

27 January 2012

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

Lodged electronically at [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr. Pierce

### **Transmission Frameworks Review**

ActewAGL is pleased to make this submission to the AEMC's first interim report on the Transmission Frameworks Review, issued for comment on 17 November 2012.

ActewAGL is a multi-utility which provides electricity, natural gas, water and wastewater services throughout the Australian Capital Territory. Virtually all of the electricity customers in the ACT are connected to ActewAGL's electricity distribution network.

The efficiency of transmission investment and pricing is a cause of particular concern to ActewAGL and its customers. The transmission charge to ActewAGL has escalated by almost 150%, in the four years to 2011/12. This price increase is principally the escalation of postage-stamped charges, which lessen the cost-reflectivity of transmission pricing. ActewAGL thus supports the AEMC in its endeavours to enhance the existing arrangements.

The ActewAGL 132kv network will be classified as transmission from the date of connection to the Williamsdale 330kv TransGrid substation, south of Canberra, to be completed during 2012.

As a consequence, the transmission frameworks and their compatibility with the equivalent distribution arrangements are also of direct concern to ActewAGL.

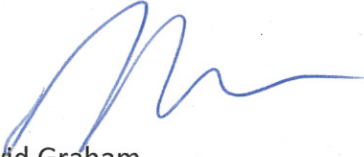
The main points that ActewAGL wishes to raise, for the AEMC's consideration, are as follows:

- The efficiency of the existing pricing arrangements is likely to be improved by the adoption of the AEMC's Option 3, whereby some portion of the costs of the shared transmission network are recovered from incumbent generators;
- ActewAGL believes further efficiency gains may result from the recovery of energy based transmission charges through the market, rather than directly from distributors through energy related charges; and
- It is critical that the frameworks for transmission/dual function and distribution networks remain harmonised, and that any changes to the transmission framework and connection arrangements are capable of being implemented for larger (MW sized) generators and loads connected to distribution systems.

The Attachment elaborates on these matters.

Please contact Veronica Grace ([veronica.grace@actewagl.com.au](mailto:veronica.grace@actewagl.com.au)) should any clarification of this submission be necessary.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'David Graham', with a stylized, flowing script.

David Graham  
Director – Regulatory Affairs and Pricing

## Attachment – Comments on Transmission Framework Review

The AEMC's report considers four features of the Transmission Frameworks that are to some extent interrelated:

- Transmission access;
- Transmission planning;
- Transmission connection; and
- Access to extensions to the shared transmission network.

This submission addresses each of these matters in turn.

### Transmission access arrangements

The current TUoS pricing allocation, where the incumbent generators do not pay for their use of the shared transmission network, assigns a substantial proportion of transmission costs to distributors through energy based charges. This is a particular concern for ActewAGL, as this form of allocation has directly contributed to the unprecedented TUoS increases in the ACT in recent years.

The outcome of the existing pricing allocation is that the regional reference price (RRP) is reduced, on average, to the extent that incumbent generators do not directly pay for and recover their shared transmission network costs. Generators thus compete in a market that has a reduced RRP.

This reduced RRP acts as a disincentive for new entrant generators, discouraging their development. This includes generators seeking to connect to distribution networks. Some consequences of this distortion are:

- A range of non-network solutions to augmenting networks become less viable;
- The absence of transmission (and distribution) pricing for the shared network means that new entrant generators do not have an incentive to locate closer to load centres; potentially leading to inefficient investment in generation and transmission assets.

ActewAGL fully supports the user-pays principle proposed for additional costs. However, it also supports a consistent user-pays principle for existing costs.

By way of example, the ACT government is proposing the development of 210 MW of large-scale renewable energy capacity<sup>1</sup>. Under the current Rules, if that generation capacity were to be embedded in ActewAGL's distribution network, any consumer buying that energy would be paying the same TUoS charges for the energy as if the energy came from the Snowy Hydro or Hunter Valley.

