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

Dear Mr Pierce,

RE: EPR0019 – Transmission Frameworks Review

ACCIONA appreciates the opportunity to provide input into the AEMC's Transmission Frameworks Review (TFR). ACCIONA also recognises the complexity of the issues presented and the amount of work undertaken by the AEMC in the development of this TFR. This letter forms ACCIONA's submission on the Second Interim Report to the AEMC. ACCIONA is also a member of the Clean Energy Council and supports its submission to the AEMC on this topic.

Background Comments

The ACCIONA Group operates worldwide and is active in three key sectors: energy, water and infrastructure. ACCIONA is active in all three of those sectors in Australia. In the infrastructure and water areas, ACCIONA is leading the consortium designing and constructing the Legacy Way tunnelling project in Brisbane and is leading the consortium designing, building and operating the desalination plant at Port Stanvac near Adelaide.

ACCIONA's interests in the National Electricity Market (NEM) include the ownership of three existing wind farms, one as a joint venture (Cathedral Rocks Wind Farm) and the other two it owns and operates independently (Waubra Wind Farm and Gunning Wind Farm). Additionally ACCIONA has a pipeline of future renewable generation projects at differing stages of connection negotiation located in different regions throughout the NEM. ACCIONA is therefore keen to assist the AEMC to investigate the frameworks surrounding the procurement of, planning of and connection to the transmission network.

ACCIONA supports the principals of contestability and competition as the best way to achieve the National Electricity Objective (NEO).

Non-Firm Access Model

ACCIONA agrees with the AEMC's position that the firm access provisions implied by clause 5.4A of the National Electricity Rules (NER) do not function in practice. ACCIONA supports the AEMC's position that, under a non-firm access model, clause 5.4A could be removed to clarify that firm access is not intended under such a model. ACCIONA also vigorously supports the AEMC's position that the provisions currently in 5.4A requiring that "...negotiations for the connection of generators be

undertaken in good faith and appropriate information provided"[1] must be retained under a non-firm access model. ACCIONA recommends that the AEMC extends that principal to all Connection Applicants, not just generation connections.

Information regarding the network conditions and market conditions that lead to constraints is essential to Connection Applicants seeking to connect under a competitive, non-firm access arrangement; such information provides an economic locational signal. When in possession of information on potential constraints a Connection Applicant can make an economic assessment of the risks of that constraint in light of other locational signals (such as fuel availability).

The entity with the access to such constraint information is the Transmission Network Service Provider (TNSP) and its provision to Connection at the connection enquiry stage will ensure efficient development of investments under a non-firm access model. That will promote the NEO. ACCIONA encourages the AEMC to maintain such data provision requirements explicitly under the NER.

Optional Firm Access Model

The OFA model is a significant move from the status quo. ACCIONA believes that a significant amount of additional analysis (both quantitative and qualitative) will be required before a decision can be made on adopting the OFA model in the NEM.

In the context of the OFA, ACCIONA is supportive of the access settlement methodology proposed by the AEMC. It will encourage an orderly dispatch of generators behind a constraint ensuring an economic dispatch. It will maintain the existing market settlement methodology where there is unconstrained access to the Regional Reference Node (RRN).

There will be more complex bid adjustments following the binding of a constraint as there will be more intelligence required by market participants than simply bidding market floor. Both firm and non-firm generators will attempt to adjust the local price to maximise their revenue. That complexity may lead to reduced market efficiency.

At this stage no indication of the magnitude of costs associated with the purchase of OFA has been established. It is therefore difficult to analyse whether or not the value of OFA would be commensurate with its cost.

Assessment of Access Models

ACCIONA does not believe that enough modelling has been conducted to demonstrate that there will be economic efficiencies delivered by the introduction of OFA. There has been no discussion about the likely costs of purchasing OFA compared with the economic advantage of purchasing it. Such modelling will be difficult until the regulated pricing model is further developed.

