



25 January 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
SYDNEY NSW 2000

570 George Street
Sydney NSW 2000
All mail to GPO Box 4009
Sydney NSW 2001
T +61 2 131 525
F +61 2 9269 2830
www.ausgrid.com.au

Dear Mr Pierce,

Transmission Frameworks Review - First Interim Report (EPR0019)

Ausgrid welcomes the opportunity to provide a submission on the First Interim Report for the Transmission Frameworks Review. As a distribution business with dual function (transmission assets), we have an interest in the direction of the review, particularly as changes in transmission often pre-empt later changes in distribution.

The report sets out five potential alternate packages to reform transmission arrangements and sets out options for enhancing the current connection arrangements. We agree with the Commission's conclusion in the report that there is limited evidence to demonstrate, "the materiality of any current or anticipated inefficiencies associated with existing arrangements".

The report also includes substantial planning reform options proposed in stakeholder submissions. Most notably, the proposal for a single body responsible for transmission planning and procurement across the NEM (option 3) and the possibility of a joint venture planning body established by TNSPs (option 4).

Ausgrid understands that these substantial reform options will only be considered by the Commission if there is evidence that such reforms could promote efficient outcomes consistent with the National Electricity Objective (NEO). We submit that compelling evidence will be required because as the Commission observes, "the existing arrangements are delivering many of the outcomes that would be expected under a well-functioning transmission planning regime" and are relatively new.

Ausgrid sees no reason for AEMO or a national joint venture body (comprised of TNSPs) to assume transmission planning/procurement responsibility in NSW. On the contrary, there are valid reasons that this should be avoided, including:

- An extension of AEMO's role from market oversight to investment and procurement runs counter to the principle of good governance. To ensure transparency and accountability, it is important that AEMO maintains independence from other interest groups, including

government and industry sectors. This is in accordance with the Market Operator Working Group's views during its deliberations on the appropriate structure of the AEMO Board and the appointment process for Board members.

- A national planner is likely to focus mainly on interconnection assets associated with interstate flows that constitute a minor proportion of the transmission network and consequently be less attentive to individual DNSP connection needs.
- A national planner will have much less familiarity with local issues, history and asset condition issues and would have limited ability to optimise planning strategies to simultaneously deal with asset condition issues and growth planning (particularly if augmentation plans are the responsibility of AEMO, but replacement plans are the responsibility of TransGrid).
- A national planner is likely to lead to duplication and inefficiencies. For example, joint planning in NSW would become a tripartite forum between TransGrid, AEMO and Ausgrid, given Ausgrid owns dual function assets that would need to continue to be planned by Ausgrid to ensure the appropriate coordination and optimisation of these investments.

We consider that current joint planning arrangements between Ausgrid and TransGrid has resulted in prudent and efficient major investments in the past and we are currently close to finalising a 20 year investment plan for the future. The involvement of a third party to what is already a complex and time consuming process is likely to create duplication, uncertainty and inefficiencies while AEMO familiarises itself with Ausgrid/TransGrid's jointly formulated plans.

Ausgrid notes that the Commission has also put forward for consideration a regime based on the current South Australian arrangements (option 2). Under this regime, a national body would be responsible for confirming/approving demand forecasts and conducting reliability standard analysis. However, TNSPs would still tender, design, construct, own and maintain their own assets and conduct jurisdictional planning. While Ausgrid submits that in principle consistent forecasts and system assessments across the NEM may be a reasonable step forward, further quantitative evidence would be needed before this option can be objectively considered. It should be noted that Ausgrid has recently agreed to participate in an AEMO national electricity forecasting project to ensure closer alignment between state-wide and individual distributors' forecasts.

In relation to the five potential reform packages (which constitute the main component of the report), as well as the proposals to enhance the current planning and connection arrangements, we offer the following comments.

