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Dear Ms Falvi

National Electricity Amendment (Transmission Connection and Planning Arrangements) Rule 2016 – Draft Rule

AEMO welcomes the opportunity to provide feedback on the Commission's Draft Rule.

The national electricity objective (NEO) is best met by a transmission connections framework that promotes a competitive electricity generation market by removing barriers to entry such as unnecessarily costly transmission connections. AEMO continues to advocate for an outcome that delivers efficiency gains by increasing contestability for the provision of both transmission connection and related shared network services.

The Commission's consultation process to date has shown that there is broad-based industry support (including both TNSPs and generators) for a strong contestable model that would allow TNSPs other than the local incumbent TNSP to own and manage connection assets. The Draft Rule adopts a model for competition that could prove too limited to achieve any material market benefits overall. As a result, an opportunity to promote cheaper and faster transmission connections may be lost.

1. Competition must be the cornerstone of the connections process

The Victorian arrangements demonstrate that competition can succeed and accountability can be maintained with multiple TNSPs without compromising system security, reliability or impeding future third party access.

Accountability is necessary, but it does not follow that the incumbent TNSP must assume that accountability for the entire transmission network within jurisdictional boundaries.

Rather than carving out elements of the connection process to be contestable, with the remainder exclusively provided by TNSPs, AEMO supports arrangements that empower connection applicants to drive savings by making the whole connection service contestable. This is workable with appropriate regulation, including provision for coordination between the TNSPs that own and operate network assets both within and between jurisdictions.

We are concerned that the limited scope for competition in the Draft Rule will not drive overall benefits, given the additional complexity, risk and cost associated with transferring responsibility for operation and maintenance (O&M) of shared network assets.

The proposed framework may not be used in practice. In particular, a requirement for incumbent TNSPs to assume O&M responsibility for assets they did not build may add significant costs and unacceptable risk for the connection applicant. Based on AEMO's experience of a similar type of situation in Victoria, transfer requirements can be complex

and costly. This may negate any benefits of choosing a third party provider to construct the assets, and therefore deter connection applicants from using this proposed contestable model.

Further, any incentive for contestable providers and investors to take on connection projects may be significantly lower if they cannot control the performance of assets they continue to own after construction. Without this latter dimension, contestable network projects may become unbankable.

2. Flexible design parameters to reduce costs of future connections

Under the National Electricity Rules (Rules), TNSPs have an ongoing obligation to provide third party access. The connections frameworks should therefore seek to minimise barriers to entry over the long run.

Flexible substation designs can significantly reduce the cost of future connections and reduce risks to system security. Even though such flexibility could add upfront costs and require additional elements to the commercial negotiations, we note that such costs can be minor compared to the overall cost of the connection and avoid the costs of replacing insufficiently scaled assets prior to their engineering or economic end-of-life.

The Rules should clearly specify the extent to which TNSPs should seek substation designs that incorporate expected efficient network development, including future expansions, where this involves costs beyond what is required for to meet the needs of the relevant connection application.

We note that the commercial interests of the connection applicant may not align with the long term interests of consumers, that would be served by a connection design that facilitates the efficient connection of both present and future generation. The Draft Rule states only that the detailed design must 'not unreasonably inhibit' the capacity for future expansion. We consider this would encourage connection applicants to contest any proposal to 'oversize' identified user shared assets, and will not facilitate efficient investment and planning for anticipated future connections.

This aspect of the Draft Rule is problematic in the context of the Victorian arrangements and should not apply in an adoptive jurisdiction.

3. Accountability is shared regardless of the delivery of the connection service

The COAG Energy Council Rule change request expressed the purpose of the connections framework as 'to deliver efficient connections to those parties seeking to connect to the transmission network'. AEMO agrees that the most efficient outcomes are more likely to be delivered through the competitive delivery of connection services.

Accountability will always be shared to deliver safe, reliable and secure supply of electricity across the power system regardless of the framework. Accountability is achieved by applying the relatively straightforward principle that the person best placed to take responsibility for the operation and performance of service-bearing assets is the owner/controller of those assets. The Rules already impose a robust set of technical and behavioural standards[1] and requirements on NSPs. NSPs are required to report system incidents and the AER has a

[1] For example, in Chapters 4 and 5 where NSPs must follow instructions and meet Australian standards.

duty to investigate non-compliance. The NEM has examples (outside of Victoria) where accountability for delivery of network service is shared.