That said, if an assessment was undertaken based on an existing constraint, an example calculation of the Long Run Incremental Cost (LRIC) for that constraint and an assessment of the value to the generators behind the constraint then the improvement in economic efficiencies to the market may be better understood. That would assist in understanding whether or not the NEO would be achieved.

[1] Second Interim Report, Transmission Frameworks Review, AEMC, page 18

Given the limited amount of analysis on the proposed OFA arrangements available to date, ACCIONA has been unable to come to a conclusion on which of the Non-Firm or OFA models would result in better achieving the NEO.

Transmission Planning and Pricing Framework

National Transmission Planner

ACCIONA supports the concept of enhancing the role of the National Transmission Planner (NTP). ACCIONA considers that monitoring of the interfaces between TNSPs and regions will ensure developments at the boundaries between regions are efficiently and economically managed.

Last Resort Planning Power problem

ACCIONA understands the AEMC's conundrum that AEMO (as the NTP) cannot provide Last Resort Planning Powers (LRPP) over itself (as the jurisdictional planner in Victoria). ACCIONA, however, has reservations regarding the AEMC's proposal to assign the responsibility for jurisdictional planning to SP AusNet.

ACCIONA is presently using AEMO's role as procurer of the transmission network in Victoria to ensure competitive, efficient and innovative solutions are provided by Declared Transmission System Operators (DTSOs) in that state. ACCIONA argues (see *Competition Amongst DTSOs* below) that the removal of an independent transmission procurer will lead to economic inefficiencies.

ACCIONA considers that allowing the planner/procurer of the Transmission Network to select the DTSO that builds, owns and operates the network encourages competition between DTSOs. The concept of assigning the jurisdictional planning function in Victoria to SP AusNet would prove inefficient and would lead to a reduction in innovation in the provision of transmission system development (refer below).

ACCIONA recommends that the LRPP function be retained by the AEMC. The LRPP function, if retained in the AEMC, can leverage off the planning publications prepared by the NTP. The LRPP function may not use core skills retained by the AEMC but the overheads associated with the preparation of the review to determine if it should direct TNSPs to undertake further RIT-Ts is not considered great.

Competition Amongst DTSOs

Meridian Energy has announced that Transmission Operations Australia (TOA) will provide Elaine Terminal Station for its Mt Mercer wind farm project.[2] It would appear to ACCIONA observing from the outside that TOA has, in this instance, offered something to Meridian that SP AusNet's economies of scale could not match.

ACCIONA is currently running its own tender process for the construction of a 220kV terminal station to facilitate a connection in Victoria. ACCIONA has engaged with two DTSOs with regards to this construction to utilise market competition to ensure an efficient delivery of the transmission assets. ACCIONA will nominate the preferred contractor to AEMO to undertake the construction under section 8.11.8 of the NER. The tender process being run by ACCIONA is ensuring that both DTSOs consider the following in the context of a competitive environment:

- Careful risk assessment and allocation,

[2] http://mtmercerwindfarm.com.au/project-info/grid-connection

- Technical innovation to minimise functional designs whilst meeting functional specifications provided by AEMO as the procurer,
- Provision of other value adding services that ACCIONA may improve the market value for this project and the NEM.

As there are two DTSOs with different ownership structures, ACCIONA is accessing the different risk profiles and different financial structures that the two entities provide via this tender process.

ACCIONA suggests that if the AEMC alters the planning and procurement arrangements in Victoria to match that in other states there would be a significant reduction in choice and therefore a significant reduction in the competitive provision of transmission services. Such a reduction in competition would lead to a reduction in technical and contractual innovation in the DTSO arena.

ACCIONA will support the rules which foster greater contestability in and between DTSOs/TNSPs throughout the NEM. ACCIONA does not support the attempt to reduce the contestability in Victoria; that would be a step away from achieving the efficiencies required by the NEO.

If the AEMC considers that there is value in "...the harmonisation of transmission arrangements across the NEM"[3] then ACCIONA would encourage it to push for the roll out of the Victorian model NEM wide.

