

9 November 2012

ActewAGL 

for you

Mr. John Pierce
Chair, Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged electronically at www.aemc.gov.au

Dear Mr. Pierce,

Transmission Frameworks Review second interim report

ActewAGL is pleased to comment on the AEMC's second interim report on the Transmission Frameworks Review.

With the commissioning of the 330 kV TransGrid substation at Williamsdale, south of Canberra, much of ActewAGL's 132 kV network performs a transmission function and is classified as dual function assets. The transmission frameworks, their application to dual function assets and their compatibility with the equivalent distribution arrangements are thus of immediate concern to ActewAGL.

ActewAGL remains of the view that the existing transmission pricing arrangements are not efficient and need to be altered for the benefit of electricity customers in the NEM.

Seventy percent of ActewAGL's TUoS charge is a non locational 'postage-stamped' tariff on energy. This high proportion of non locational, energy-based charges includes the cost of those elements of the transmission network used by generators to transmit to major load centres.

The current TUoS pricing arrangements mean there are no locational signals for existing generators to recover the cost of their use of elements of the transmission network. The effect for embedded generators is non-trivial. The ACT government has enacted legislation to develop 210 MW of large-scale renewable energy capacity¹. Under the current framework, if that generation capacity were to be embedded in a distribution network, any consumer buying that energy would be paying similar TUoS charges for the energy as if the energy was remotely sourced on the transmission system.

To improve this situation, in response to the AEMC's first interim report ActewAGL supported the development of Option 3. Some portion of the costs of the shared transmission network would then be recovered from the incumbent generators. However, this option has not been further developed by the AEMC.

ActewAGL supports, in principle, the Optional Firm Access model now put forward by the AEMC. However, as the AEMC acknowledges, it is complex and will take years to develop.

¹ Australian Capital Territory, Electricity Feed-in (Large-scale Renewable Energy Generation) Act 2011, commencing 15 December 2011.

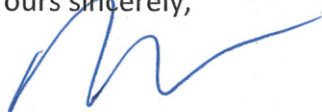
ActewAGL anticipates that without further measures, it is not expected to make a material difference to the efficiency of transmission pricing.

The second major concern that ActewAGL raised in response to the AEMC's first interim report was the interfaces between the transmission frameworks and those of distribution and dual function assets. These issues of compatibility, coverage and workability are critical and the AEMC has not addressed them in its second interim report. If the AEMC eventually decides to proceed with the Optional Firm Access model or some variant thereof, ActewAGL believes it is important that distribution businesses are given an opportunity to participate in the development of the model, to ensure these issues are addressed.

ActewAGL also wishes to stress the need to minimise the regulatory cost impact of any changes and in particular take account of the need to reduce the burden of excessive reporting obligations.

The Attachment to this letter provides further detail. Please contact Janusz Worony (janusz.worony@actewagl.com.au), should any clarification of this submission be necessary.

Yours sincerely,



David Graham
Director Regulatory Affairs and Pricing

Attachment – Comments on Transmission Framework Review second interim report

The AEMC's second interim report (second report) provides further detail on proposed changes to the following features of the Transmission Frameworks:

1. Transmission access;
2. Transmission planning;
3. Transmission connections.

This submission considers each of these matters in turn insofar as they would directly impact ActewAGL.

1. Transmission access arrangements

In response to the AEMC's first interim report (first report), ActewAGL detailed its concerns regarding the distortionary transmission pricing arrangements, whereby incumbent generators do not pay for their use of the shared transmission network. Option 3 in the AEMC's first report would to some extent redress this situation, by recovering a portion of the costs of the shared transmission network from incumbent generators.

In its second report, the AEMC has presented further detail of two framework options developed from the first report, as follows:

- **Non-firm Access model:** This represents a continuation of the present transmission pricing arrangements; and
- **The Optional Firm Access model (OFA):** This model involves the development of a firm access regime, whereby generators that purchase firm access are compensated by those that do not, and the TNSP provides limited financial compensation if the generator cannot access the RRN.

Non-firm Access model

The Non-firm Access model represents a continuation of the present unsatisfactory transmission pricing arrangements and is not supported.

Optional Firm Access model

The OFA model provides for generators to make payments for firm-ish access, with compensation payable by adjacent generators that do not pay for such access. It also requires the TNSP to provide a limited and capped level of compensation, if the lack of access arises from the TNSP's failure to meet its obligations.

