clarity is required in the event that generators choose to invest in an asset identified in a transmission annual planning report (**TAPR**), a Renewable Energy Zone (**REZ**) design report or ISP to bring forward this investment.¹ Generators would need to fund this asset until such time that it is shown that it will provide benefits to consumers through the regulatory investment test for transmission (**RIT-T**) and become a prescribed transmission service asset. It is critical that the final rule provides clarity on this issue to avoid uncertainty and to allow for the efficient development of the transmission network in the long term interests of consumers.

Additional clarity required on the flow of funds for services including cost sharing arrangements

It is unclear how contestable costs for the construction of the asset would be allocated to subsequent connecting parties under the draft rule. The final rule, if made, must clarify how these costs would be

¹ REZ design reports are proposed by the Energy Security Board as part of REZ planning rules which build on the ISP rules. See: <http://www.coagenergycouncil.gov.au/reliability-and-security-measures/renewable-energy-zones>, viewed 28 January 2020.

allocated. It would not be appropriate for the primary TNSP to take on this role where a third party has constructed the asset.

TNSPs should be afforded sufficient cost recovery

The draft rule provides that primary TNSPs will be responsible for operating and maintaining DNAs. This arrangement would be supported by a network operating agreement between the primary TNSP and DNA owner. Cost recovery arrangements will need to recognise additional risks and liabilities that TNSPs would be subject to under the draft rule. The final rule, if made, should clarify what happens should the DNA owner be unable to meet its financial obligations under the network operating agreement.

The design of the special access regime

The draft rule provides insufficient guidance in relation to the design of the special access regime for DNAs. The final rule, if made, must provide sufficient clarity such that all parties understand how the access regime will be applied. Under this approach, TNSPs would adopt the mandated access regime in the NER and submit it to the AER for registration.

The existing \$10m threshold for identified user shared assets should not be removed

The draft rule removes the existing threshold for identified user shared assets to be provided as a contestable service. We do not support this change as it will require substantially more information to be prepared for the connection applicant, at the applicant's cost, in circumstances where the value of that information is likely to be negligible. The additional increase in connection applicants' costs as a result of this change would result in higher overall electricity system costs which would ultimately result in higher prices for consumers.

Marginal loss factors and settlements residue on the DNA should be provided by AEMO

The draft rule provides a role for TNSPs to calculate marginal loss factors and settlements residue on the DNA. This role would be more appropriately undertaken by AEMO given its role in determining marginal loss factors and settlements residue on the shared network more broadly and given the transmission connection point will be located at the end of the DNA.

Transitional arrangements

The arrangements to transition to the new rules framework should recognise existing large dedicated connection assets and connection enquiries for large dedicated connection assets which would become DNAs under the draft rule. For example, we currently have one connection involving a large dedicated connection asset that is in the early stages of construction.

We appreciate the opportunity to comment on the AEMC's draft rule determination. If you would like to discuss this submission, please contact me or Caroline Taylor, Head of Public Policy at caroline.taylor@transgrid.com.au.

Yours sincerely

Eva Hanly
Executive Manager, Strategy Innovation and Technology