ACCIONA recommends that the AEMC attempt to increase competition in the TNSP area by encouraging the opening up of the market by separating the planner/procurer role from the network ownership role in all jurisdictions. That would allow the fostering of competitive tension between transmission owners such as is occurring in Victoria.

Improving the Connection Framework

Improving the efficiency of the connection process

ACCIONA supports the AEMC in improving the efficiencies of connections. In particular, the publication of a standard connection contract (or at least standard terms sheets) would mean that a Connection Applicant can assess its position earlier to facilitate more time efficient negotiations. ACCIONA also supports stronger requirements in the NER for TNSPs to provide information to Connection Applicants at the Connection Enquiry stage. Such information will lead Connection Applicants having earlier access to more efficient location signals.

The concept of providing Connection Applicants with "...a greater role in the process of tendering for connections"[4] and the associated proposals is also supported. As discussed above, separating the planner/procurer role from the network ownership role in all jurisdictions would allow a variant of chapter 8.11.8 to function in all NEM regions. That would achieve the AEMC's stated objective.

Provision of Extensions

The AEMC has stated that "...to connect to the shared transmission network, a connecting party...usually requires a new transmission line to be constructed..."[5]

[3] Second Interim Report, page 71
[4] Ibid, page 84
[5] Second Interim Report, page 92

That is often the case. That said, ACCIONA disagrees with the AEMC that such a transmission line is an "extension".

The NER states that an extension is an "...augmentation that requires the connection of a power line or facility outside the present boundaries of the transmission or distribution network owned, controlled or operated by a Network Service Provider"[6]. A transmission line constructed to connect a party to the shared transmission network is therefore only an extension if the NSP owns, controls or operates it. The transmission lines would generally be considered to be connection assets (i.e. those "...components of a transmission or distribution system which are used to provide connection services"[7]) and would often not be owned by the NSP. They are, therefore, often not extensions.

The AEMC has stated (based on its definition of an extension) that where "...an extension is owned by the connecting party or a third party, it will be required to register as a TNSP or gain exemption from the AER from that requirement, as is currently the case."[8] This is not currently the case, based on the definition of a Connection Asset. A registered Generator or Load may own the Connection Assets without seeking an exemption from the AER as they are not part of the transmission network; they are part of the transmission system. The boundaries of regulation should be minimised and the AER should not be involved in areas outside of monopoly regulation such as Connection Assets.

It is therefore ACCIONA's position that Connection Assets should not be subject to regulated ownership by TNSPs. Connection Assets should not be contemplated under chapter 6A of the NER as they are connection services, not transmission services. Requiring Connection Assets to be owned by TNSPs would lead to an increased footprint of the monopoly assets, an increased regulatory burden and a reduction in contestability. That would not achieve the efficiencies required by the NEO.

Clarifying the Rules

The AEMC is proposing changes that "...involve significant redrafting of sections of Chapters 5, 6A and 10"[9] of the NER. ACCIONA considers that changes to the underlying NEL will also be required.

ACCIONA considers that the primary source of confusion in the NER stems from a lack of clarity that section 6A of the rules relates to the economic regulation of transmission services only. A simpler approach would be to clarify that 6A is only for the regulation of Transmission Services and that such services relate only to the Transmission Network, not the transmission system. That clarification would reduce redrafting significantly. It would also ensure that the regulated asset base is minimised, competition in the provision of Connection Assets is retained (and clarified to TNSPs that may be otherwise unsure) and that efficient market solutions are achieved by minimising monopoly boundaries.

[6] NER Version 50, page 999
[7] Ibid, page 982
[8] Second Interim Report, page 94
[9] Second Interim Report, page 110

Should you have any questions regarding this submission or if there is any information ACCIONA can provide to assist you with the TFR then please contact Sam Fyfield, Manager Connection Services on (03) 9863 9927.

Yours sincerely,

Andrew Thomson
Managing Director
ACCIONA Energy Australia