Concerns about accountability and fitness to operate shared network assets can be addressed if each contestable operator is required to meet the necessary criteria to be registered as a TNSP and is subject to the same safety, security and operational criteria – differing only in respect of economic regulation. Currently in the NEM:

- all network developments must be built in accordance with Australian Standards;
- distribution and transmission networks are connected but separately operated, yet accountability remains clear;
- transmission networks in each region are connected via interconnectors, yet accountability remains clear.

Where coordination is required for planning, revenue or system security purposes, the Rules provide for appropriate arrangements. There no compelling reason why similar arrangements could not be developed for multiple shared transmission network service providers in the same jursidiction.

Complexity can be avoided by making it clear that the incumbent TNSP is responsible for determining the functional specification for all new connections, regardless of who owns the assets that are being connected. For planning purposes, it is worth considering expanding the concept of a 'Co-ordinating TNSP', which is currently used for revenue allocation purposes under 6A.29.

4. Victorian connection arrangements

AEMO is generally in agreement with the AEMC's conclusions on the application of the draft Rule in an adoptive jurisdiction. We would like to work with the AEMC and the Victorian government to align the Victorian connections framework with other NEM jurisdictions, but only to the extent that the proposed reforms do not reduce the extent or effectiveness of contestability in Victoria. There is limited scope to do this on the basis of the Draft Rule, since the Victorian arrangements establish a framework that permits multiple TNSPs to compete to provide transmission services.

Our detailed response (attached) confirms the aspects of the draft Rule that we consider should be implemented for the declared shared network when any final Rule takes effect, with modifications as required. These are directed at reducing unnecessary duplication of terms that describe substantially the same concepts, and improving clarity of the application of existing Rules.

The Victorian government has announced an ambitious renewable energy target that AEMO expects to result in a large number of new generator connections within a relatively short timeframe.

AEMO is committed to improving and assisting the Victorian connection framework through this period of intense network development to ensure that connection applicants receive network connections that are timely, economically efficient and deliver network connection solutions for today and into the future.

5. Registration Issues

The Draft Rule proposes a new registration category of Dedicated Connection Asset Provider, as a sub-category of TNSP.

We are unclear as to why it is necessary establish a new registration category and classification process for persons already required to register as a TNSP. The purpose of this registration appears to be to provide a mechanism to identify large and small connection assets, which must be classified as part of the proposed registration process. If this is the case, registration as a separate class of registered participant seems to be an unnecessary administrative burden. Our detailed submission proposes some more light handed mechanisms for giving effect to this objective.

6. Planning

AEMO has not identified any material issues relating to the proposed changes to transmission planning arrangements in the Draft Rule.

Please see the attached for additional detailed responses to the Draft Determination and Rule. For any enquiries or questions in relation to this submission, please contact Jess Hunt on 08 8201 7315 or jess.hunt@aemo.com.au.

Yours sincerely

David Swift
Executive General Manager Corporate Development

AEMO's detailed response to the Draft Determination and Rule

1. Key changes to the proposed model to increase competition

As outlined in our covering letter, the cornerstone of a successful connections framework must be increased competition. Fragmentation of design, construction, ownership and maintenance will be problematic from a commercial perspective. Contestable TNSPs intending to construct and own identified user shared assets (IUSAs) may have great difficulty financing projects when primary responsibility for the operation and performance of an owned asset lies with another party. The allocation of risk under the Draft Rule may be so fragmented as to deter contestable TNSPs from tendering to construct and own IUSAs. The likely result is that the shared network aspect of the proposed connections framework will simply not be utilised.

Current incentives in the regulatory framework drive incumbent TNSPs to deliver assets that have secure and reliable performance. Such incentives can be replicated in a scheme that applies to contestable TNSPs. AEMO's Availability Incentive Scheme (AIS) currently fulfils this role in Victoria. For a fully contestable connections framework to be successful in the wider NEM, AEMO expects that the AER would be tasked with developing an extended incentive scheme. Direct procurement of services by generators who need to maintain their access to market will also create strong commercial incentives.

2. Allowance for capacity for future expansion

This aspect of the Draft Rule is problematic in the context of the Victorian arrangements and should not apply in an adoptive jurisdiction.

As stated in our cover letter, AEMO is concerned that the Draft Rule will not facilitate efficient network investment. The Draft Rule states only that the detailed design must 'not unreasonably inhibit' the capacity for future expansion. We consider this would encourage connection applicants to contest any proposal to 'oversize' identified user shared assets, and will not facilitate efficient investment and planning for anticipated future connections.

