



26 May 2011

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

Dear John,

Re: Transmission Frameworks Review – Directions Paper

SP AusNet welcomes the opportunity to make this submission to the AEMC's Transmission Frameworks Review Directions Paper. SP AusNet is a member of Grid Australia and we support the submission of that organisation. The purpose of this submission and the accompanying attachment is to highlight a number of matters that are of particular interest to SP AusNet.

Scope of Review

SP AusNet concurs with the AEMC's approach, which involves sharpening the focus of the review by concentrating on the following five key themes:

- The nature of access;
- Network charging;
- Congestion;
- Planning; and
- Connections.

In selecting these five workstreams, the Commission has decided not to separately consider economic regulation, network operations or the role of transmission. We comment further on these three matters below.

The Commission has explained that its approach is to progress each of the five workstreams noted above and then synthesise its analysis into alternative transmission frameworks. SP AusNet supports this approach, given the highly inter-related nature of the workstreams.

Economic regulation

SP AusNet welcomes the Commission's decision to not pursue a detailed examination of economic regulation. As you are aware, the Rules governing the economic regulation of transmission networks were settled by the Commission in 2006 – less than five years ago – following an extensive public consultation exercise.

In the context of climate change and the transition to a lower carbon economy, it is important that transmission (and distribution) networks are subject to stable commercial incentives to deliver optimal investment. The provision of on-going stability in the regulatory regime, and the minimisation of regulatory risk are essential elements in promoting efficient network investment. It is therefore welcome that the Commission is not considering economic regulation as part of the Transmission Frameworks Review.

Enhanced incentives for operational efficiency

As noted in its submission to the Commission's Issues Paper, SP AusNet is generally supportive of efforts to enhance incentives for operational efficiency. SP AusNet's view is that TNSPs should face incentives that encourage them to maximise the availability of network assets at times when asset availability is most highly valued by the market.

SP AusNet notes that the AER's forthcoming review of the Service Target Performance Incentive Scheme (STPIS) provides an opportunity to enhance the incentives for efficient network operations. However, it is equally important that the Commission also identifies any opportunities to enhance these incentives during the Transmission Frameworks Review. SP AusNet therefore welcomes the Commission's comment that the network congestion workstream and other workstreams will address network operation incentives to the extent that they are relevant.

The role of transmission in the NEM

SP AusNet concurs with the Commission that it is appropriate to consider the role of transmission as part of the access workstream, rather than as a separate workstream. While SP AusNet would in principle support a change in transmission's role in the NEM, such support would be subject to the following conditions:

- There would need to be a clear demonstration that the change would promote the achievement of the national electricity objective; and
- SP AusNet would need adequate compensation for any additional risks, which would also need to be within SP AusNet's control.

Specific comments on the Commission's proposed workstreams

In relation to the workstreams identified by the Commission, the Attachment sets out SP AusNet's further comments on: the nature of access; network charging; and connection.

Next steps

We look forward to further opportunities to provide more detailed submissions to the Commission as it works towards the completion of its first interim report later this year.

In the meantime, we would be pleased to respond to any queries you may have on this submission.

Yours Sincerely

A handwritten signature in blue ink, appearing to be 'A.P.', with a long horizontal flourish extending to the right.

Alistair Parker

DIRECTOR REGULATION AND NETWORK STRATEGY

Attachment to SP AusNet’s submission on the Transmission Frameworks Review Directions Paper

Nature of access

The Commission noted that stakeholders raised a specific issue in relation to the prevailing jurisdictional transmission reliability standards in Victoria. In particular, it was suggested that the probabilistic planning standard applied in Victoria, which permits investment only on economic grounds and does not provide for a deterministic level of redundancy, results in a lesser level of transmission capacity than is the case in other states. It was also noted that the probabilistic planning standard may therefore increase the level of congestion and dispatch uncertainty for generators.

In response to the issues raised, SP AusNet notes that AEMO is responsible for planning the shared transmission network in Victoria. The observation that the level of transmission capacity in Victoria is lower compared to other states should not be taken to imply that the probabilistic standard is inappropriate and should be replaced with a deterministic standard. In fact, as the probabilistic standard is an economic test, it may be more reasonable to infer that the level of spare capacity in other states is higher than justified on strict economic grounds.

Notwithstanding the above observation, SP AusNet would be concerned if the planning arrangements in Victoria led to less attractive market conditions for generators. SP AusNet would therefore support the Commission’s consideration of whether a more consistent approach to planning is warranted across the states.

A related issue is whether a transmission reliability standard for generation should be adopted, and if so whether a NEM-wide standard should apply. SP AusNet notes the Commission’s observation that¹:

“It seems likely that a reliability standard for generation set at any level would result in the provision of a greater amount of transmission assets than would be deemed economic under current frameworks. It is therefore not clear that these should be funded by consumers.”

