



Government
of South Australia

Department of
State Development

Mr John Pierce
Chairman
AEMC
PO Box A2449
SYDNEY SOUTH NSW 1235

Transmission Connection and Planning Arrangements – Discussion Paper (ERC0192)

John
Dear Mr Pierce

The Energy Markets and Programs Division (the Division) of the South Australian Department of State Development thank you for the opportunity to comment on the Australian Energy Market Commission's *Transmission Connection and Planning Arrangements Rule change - Discussion Paper* (the Discussion Paper).

As indicated in the COAG Energy Council's Rule change proposal, South Australia is supportive of amendments being made to the National Electricity Rules to clarify the connections framework, enhance contestability in connections arrangements and improve transparency of information for negotiated transmission services.

The Commission's Transmission Frameworks Review identified a lack of clarity in the Rules in terms of what connection services actually entail. The current arrangements leave it open to transmission business interpretation and discretion about which services they provide and how they are regulated. The Rule change proposed to provide more certainty around the terms used in relation to connections. It was therefore proposed that the Rules be amended to make a clear distinction between services provided by assets that form part of the shared network and those provided by assets used exclusively by the connecting party.

The Division is therefore generally supportive of the proposed approach to matters in the Discussion Paper regarding reducing ambiguity and complexity in the connections framework, and those that redress the asymmetric power held by TNSPs in negotiating with connecting parties.

The main issue arising from the Discussion Paper relates to the debate around boundaries of contestability for identified user shared assets. When drafting the Rule change proposal officials recognised that efficient outcomes are more likely to be delivered through the competitive delivery of services.

The Commission's Transmission Frameworks Review recommended an approach to increase competition and transparency in the construction of the assets required for

connection. Officials agreed that competition in the construction of assets should be promoted, as this should give connecting parties a greater ability to manage costs and timings, and place competitive pressure on TNSPs to improve performance. This should provide the connecting party with the opportunity to seek a contractor which best suits their needs. As the operation and maintenance of identified user shared assets would remain non-contestable under this approach, the TNSP would remain accountable for any issues that arise on these assets that impact on the shared network. Clear lines of accountability were important in officials' consideration of boundaries of contestability.

So while officials support promoting a contestable market where possible, it was considered that there were issues associated with extending contestability to all aspects of the connections process.

As the Commission mentions in its Discussion Paper, the current regulatory framework does not contemplate an approach where the responsibility for the shared network is split between multiple owners or operators. Obligations are placed on one party in each jurisdiction, the incumbent TNSP, to ensure the safety, reliability and security of the shared transmission network is maintained. Issues would arise if multiple owners or operators were introduced, as it would be unclear who would be accountable should a problem arise.

In its summary of Model B, the Discussion Paper states that the model requires both the connecting party and the incumbent TNSP to reach agreement on arrangements to operate and maintain the identified user shared asset in a manner that allows the TNSP to meet its obligations regarding the operation of the shared network. It suggests that both parties would need to be comfortable with the allocation of responsibility and risks between themselves with regard to the identified user shared asset.

One concern is that this arrangement would rely on complex contractual arrangements, which potentially reallocate the TNSPs regulatory obligations to maintain a safe, reliable and secure transmission network to a third party. The Commission would need to be able to confirm that this transfer of liability can occur, with no negative impact on shared network customers, before adopting an option such as Model B. The benefits of doing so would also need to be made clear, as it is assumed any transfer of liability would involve complex contracts between the parties and therefore additional costs. Given timeliness of connections is one of the goals, the Commission should consider whether the complexity of Model B undermines the achievement of this objective.

The intent of the Rule change proposal was to make the connections process more efficient. Instead, we believe Model B will add a great deal of complexity to the connection agreement process, or add the need for separate agreements prior to connection occurring.

A further concern with this model is the ability to identify responsibility and liability for faults that occur with these types of assets. Situations where faults occur in a substation may lead to lengthy disputes between the two parties regarding technical detail of the contractual arrangements in place, and may cause delays in investigating and resolving any faults. It is the Division's understanding that while some faults may be clearly identifiable, and therefore responsibility easily assigned to

one party or the other, there may be other matters that are not as straight forward. It would only take one instance such as this, where the fault is difficult to attribute to one party, for this option under Model B to cause problems for end use customers.