AEMO considers that to drive efficiencies in the connection framework the AEMC could draft rules that allow a low cost way of configuring connections to allow for future expansion through (for example) the purchase of options over additional land rather than holding land in reserve.

AEMO considers that there are benefits to the initial connection applicant in creating availability for expansion where there is a reasonable prospect of future connections. These include the potential for future cost savings through cost sharing, and reducing the likelihood of network constraints from future connections at additional terminal stations.

3. Asset Definitions

a. <u>Dedicated Connection Assets</u>

Currently, AEMO tries to apply a consistent position with shared or dedicated transmission assets. An asset may be considered a shared network asset where they provide shared services or benefits or are capable of doing so in a future expanded or "ultimate" arrangement. We agree with the AEMC's proposal that dedicated connection assets will become shared network assets if a distribution network connects to it, however we have a number of concerns about the concept of dedicated connection assets (DCAs) as defined in the Draft Rule:

- Practical issues can arise where ownership and operation of shared network and connection assets become separated. While in principle AEMO recognises there may be benefits in allowing separate ownership and operation we suggest that further consideration of consequential impacts is warranted, including things like shared site responsibilities.
- AEMO understands the AEMC's rationale for the measure proposed to delineate between large and small DCAs (30km length) is based on a conclusion that DCAs under 30km do not need access regulation because it would be economically feasible for a third party or distribution network to build its own connection assets. AEMO would welcome further detailed analysis on this question, both to confirm that length should be the only consideration and that 30km would be the right number in the vast majority of cases. As drafted, AEMO also notes that the definition of "total route length" is unclear (for example in terms of a measurement in a straight line or the total length of a line).
- In terms of the continued classification of DCAs, for multiple future connections, AEMO has a number of concerns, including detailed considerations about settlements and potential retail contestability within the 'embedded' network into the future. If a large number of generators or loads become connected to one DCA, measurement and system operation issues could arise. Separation of the DCA from the remaining network, could have significant adverse implications for the system strength of the shared network.

AEMO's preferred classification of network assets according to their function is illustrated in the following diagrams. Figure 1 and Figure 2 identify two alternative arrangements for connecting three generators to a terminal station containing IUSAs and DCAs.

Figure 1 illustrates IUSAs at 500 kV with connection of three generators at 500 kV via their respective DCAs. Figure 2 shows IUSAs at 500 kV and 220 kV with connection of three generators at 220 kV via their respective DCAs. In this second arrangement, classification of the 500/220 kV transformers and 220 kV switchyard as DCAs would cause concerns in Victoria with measurement principles and system operation issues as noted above.