No evidence that current transmission arrangements are not working

As stated in our response to the Transmission Framework Issues Paper in September 2010 (Issues Paper submission), the key aspects of the framework for governing transmission investment have only been in place since late 2006. In addition, as the Regulatory Investment Test for Transmission (RIT-T) has only recently been introduced it will take some time to assess its impact. As there is no evidence to suggest that the current framework does not promote efficient outcomes consistent with the NEO we recommend that the current arrangements remain in place until evidence is presented to the contrary. As a result, we broadly support package one.

Proposed changes to transmission planning should not apply to dual function assets

It should not be necessary or appropriate for a DNSP who is a TNSP solely because it owns and operates dual function assets to have the obligations of both a DNSP and TNSP under the network planning and expansion provisions of the Rules. We made this point in our 24 November 2011 submission to the AEMC in relation to the distribution network planning and expansion framework rule change.

The first interim report largely ignores the role of DNSPs

The first interim report has made little reference to the role of DNSPs as the network service providers between transmission networks and loads. In particular, their role in passing on transmission related charges to customers and the joint network planning that occurs between TNSPs and DNSPs. The Commission should note that Ausgrid raised this concern in our Issues Paper submission, which has not been reflected in the first interim report.

Implementing a national framework for transmission network reliability standards

The Commission has recommended to the MCE that a national framework for transmission reliability standards for load be implemented (AEMC, *Transmission Reliability Standards Review*, Updated Final Report, 3 November 2010, Sydney). Ausgrid submits that there would be benefits for the reliability standards of transmission and distribution businesses to work together to deliver customer outcomes as DNSPs require certain standards of reliability of supply from TNSPs. However, we reiterate that transmission reliability standards should not apply to dual function assets as they are already subject to existing jurisdictional reliability standards.

Connection Arrangements – Firm Access

The first interim report proposals concerning access and charging arrangements for scheduled generators are unlikely to impact on Ausgrid in the short term. However, there is the potential in the future should large embedded generators connect to Ausgrid's transmission (dual function) assets or distribution assets.

Ausgrid submits that it is important to recognise that establishing a complex system of negotiated access rights between a generator and TNSP is not practical or reasonable. The service provided by transmission networks generally comprises shared assets. TNSPs can neither control the despatch or development of generators. It is unreasonable and impractical to require that a TNSP would guarantee priority firm access or service to one party over shared

assets as it would potentially restrict access to another user (competitor) and thereby circumvent the principles of the market. To practically provide an "enhanced level of transmission service" would mean that the network would need to accept (or supply) power under a wider range of normal and abnormal network conditions. Whilst for dedicated connection assets this is possible (as is the case today) it is difficult to understand how this could be practically achieved for shared assets. We raised this issue in our Issues Paper submission.

Merit in introducing increased transparency in the TNSP pricing process

Despite the issues around negotiated access rights raised above, Ausgrid submits that there are likely to be economic and equity benefits to be realised if the transmission framework provided for increased transparency in the TNSP pricing process and for transmission companies to publish their pricing strategy.

Currently, there is some ambiguity in how the Rules operate in respect of the interaction of assets and services delivered by TNSPs and the process of passing on these costs to customers. The Commission in considering the arguments in favour of providing transmission price signals to both new and incumbent generation will need to take into account any potential impacts for price volatility and price path uncertainty to transmission network users and their end-customers.

Ausgrid does not see a benefit in aligning the regulatory resets of TNSPs

The resource implication of this proposal would be very significant, not just for the AER and TNSPs but throughout the industries that provide them with consulting support. While there may be some administrative merit in allowing owners and users of transmission network to be subject to a broader assessment, the incremental synergies are unlikely to be material.

If you have any queries or wish to discuss this matter in further detail please contact Mr Keith Yates (Acting/Executive Manager Regulation and Pricing) on (02) 9269 4171.

Yours sincerely

A handwritten signature in dark ink, appearing to be 'PB', written in a cursive style.

Peter Birk
Executive General Manager System Planning and Regulation