It would be undesirable for a situation where a fault on an identified user shared asset occurs resulting in a major disruption on the shared network, and both the TNSP and third party contractor are claiming that the fault is the responsibility of the other party, with liability not clearly identifiable.

Further clarification may also be required under this model regarding compliance with the functional specification and performance standards of the identified user shared asset.

Under the approach proposed in the Rule change request, the incumbent TNSP would be responsible for setting the functional specification of the asset, as well as the high level design and works to cut the new asset into the shared network. There will be a need for a process to be established so that the incumbent TNSP can officially assume responsibility for the operation and maintenance of the identified user shared assets, once constructed, to check that the asset has been constructed in accordance with the functional specification and design requirements. However, as the TNSP is responsible for the operation and maintenance of the asset under this model it ensures that the functional specification and performance standards will be met on an ongoing basis, or that the TNSP is accountable if they are not.

Schedule 5 of the NER sets out the planning, design and operating criteria that must currently be applied by TNSPs to the networks they own, operate or control. This effectively requires the incumbent TNSP to ensure that equipment connected to its network meets appropriate performance standards. It is unclear under Model B how the ongoing compliance with the functional specification and performance standards will be met with a third party assuming the operation and maintenance of the asset.

The Discussion Paper mentions that the incumbent TNSP and the connecting party (and potentially its chosen contractor) may enter into agreements that govern how the assets are to be operated and maintained in accordance with the functional specification set by the incumbent TNSP. However, we consider that any contractual agreement that reallocates compliance with the functional specification and performance standards away from the incumbent TNSP may create risks to downstream customers. The Commission will need to demonstrate how this risk can be managed if this model is to be adopted.

Questions will also need to be resolved under this model regarding situations where the third party responsible for the operation and maintenance of the identified user shared asset becomes insolvent or is otherwise unable to perform its obligations. It is unclear how the risk to downstream customers would be managed in circumstances such as this.

The Division is therefore concerned about the potential consequences of a division of responsibilities and liabilities which would result from multiple parties operating different parts of the shared network. However, if issues such as these can be addressed adequately we are supportive of contestability extending further in the connections process.

Finally regarding the transitioning of assets to the shared network, when drafting the Rule change proposal officials considered that an alternative approach would be preferred to that proposed in the Transmission Frameworks Review. This approach involved an application being made by a party to have an asset transition to the incumbent's shared network. The merits of the application would be assessed in each case by the AER before a determination is made on the transition of the asset. The objective of the Rule change proposal was to introduce some flexibility to take in to account all of the costs and benefits of rolling the asset in to the shared network to determine if the transition was the appropriate course of action.

We have concerns linking the transition of assets to pre-determined triggers, as suggested in the Discussion Paper. As an example, in South Australia BHP Billiton currently owns long transmission extension lines to its Olympic Dam mine. If the Commission's proposed triggers were in place, and a DNSP decided to connect load to this long line, it would automatically transition the asset to become part of the shared network. In this instance any connecting DNSP load is likely to be relatively small, given the location. We question whether the connection of a small DNSP load to this asset owned by BHP should be significant enough to automatically transition their asset to become part of a shared network.

While we appreciate the need for a degree of certainty to exist for asset owners in these circumstances, we believe some flexibility is required. This flexibility would enable the owners of the assets to provide their input in to any proposed asset transition rather than having their asset automatically rolled in to the shared network. The different nature of assets around the NEM, as evidenced by the BHP example above, suggests that different issues may be pertinent in each individual case. A one-size-fits-all approach may therefore not be the optimal way to address this matter.

The draft Rules provided with the Rule change proposed a process for assessing whether a connection should transition to the shared network. These draft Rules could be expanded upon to provide further clarity and transparency as the Discussion Paper suggests is required.

While we generally support the majority of Commission's positions detailed in the Discussion Paper, matters such as those discussed above will need to be addressed under the contestability model ultimately preferred by the Commission.

I thank you again and look forward to the outcomes of the Commission's Draft Determination.

Should you have any questions in relation to this submission, please contact Rebecca Knights, Director, Energy Markets on (08) 8226 5500.

Yours Sincerely



VINCE DUFFY
EXECUTIVE DIRECTOR,
ENERGY MARKETS AND PROGRAMS DIVISION

6 /07/2016