Figure 1 - Terminal Station with Identified User Shared 500 kV Assets

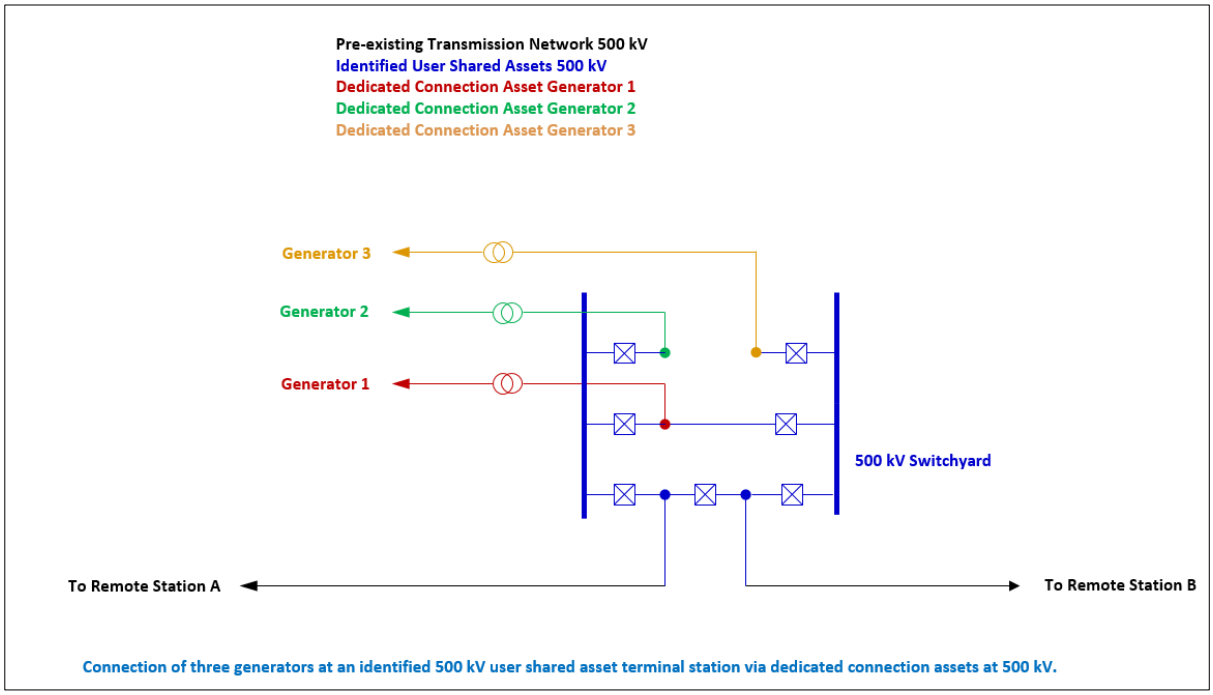
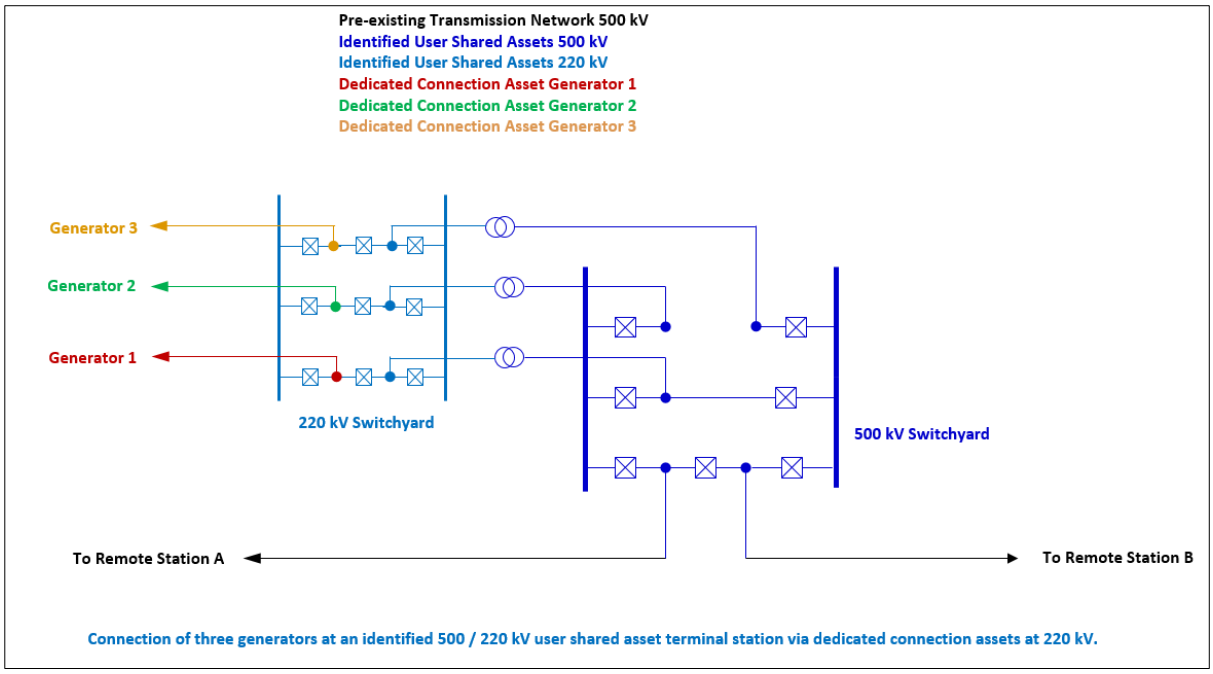


Figure 2 – Terminal Station with Identified User Shared 500 kV and 220 kV Assets



If the definitions of IUSA and DCA are to apply to Victoria into the future, AEMO would need the ability to classify differently according to the ultimate arrangement (irrespective of whether connections are load or generation).

b. Identified user shared assets (IUSA)

The table in clause 5.2A.4 of the Draft Rule and the revised definition of a transmission network contemplate that the contestable provider of an IUSA need not transfer O&M responsibility to the incumbent. It appears that the third party provider would be treated as a TNSP and the IUSA would be its transmission network, but the Draft Rule does not provide further detail. It would be helpful for the AEMC to clarify the intended effect of these provisions. Pending clarification, AEMO's comments in this submission assume that this option is not intended to be available.