Regardless of who pays, SP AusNet questions whether the adoption of a transmission reliability standard for generation would be consistent with sound public policy if it results in transmission investment that cannot be justified on economic grounds. SP AusNet therefore concurs with the Commission’s view that a fundamental implementation issue would be defining the relevant parameters to ensure that the standard is set at an efficient level.² SP AusNet’s preliminary view is that the Commission’s examination of this issue should focus on whether the introduction of a transmission reliability standard for generation can be justified in terms of the national electricity objective. SP AusNet welcomes the Commission’s further consideration of these issues.

¹ AEMC, *Directions Paper*, page 30.

² AEMC, *Directions Paper*, page 29.

Network charging

The Commission correctly notes that the pricing principles for prescribed transmission services in Chapter 6A of the Rules require the costs of the prescribed shared transmission network to be recovered solely from load. Chapter 6A also applies a 'shallow' connection charging policy because generators pay charges relating only to the cost of their immediate connection to the shared transmission network. The Commission is concerned that this arrangement provides weak locational signals to generators because customers (not generators) pay for any shared network costs that result from a generators' location decision.

SP AusNet notes that AEMO has responsibility for administering transmission pricing in Victoria, and therefore, SP AusNet has less involvement in transmission pricing than other TNSPs.

SP AusNet concurs with the Commission's observation that 'there needs to be an interaction between transmission charges and the transmission service being provided'³. In particular, as noted by the Commission, generators currently pay shallow connection charges, but have limited access rights to the shared network and are not required to pay for the shared network (but may agree to do so as a 'funded augmentation'). SP AusNet agrees with the Commission that alternative arrangements may be contemplated, and these alternatives include a model in which generators pay deep connection charges; enjoy firm access rights to the shared network (perhaps in the form of a reliability standard); and contribute to the costs of the shared network.

It is evident from the above observations that the issues of network charges, the nature of access and congestion are closely inter-related. The inter-related nature of these issues lends strong support to the Commission's approach of developing alternative models of transmission arrangements. SP AusNet's view, however, is that change from the existing arrangements would only be warranted if it achieved an overall net benefit. Whilst there is little doubt that the existing arrangements are imperfect, it remains an open question as to whether the benefits of adopting an alternative model would outweigh the likely costs of change.

Connection

SP AusNet notes the concerns expressed by the Commission and stakeholders in relation to:

- Perceived weaknesses in the Rules regarding the definitions of transmission services, contestability and funded augmentations;
- Differences across TNSPs in the interpretation and application of the Rules;
- Transparency and market power in negotiating connection charges; and
- Complexity in relation to the tripartite Victorian connection arrangements.

SP AusNet supports the Commission's review of these matters. In particular, SP AusNet accepts the principle that the Rules should be interpreted and applied consistently across

³ AEMC, *Directions Paper*, page 43

TNSPs. In addition, SP AusNet welcomes a review of the Victorian connection arrangements, noting that AEMO and SP AusNet are presently working to streamline contractual arrangements so that connections are delivered in a timely and efficient matter. While SP AusNet is actively engaging in this process, the complexity of tripartite agreement is unlikely to be solved with the current Victorian connection arrangements.

There are two specific matters that are worth noting at this stage:

- The TNSPs' negotiating frameworks that govern the negotiation of connection charges with generators require TNSPs to provide extensive information in relation to costs. SP AusNet's negotiating framework, for example, requires a detailed cost breakdown to be provided. SP AusNet is also required to demonstrate to the Connection Applicant that its charges for providing negotiated services reflect the costs of providing the service. The negotiating framework also provides for dispute resolution. SP AusNet therefore considers that the existing arrangements provide appropriate safeguards against excessive prices or lack of cost transparency.
- The Commission's determination of the Chapter 6A rules sought to clarify that contestable services are outside of the scope of regulation.⁴ ETNOF (Grid Australia's predecessor) submitted that the Commission should include a definition of contestability to avoid the possibility of future disputes. However, the Commission concluded that⁵:

"The Group [ETNOF] was of the view that a definition of contestable services should be included in order to avoid disputes in the future. The Commission does not support this view. If a service is contestable it is provided by more than one provider in the participating jurisdiction. If there is no other provider in the jurisdiction that can provide the service it is clearly not a contestable service. This will be a question of fact which depends upon the individual circumstances. If there are disputes about whether a service is capable of competitive supply these disputes should be resolved, including through a dispute resolution procedure, on the facts of each case."

In light of the above observations, SP AusNet's view is that some of the concerns raised by stakeholders in relation to the definition of contestability and transmission services may be resolved by revisiting the Commission's 2006 Rule Determination to explore the reasoning behind the current provisions. SP AusNet notes in particular that the Commission conducted a comprehensive review in 2006, and it would be useful for the Transmission Frameworks Review to build on this earlier work to the greatest extent possible.

⁴ AEMC, *National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No.18*, Rule Determination, 16 November 2006, page 37.

⁵ AEMC, *National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No.18*, Rule Determination, 16 November 2006, page 40.