Turning to the AEMC's five framework options, the following comments apply:

- **Option 1** represents a continuation of the present unsatisfactory transmission pricing arrangements and is not the preferred way forward;

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



- **The AEMC's Options 2, 4 and 5** each involve the development of a congestion or firm access regime, whereby the NSP effectively provides financial compensation if the generator cannot access the RRN.

This has the potential to impact on ActewAGL, should any generators connect to its dual function assets. This would potentially expose ActewAGL to additional risks as the counterparty providing access guarantees, for which it would need to be compensated.

- **Option 3** would be the preferred arrangement, as it would improve the efficiency of transmission pricing. It would recover some portion of the costs of the shared transmission network from all generators. However, on its own, Option 3 may not fully redress the level playing field issue described above.

Finally, whichever of the AEMC's transmission access options is eventually developed, the generator access and pricing arrangements need to be harmonised with and be capable of being implemented at the distribution level. This would not apply to small sized generators such as distributed solar PV, but significant sized generators (of a few MW to a few hundred MW) can seek to connect to either the transmission/dual function or distribution networks. Moreover, the boundary of the transmission network can change, as it is about to do in the ACT. If the access arrangements for generators are not harmonised between transmission and distribution, the resulting incentives will result in inefficient connection arrangements.

## **Transmission planning arrangements**

### ***Planning enhancements***

ActewAGL supports the majority of the AEMC's proposals concerning enhancement of the current transmission planning arrangements. However, the following concerns are raised:

- The AEMC needs to be mindful, in making any further changes to the RIT-T, that there is a need for harmonisation with the RIT for distribution. This was the subject of a separate review of the Distribution Framework and report to the Ministerial Council on Energy (MCE)<sup>2</sup>.
- The AEMC's proposal to align the regulatory resets of the TNSPs may result in an uneven workload for the AER, which could have flow-on effects for DNSPs. In addition, it should be noted that the regulation of dual function assets, which perform a transmission function, must remain aligned with the DNSPs' regulatory cycle.

### ***More significant reforms***

ActewAGL believes that the existing transmission planning arrangements, the TNSP/DNSP planning interfaces and responsibilities are broadly appropriate and are functioning satisfactorily.

The enhanced coordination of planning processes (Option 1) and a national planning and forecasting regime based upon the South Australian arrangements (Option 2) represent logical incremental changes, which would improve the consistency of planning outcomes

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<sup>2</sup> AEMC, Final Report - Review of National Framework for Electricity Distribution Network Planning and Expansion, 23 September 2009.

over the present arrangements. These options do not imply major changes to the existing structural arrangements and responsibilities and are supported.

ActewAGL is not persuaded that there is justification for making any of the more substantive structural changes that the AEMC has set out. Before making such changes, the AEMC will need to demonstrate that it would deliver outcomes consistent with the National Electricity Objective.

Option 3, the transmission planner and procurer model, involves a substantial transfer in planning responsibilities from the commercially-driven TNSPs to AEMO, which is unregulated. ActewAGL notes that the Victorian transmission connection process is more complex and time consuming than in other jurisdictions, because of the tripartite negotiations that must take place between the customer, AEMO and TNSP. This model is not supported.

Option 4 involves the establishment of a new organisation with responsibility for national planning and the most significant changes to market structures and responsibilities. ActewAGL believes this model could be considered for future implementation if it is apparent that it would produce material benefits when compared with Options 1 and 2.

### **Transmission connection arrangements**

ActewAGL supports the AEMC's proposal to provide greater clarity in the Rules concerning transmission connection services. However, any change to the regulatory treatment of connections must achieve the outcome of lower overall cost both to those customers making connections and to existing customers.

Any changes made to the transmission connection processes must retain consistency with the distribution connection arrangements, particularly as large loads or generators can connect to either a transmission/dual function or distribution network. Rule changes must ensure the distribution connection processes retain this consistency.

Whilst the large number of small customer and generator connections made to distribution networks needs a simplified process, any changes made to the transmission connection process must be capable of being implemented for larger connections made to distribution networks.