4. Transparency requirements

Table C.2 of the Draft Determination sets out proposed transparency requirements to apply to TNSPs under the draft Rule. Such requirements are not set out under the connections model in the Victorian declared transmission system.

If similar provisions were adopted in Victoria then AEMO would have concerns with the level of detail required to be published as it could detract from the overall competition benefits. Functional specifications should not define specific assets. Rather, they should set out the services that the assets need to deliver and the network conditions that the assets need to withstand. In the Victorian context the responsibility for publishing each of the requirements (as between AEMO and declared transmission system operators) would also need to be specified.

5. Recommended changes for the Declared Transmission System

AEMO's responses to the proposed changes to the Victorian 'declared transmission system' (DTS) connections framework are set out in this section. AEMO has already begun a consultation process with industry to streamline the process for connecting new generation to the Victorian DTS by removing itself as party to the connection and augmentation contract(s) as far as possible. We are working closely with the Victorian Government to deliver future transmission connection benefits into the Victorian network.

In Table 1 below we have responded to each of the proposed changes as set out in section 6.4.2 of the Draft Rule.

TABLE 1

Proposed Change in Draft Rule	AEMO's Response
"As per the current arrangements, AEMO would have ultimate accountability for the declared shared transmission network, with its functions carried out by way of contracts with DTSOs in order to allocate responsibility, risk and liability. As discussed in chapter 3, the Commission considers that one party should be accountable for shared network outcomes in a particular jurisdiction. Given the criticality of system security, safety and reliability, accountability for outcomes on the shared transmission network should be clearly defined. This is best achieved when one party is ultimately responsible for the provision of shared transmission services."	While AEMO agrees that the contestable connection arrangements in Victoria should not reflect the Draft Rule, we do not consider it necessary for a single party to be ultimately responsible for the provision of shared transmission services. There are many examples in the NEM where this is not the case, for instance between NEM regions and within New South Wales. In practice, the entirety of the NEM power system relies on numerous parties working together to deliver a secure and reliable power supply with each party having clearly defined roles and responsibilities in relation to the assets it operates – whether transmission, distribution, generation or load. There is no reason why a single TNSP must be accountable for the operation of all transmission assets within the boundaries of a NEM jurisdiction. AEMO acknowledges that for planning purposes it is desirable to have a jurisdiction-wide (and NEM-wide) perspective, and in that respect a single body – the incumbent TNSP – should have a coordinating role.
AEMO would play the role of the independent engineer, not a party selected from a Panel. Indeed, AEMO currently plays a role in relation to connections under the current Victorian arrangements, which in part provides the outcome the independent engineer process is intended to provide. Stakeholders' greatest concern with the Victorian arrangements is the complexity of the contractual arrangements - it would therefore seem to serve no purpose to introduce an additional party (i.e. the independent engineer) into that process. Indeed, this could also be seen to be introducing more complexity and time into the connections process	AEMO currently determines the functional specification for the connection service (in part) and related shared network service which aims to achieve the most efficient system solution and maintain quality of supply for the network. AEMO itself taking on the role of independent engineer would therefore be inappropriate to the extent the issues in dispute arise from the functional specification. In theory, Victoria could have the same independent engineer framework as proposed for the rest of NEM, but where AEMO was acting as the TNSP it would have no means of recovering the engineer's costs unless permitted to do so either through prescribed or negotiated TUOS charges. Given these difficulties, and AEMO's position as independent planner and procurer of transmission services in Victoria, it may be unnecessary to extend the independent engineer framework to Victoria.
There would no longer be a role for AEMO in running a tender process for contestable augmentations that are related to connection as the design, ownership and construction of identified user shared assets would be contestable. As noted above, under the current	The AEMC correctly notes that no recent connecting parties have elected to nominate AEMO as the party responsible for procuring their connection. Connection applicants have preferred to run their own tender processes.