Pricing efficiency

It is apparent from the submissions made by generating organisations to the first report and from the presentations to the 17 September 2012 public forum that the OFA model is not universally supported². If OFA is developed, it is expected that only new entrant generators or those incumbents that use paths through the network with an existing or emerging constraint will take it up.

² International Power's presentation to the 17 September 2012 forum cites the Latrobe Valley to Victoria and South Australia to Victoria transmission paths.

It is therefore considered unlikely that incumbent generators in the NSW/ACT region will take up OFA. That being the case, there would be no relief from the inefficient transmission pricing arrangements in this region of the NEM.

Generator access prices

The AEMC is developing a new pricing model to determine generator access prices, using a Long Run Incremental Cost approach.

If the AEMC does proceed to develop a new forward looking pricing approach for generators and can demonstrate its superiority, it follows that this new pricing approach should also apply for transmission loads.

Interface with dual function assets and distribution networks

The AEMC has not considered the application of the OFA model to dual function assets and distribution systems. It is feasible for sizeable embedded generators (of a few hundred MW) to connect to high capacity urban distribution networks and the model will clearly need to be extended beyond the boundaries of the transmission system.

The OFA model thus has the potential to affect ActewAGL, should any generators seek access that:

- Makes use of a NSW/ACT transmission path that includes a distributor's dual function assets;
- Connects to a distributor's dual function assets; or
- Connects to distribution assets.

This would potentially expose ActewAGL and other distributors to additional risks as the counterparty to access guarantees. It also raises the complexity of generator access negotiations involving more than one network service provider.

Market risks and networks

The AEMC has proposed to limit the extent of risk for networks required to offer OFA and to cap the total liability, in a similar manner to the existing incentive arrangements imposed under the AER's Service Target Performance Incentive Scheme (STPIS).

ActewAGL supports this approach. Networks should not be exposed to significantly higher risks through market mechanisms unless they are adequately compensated. Networks should be compensated for any additional risks and costs that arise from the provision of firm access arrangements. Moreover, that compensation should be funded by the beneficiaries.

2. Transmission planning arrangements

ActewAGL believes that the existing transmission planning arrangements, the TNSP/DNSP planning interfaces and responsibilities are broadly appropriate and are functioning satisfactorily. In particular, our experience over many years has been that the joint TNSP-DNSP planning arrangements in ACT/NSW have led to the appropriate and timely development of interconnected networks.

There being no case for substantive change, ActewAGL therefore agrees with AEMO that adopting either the Victorian planner-procurer model or the other models described in the first interim report would not be appropriate.

The AEMC has proposed a number of incremental changes to the responsibilities of AEMO and the TNSPs, with the objective of improving the consistency and coordination of planning across the NEM. ActewAGL supports these proposed changes.

On the alignment of TNSP regulatory control periods to promote coordination between transmission planning and economic regulation, the AEMC has now expressed its in-principle support. It needs to be noted that this coordination would not extend to the coverage of transmission assets with a dual function, such as those of ActewAGL and several other distributors.

3. Transmission connection

In the second report, the AEMC is proposing substantial changes to the transmission connection framework that would require TNSPs to:

- (a) Publish a greater amount of information, including a standard connection contract and design standards;
- (b) Disclose their detailed cost information, assumptions and calculations to connecting parties;
- (c) Comply with AER guidelines on information requirements for connection applicants; and
- (d) Provide the connecting party with construction contractor responses, detailed business cases, and demonstrate consideration of the connecting party's preference of contractor.

For both transmission and distribution, each connection to the network is bespoke and will require some level of individual design. Connections to the distribution network in the ACT may be constructed by the customer's choice of contractor, although ActewAGL must make the connection to the network.

The transmission connection framework must remain consistent with the distribution connection framework, particularly as large loads and generators can connect to either a transmission/dual function or distribution network. Any changes proposed for the transmission connection arrangements are expected to flow through to the distribution connection arrangements to retain this consistency.

ActewAGL is firstly, concerned that the AEMC's proposed approach to transmission connections is heavy-handed and would introduce a significant administrative burden and delay to the connection process. Secondly, the proposed changes (b) to (d) above would be impracticable to implement for the significantly greater volume of distribution connection inquiries.