27 January 2017

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

Dear Mr Pierce,

ERC0192: TRANSMISSION CONNECTION AND PLANNING ARRANGEMENTS – DRAFT DETERMINATION NOVEMBER 2016

Origin Energy Limited (Origin) welcomes the opportunity to contribute to the Australian Energy Market Commission's (AEMC) draft determination of the transmission connection and planning arrangements.

Negotiating Principles and Information Transparency

Origin supports the removal of the current AER approved TNSP negotiating principles and replacing that framework with a Rules based approach under Schedule 5.11 of the NER. This goes some way to addressing the imbalance between a connecting proponent and the Primary TNSP with enforceable undertakings in regards to sizing, pricing and access.

Origin contends that there will still be a negotiation imbalance between the connecting party and the Primary TNSP due to the requirement for TNSPs to be responsible for setting the connection specifications and its responsibility for the outcomes of the shared network. However Origin does recognise the need to have a centralised and identified party responsible for the safety, security and reliability of the wider transmission network.

Practically, a TNSP is still likely to specify equipment within their own inventories due to a number of reasons including familiarity, strategic spares and a proven operational history. This may lead to more short term costs for the connecting proponent; however this may be offset by reliability and convenience. There may also be a divergence between the TNSP design standards and a connection proponent's needs based purely on risk levels. For example a TNSP has an incentive[1] to ensure very high levels of reliability and redundancy over an extended period. A connecting proponents view, based on its timeframe and asset life may differ in its needs. The independent engineer will be an important arbiter to provide impartial advice in these instances.

Further to this point, over-sizing has been an area of importance for Origin and the requirement that the connection asset must not be oversized, which is prescribed in the Rules is welcomed. In practice it is difficult to deliver perfectly matched substation/connection components to a generation asset based purely on the variety and size of assets being built. However Origin welcomes specific wording that prevents over-sizing of assets, paid for by the connecting proponent, for a potential connection at a later date. Any over-sizing of assets by the Primary TNSP should be subject to the regulated revenue determination process undertaken by the Australian Energy Regulator.

Origin welcomes information transparency from TNSPs in regards to identified user shared asset connections. In our experience it is important that a TNSP responds to a connection request by taking into account the specifics of the connection request. Generic responses, especially around timeframes to connection, are not helpful to either party and it is important that if material information is provided

[1] Service Target Performance Incentive Scheme (STPIS) is an example where reliability levels are a direct link to performance bonuses received by TNSPs.

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to the TNSP, then this should be taken into account when providing a response that is unique to the circumstances of the connection.

Contestable Works Threshold
Origin questions the $10million threshold for contestable works on the basis that an examination of the costs of the majority of connections needs to be undertaken. It is Origin's experience that connections that fall under the definition of identified user shared assets are generally less than $10 million. For example, those assets that are within a substation bay, between a connection point and cut in works, will generally be under the proposed threshold. It is the construction of transmission lines, that form part of a dedicated connection asset that would generally make the bulk of the connection costs. And these are fully contestable under the DCA Rules. The fundamental premise of these reforms is to ensure competitive tension exists for connecting parties. If the majority of works fall under $10 million, under the current draft Rules, the TNSP is the only party able to offer this service under a negotiated contract.

With this in mind, Origin believes it would be of benefit to undertake a detailed analysis of historical connections costs. This analysis would identify the connection costs and isolate the portions that would be included in the current definition of identified user shared assets. That way a like for like comparison can be undertaken to determine if the majority of works are above or below the $10 million threshold. The contestability level should be adjusted if the findings show the majority of connections are undertaken below the $10 million threshold. If the level is not adjusted, this could undermine the draft rule's intent

Independent Engineer (IE)
The introduction of an independent engineer will play an important first step in negotiations between parties unable to agree on connection specifications. Origin continues to maintain that a non-binding determination has the possibility of being dismissed by the Primary TNSP. Origin would prefer the findings of the independent engineer to be made compulsorily admissible in any formal dispute resolution under Part K, Chapter 6A of the Rules.

It is important to note that any time delays to a connection increases costs, both in terms of delays and from lost income on the wholesale electricity market. It should be noted that the introduction of an IE will represent a cost to the connecting proponent both in terms of consultancy fees and time spent by the IE consulting on connection specifications. It is important that the process be undertaken in a quick, efficient and ultimately thorough manner. Any attempts to deliberately delay or impede the work of the IE should face some level of penalty. This could form part of the engagement contract between the two parties or be enshrined in the Rules.

Finally, Origin supports the use of the AER as the nominating body should both parties be unable to agree on a suitably qualified independent engineer.

Direct Connection Assets (DCA)
Origin welcomes the introduction of fully contestable works for all DCA assets. This should ensure a fully competitive process in the construction and design of assets, with competitive outcomes for connecting parties.

Origin is also supportive of maintaining the rights of existing DCA owners when allowing third party connections. It is important that the existing asset owner is not disadvantaged by constraints caused by the third party, and that any additional works required for access are paid for by the third party.

Civil Penalty Provisions
Origin notes that under 5.4.2(a) & (b) of the Rules there are currently civil penalty provisions as they relate to inconsistencies between the proposed equipment, the connection agreement and the generator performance standards (GPS). Origin is of the view that there are already sufficient penalties or financial deterrents in place to warrant the removal of the civil penalty provision.

Generators are required to meet their generator performance standards before being approved to operate within the NEM. This is undertaken as a final approval step by AEMO. It is in the connecting parties best interests to meet these standards as any deviation will result in both a time and cost penalty with works required to rectify and meet the GPS. A civil penalty in addition to the rectification works costs represents an unjust penalty as generators are financially incentivised to meet the GPS in the first instance.

Should you have any questions or wish to discuss this information further, please contact James Googan on james.googan@originenergy.com.au or (02) 9503 5061.

Yours sincerely,

Steve Reid
Manager, Wholesale Regulatory Policy