Proposed Change in Draft Rule	AEMO's Response
arrangements connection applicants have a choice of nominating a DTSO of their choice (decided by running a private tender) or asking AEMO to select a DTSO. The Commission understands that no recent connecting parties in Victoria have asked AEMO to select a DTSO on their behalf, and so the Commission considers that this would in practice not be a significant change from the arrangements today	As previously mentioned, AEMO is currently conducting a consultation around the option to streamline the process for connecting new generation to the Victorian DTS by removing itself as party to the connection and augmentation contract(s) as far as possible. Removing the option for generator connection applicants to ask AEMO to conduct a tender is one of the changes proposed in that consultation. AEMO therefore supports its removal as part of the current rule change process.
There would need to be recognition of the existence of 'dedicated connection assets' i.e. assets that are used to connect a party to the shared network, which are paid for by that party, and which are only 'used' by that party. These could be provided by any party. Currently, there is not an equivalent concept in declared network jurisdictions (although typically all assets for connection are already provided 'contestably')	The existing concepts of shared network and connection assets respectively in the Rules provide for substantially the same distinction as is now proposed between IUSAs and DCAs, in terms of the services they provide. However, currently there is no provision for separate ownership and operation of connection assets and provision of the related services, since both form part of a single 'transmission system'. AEMO agrees that there is merit in making a clearer differentiation between dedicated connection assets and identified user shared assets, and allowing the potential for separate ownership and operation. AEMO considers the new concept of dedicated connection assets will improve clarity and provide greater flexibility, and can be applied to the declared transmission system subject to our views on the detailed definitions provided below. Importantly, there are potential difficulties in practice where a terminal station contains both shared network and connection assets (as currently defined and likely to be the same under the Draft Rule. It is important to note here that there will be some flexibility and discretion needed to allow assets that are fully dedicated to be classified as shared where under an "ultimate" arrangement, the asset can potentially be shared, such as, but not limited to, buses, breakers and earthmats.
Given that the Commission is preserving the operation of Chapter 6A and Rule 5.4A and associated definitions in a savings arrangement for Victoria, it would result in a clearer, more consistent framework if Victoria adopted these changes as well, and so only one of Chapters 5 and 6A would apply across the NEM. Therefore, the arrangements regarding negotiating frameworks (see appendix C.2), and the arrangements facilitating the deleting of Rule	AEMO supports the proposed changes for negotiating frameworks in the Draft Rule and agrees that they should apply equally to negotiated transmission services provided by means of the declared transmission system. Rule 5.4A currently acts as the mechanism by which connection applicants establish the terms of access to a transmission network. It is the only provision in the Rules under which charges for any shared network augmentations can be

Proposed Change in Draft Rule	AEMO's Response
5.4A could also be adopted in Victoria, with no impact on the declared network functions.	determined. Although TNSPs and connection applicants have never been able to use rule 5.4A as a basis for financially guaranteed access rights (paragraphs (h), (i) and (j)), it has still had a role to play in establishing the terms and charges for connection and access to transmission services – in particular clause 5.4(f)(3) in conjunction with the associated definitions. If the amended Rules provide an adequate alternative mechanism under which the costs of connection and related network augmentation can be determined and recovered, AEMO agrees that rule 5.4A will be redundant. In that case it should not continue to apply to the declared transmission system, as long as those parts of the Draft Rule that replace the transmission user access arrangements are also adopted in Victoria. This will necessitate adoption of the general concepts of identified user shared assets and dedicated connection assets in Victoria, together with changes to clause 5.3.6 similar to those proposed in the Draft Rule. Detailed comments on the definitions of assets and the classification of related services are provided in separate sections below.

6. Comments on definitions and service categories

AEMO suggests that the concepts of IUSAs and DCAs could be applied in Victoria, with appropriate adjustments to the definitions of connection assets and relevant transmission service definitions, but the associated contestability regime and service classification provisions in the draft Rule could not apply to Victoria. In particular:

- AEMO retains the right to determine the technical and operational requirements of all assets irrespective of classification.
- The construction, operation and maintenance of IUSAs would remain contestable, and could be provided by any declared transmission system operator.
- A DCA constructed to provide a service to an identified user or group of initial connecting users would be regarded as part of the shared transmission network to the extent it is subsequently used to transmit electricity to any other transmission network user (whether generation or load).
- The provision of any service that comprises the conveyance of electricity using transmission assets, including dedicated connection assets, should never be a non-regulated transmission service. In AEMO's view, that definition was never intended to apply to the provision of physical transmission infrastructure services.

Detailed comments on the new and substituted definitions in the Draft Rule are included in Table 2 below.

TABLE 2

Draft Rule Definition	AEMO Comment
Contestable	Although draft clause 5.2A.4 does not use the italicised term 'contestable', the existing definition of 'contestable' appears to fit with the intended meaning in that clause. The AEMC may wish to consider modifying the defined term as necessary so it can be used consistently. AEMO notes that a 'contestable augmentation' under rule 8.11 has a different meaning.
Contestable IUSA components	The use of the term 'assets' within the criteria used to determine the contestability of an individual component of the overall asset is confusing.
Dedicated connection asset	We suggest that the exceptions within this paragraph be specified in individual sub-paragraphs, otherwise it is unclear which elements are separate, and which simply qualify others.
Identified user group (in conjunction with 'connection point')	We understand the intent to be that multiple unrelated transmission network users (other than DNSPs) could be connected to a dedicated connection asset at different times and at different points along the length of that asset and yet remain a single identified user group. This is in our view completely at odds with the current concept of a connection point, which marks the interface of a transmission system with an individual user's facilities. In the situation described here, each individual connected user will have an individual connection to the dedicated connection asset, where a meter or other arrangement will determine the transfer of power from that asset (which will be effectively be functioning as a transmission network). The situation is analogous to an embedded network, for which it is instructive to note that the connection point from a user's perspective is the child connection point. AEMO is also concerned that altering the definition of a 'connection point' as proposed could have unintended consequences for the application of other Rules. This should be subject to detailed analysis.
Generator transmission use of system [service]	Services to a generator in respect of an IUSA (including O&M) are not covered by the modified definition. Is it necessary to include those services here, or is the AEMC satisfied that those services are adequately dealt with through other rule provisions?
Negotiated transmission service (in conjunction with unchanged definitions of prescribed transmission service and non-regulated transmission service	Under the current rules, it is not possible for any shared transmission service or connection service to be 'non-regulated' in any circumstances (even if it is contestable in a particular jurisdiction), because the definitions of prescribed and negotiated transmission services exhaustively cover all such services and are mutually exclusive. We understand the intent of the Draft Rule is for certain contestable services to be classified as non-regulated. These include all services provided in respect of dedicated connection assets, which (as we understand it) would comprise a connection service, but this is still included in the definition of a negotiated transmission service. AEMO considers a 'non-regulated' classification is not an appropriate outcome

Draft Rule Definition	AEMO Comment
	in any event, and in fact under the Draft Rule there is a material level of regulation in respect of those services – both technically and in terms of access. In reality, dedicated connection services are a class of negotiated transmission services that are only subject to a subset of the negotiating principles. AEMO considers they should be defined accordingly.

7. Registration, classification and exemption

The Draft Rule introduces a new registration category of Dedicated Connection Asset Service Provider, as a sub-category of TNSP, and requires an applicant to classify its DCAs as large or small in the registration process. AEMO has concerns about its role in this process.

It is proposed that AEMO must approve an application for registration and classification if satisfied that the transmission system (or the relevant part of it) is a large or small dedicated connection asset. AEMO may not be in a position to independently verify that the physical configuration of the DCA and the specified point of connection meet those requirements, and this exercise would need time and resources that must be funded by the applicant. More fundamentally, however, the purpose of AEMO managing a new registration category and classification process for persons already required to register as a TNSP is unclear. If the purpose is solely to identify the access regime and obligations that apply to each type of DCA (and distinguish them from other transmission system assets), this outcome may be more appropriately achieved by:

- Adapting draft clause 2.5.1A(g) to remove the concept of a DCA Service Provider, instead providing that a TNSP that only owns, controls or operates DCAs only has the rights and obligations of a TNSP in the Rules that expressly apply to DCAs (but is a Registered Participant for all purposes) – this simply an adaptation of draft clause 2.5.1A(g).
- Redrafting existing obligations of DCA Service Providers so they are expressed to apply to TNSPs in respect of a DCA.
- If necessary to record those assets for regulatory and enforcement purposes, asset details collected as part of a registration or network connection process could be provided to the AER to maintain a register.

TNSPs are not currently required to separately classify their connection and network assets as part of the registration process, notwithstanding that the services those assets provide are subject to different forms of regulation. Under the Draft Rule, they will also not be required to separately classify IUSAs and other shared network assets.

When AEMO considers an application to classify electricity assets currently (for example generation), the primary technical concern is to ensure that every part of the NEM power system is subject to enforceable technical performance requirements sufficient to ensure that a secure and reliable supply to other transmission network users can be maintained. However, the proposed DCA Service Provider registration and DCA classification process does not provide a mechanism to do this.

AEMO notes the proposal that the AER expand its exemption guidelines to address the rule changes. AEMO would be concerned if the operators of third party DCA operators were regularly exempt from registration as TNSPs, unless the DCA (whether large or small) complies with minimum technical standards, remains subject to Chapter 4 of the Rules and is

below a suitable threshold indicating that it is unlikely to impact power system security or reliability, in terms of connected generation or load.

In that regard we consider there is a flaw in the existing exemption rules for network service providers that should be addressed now, given that the exemption framework could be expanded to accommodate DCAs. Currently, clause 2.5.1(d) limits the AER's options to exemption from Chapter 5 only, or a complete exemption from the requirement to register. There will rarely, if ever, be a situation in which it is workable to exempt a transmission system operator from the operation of Chapter 5 but retain the application of Chapter 6A – meaning that the option for the AER is binary – full exemption or full regulation. Full exemption raises potential concerns for AEMO, depending on the nature and location of the assets. For example:

- If a transmission system operator is not a Registered Participant, AEMO has no power to issue safety or system security directions directly to that operator.
- Sensible technical requirements in chapter 5 relating to performance, testing, etc may still be appropriate.

AEMO suggests that clause 2.5.1(d) be amended to allow the AER to provide for partial exemptions from obligations in Chapters 5, 6A and 7 of the Rules that are more likely to be appropriate for a range of potential transmission assets. It should also be made clear that those exemptions can be limited to a specified transmission system or part of a transmission system operated by the applicant.

8. Planning

a. Cross regional investments

AEMO understands that the AEMC intends that a formal conversation is to occur between TNSPs across jurisdictions if there are potential benefits to transmission investments. AEMO considers the draft rule requirements for cross regional transmission investments will formalise the joint-planning interaction that currently takes place between TNSPs in the NEM and will establish a consistency to reporting on cross-regional investments.

AEMO will continue to engage with TNSPs and consider cross-regional network investment options within the NTNDP process.

b. Annual Planning Reports

AEMO considers that the proposed changes in the Draft Rule will improve the quality of TNSP APRs and provide a coherent continuum of information over time. To date, network businesses have interpreted their obligations in different ways and the information published is often difficult alternative service providers to use to develop potential non-network options. It is important to have clear and consistent project classification and reporting to support the development of a dynamic market for non-network alternative solutions to network constraints.

The Victorian APR is different to the other NEM regions as it excludes projects relating to transmission network assets connecting to the distribution networks. The Victorian DNSPs publish projects relating to connection of distribution networks to the shared transmission network in their joint annual transmission connection planning report. Further, AEMO applies its own Victorian connection point demand forecasts for transmission and the Victorian DNSPs apply their own connection point forecasts.

This will have implications for how the planning aspects of the draft rule would be applied in Victoria.

9. General drafting comments

In addition to the comments made in the rest of this submission, and a few typos in the Draft Rule, which AEMO assumes will be corrected in the final Rule, we make the following observations from a preliminary review of the drafting in Table 3 below.

TABLE 3

Draft Rule Provision	AEMO Comment
5.1.2	In the first two rows, 'person intending to become a Registered Participant' contrasts with 'Intending Participant' in other parts of the table. Is there any reason why they are different? Further, an Intending Participant **is** by definition a Registered Participant so there is no need to list them separately.
5.2A.2	We request the AEMC gives consideration to the fact that AEMO can only deal with one Registered Participant in respect of the same transmission system, therefore if the Primary TNSP is registered then the third party IUSA owners must be required to obtain an exemption.
5.2A.4	The examples of service given in the table should be more precise to avoid ambiguity. For example: • The services in the first row (transmission network) generally cover the "specification" of the requirements listed, not the "provision" of those things • In the second row (IUSA), the service is not the "provision" of preferred vendor equipment, but the specification of it. Similarly, it is the "design" of lightning protection and insulation coordination that is provided.
5,2A.7(b)(3)	What does "as applicable" signify at the end of this paragraph?
10 (Primary TNSP)	In the exception, refer to a declared transmission network rather than an adoptive jurisdiction – SA is an adoptive jurisdiction in relation to additional advisory functions.

10. Transitional Provisions

AEMO's views on the necessity of registering DCA Service Providers and classifying the relevant assets are set out above. However, if the final Rule still requires AEMO to undertake this process, our comments on the proposed transitional provisions are as follows:

- The proposed commencement date of12 months after the Rule is made, with an application form to be ready 3 months in advance, will prove challenging if the final Rule is made in March 2017. AEMO is already implementing new registration categories in July and December 2017. Implementation from 1 July 2018 would be more feasible.
- An application fee will need to be determined. AEMO determines its budget and fee structure annually on a financial year basis after consultation with members and Registered Participants. The transitional rules would therefore need to make specific provision for AEMO to determine and collect fees if it is determined that registration applications could be submitted (even if not determined) before 1 July 2018.