

THIS DOCUMENT PRESENTS THE STANDING COUNCIL ON ENERGY AND RESOURCES (SCER) RESPONSE TO THE AUSTRALIAN ENERGY MARKET COMMISSION'S (AEMC) FINAL REPORT FROM ITS *TRANSMISSION FRAMEWORKS REVIEW* PUBLISHED ON 11 APRIL 2013.

SCER welcomes the AEMC's detailed and technically complex work on transmission frameworks over the past three years. Further, SCER thanks all stakeholders who have participated in this review for their time and detailed input into this process, given the significance of this issue for the efficiency of National Electricity Market (NEM) outcomes.

SCER notes that ensuring transmission frameworks were able to deliver efficient investment in and efficient operation of the NEM was highlighted as a key area for reform in previous major reports to the Council of Australian Governments (COAG) on energy market reforms; *Towards a Truly National and Efficient Energy Market* in 2002 and *Energy Reform: The Way Forward for Australia* in 2007. SCER appreciates the AEMC's Final Report as a significant input into the ongoing NEM reform process.

Optional firm access

SCER recognises that the optional firm access (OFA) proposal represents a major and complex reform to the market which is proposed as a way to manage potential future issues and risks. SCER therefore supports a measured approach to further consideration of this potential change to the way transmission networks are built and used in the NEM. SCER has agreed to proceed with investigating detailed design and testing of the OFA model, subject to further work by officials on the details. This advice will serve to inform a SCER out of session decision by the end of July 2013 on a preferred approach to undertaking design, testing and assessment of the framework, with work to commence at the beginning of 2014.

Planning

SCER notes the AEMC made a number of recommendations in its Final Report on changes to the existing planning arrangements that it considered could be progressed in advance of further investigations of the merits of the OFA.

These recommendations related to:

- Amendment of Australian Energy Market Operator's (AEMO's) National Transmission Planner functions to include a standardised set of 'bottom up' demand forecasts (at a transmission connection point level) for each region of the NEM, noting these would constitute just one of the forecasts available to the Australian Energy Regulator (AER) for network service provider regulatory determination purposes;
- introduction of new arrangements that promote the identification and implementation of network investment options that cross regional boundaries;
- formalisation of a process for transmission network service providers (TNSPs) to provide greater input into the National Transmission Network Development Plan (NTNDP) to ensure that coordination between national and local issues occurs at the outset of the planning process;
- improving the consistency of TNSPs' Annual Planning Reports (APR) and requiring AEMO to report on the consistency of TNSPs' Annual Planning Reports (APRs) in the NTNDP; and
- SCER tasking the AER with developing a rule change request to facilitate a transmission revenue reset alignment.

Demand forecasts

SCER notes the AEMC has recognised that this recommendation aligns with current SCER work on information requirements to enable AEMO to develop demand forecasts to be used by the AER in interrogating network businesses' regulatory proposals. SCER considers that this recommendation is best addressed through that process, which was also considered at its 31 May 2013 meeting.

Cross-regional investment

SCER agrees that consideration of cross-regional investment as a possible least cost option for transmission investment to deliver market and reliability benefits should form a routine part of network planning processes. Consequently, SCER has tasked officials with submitting a rule change request to give effect to this intent.

TNSP Input into the NTNDP

SCER supports measures aimed at the ongoing development of the NTNDP to make it a robust and effective planning tool for industry. SCER has tasked officials with submitting a rule change request to formalise engagement between TNSPs and AEMO in the development of the NTNDP.

Consistency of APRs

SCER supports improving the transparency and usefulness of transmission network planning documents in the NEM, including through improving the consistency of APRs and annual reporting in the NTNDP on their consistency. SCER has tasked officials with submitting a rule change request to require TNSPs to consider the consistency of their APR documents with the NTNDP and other TNSPs' APRs and for AEMO to report on the consistency of the APRs as part of its NTNDP.

Transmission revenue reset alignment

SCER notes AEMC's intent to facilitate the operation of its proposed OFA framework through aligning TNSP regulatory reset periods. While SCER recognises that there are a number of benefits associated with aligning regulatory periods, there are implications with regards to investment certainty and practical matters that need to be fully investigated and costed prior to SCER finalising its policy position. Consequently, SCER does not intend to progress this rule change at this time, but has requested advice from officials, in consultation with the AER, to be provided by the end of the year on the need for such alignment and potential costs associated with transitioning to this approach.

Connections

The AEMC's Final Report included a comprehensive package of recommendations for changes to the frameworks for connecting to the transmission system. In developing the change proposals, the AEMC sought to strike a balance between the interests of connecting parties and those of electricity consumers more broadly.

Contestability

The AEMC recommended the connections frameworks should be amended to better facilitate contestable construction and ownership of network connections (referred to as "Identified User Shared Assets"). However, the AEMC recommended that the local TNSP should always be accountable for the operation, control and maintenance of these assets, and should provide the high level design of the assets required.

However, for network extensions (referred to as “Dedicated Connection Assets”) full contestability across the value chain is appropriate.

SCER recognises the economic principle that competition should be introduced into those areas where it is feasible. It also recognises the importance of clear accountability for the operational performance of the transmission networks. SCER therefore agrees with the AEMC that the connections frameworks should be amended to facilitate the contestable construction and ownership of identified user shared assets, and has tasked officials with submitting a rule change request to this effect.

Negotiated transmission services

The AEMC recommended that the principles in the rules underlying the provision of negotiated transmission services should be bolstered and applied directly to all TNSPs, rather than through individual negotiated service criteria and negotiating frameworks.

SCER supports the strengthening of the negotiation framework for all aspects of these services provided by TNSPs and has tasked officials with submitting a rule change request to this effect.

Transparency for negotiated services

The AEMC recommended the transparency requirements on TNSPs when providing negotiated services should be enhanced. TNSPs should publish standard connection contracts, design standards and philosophies and pro forma preliminary work programmes. When providing a quote for negotiated services, TNSPs should be required to provide a range of options for connection and a reasonable breakdown of costs.

SCER supports improving the transparency around negotiated services and has tasked officials with submitting a rule change request to this effect.

Independent technical expert

Where agreement cannot be reached on the reasonableness of any technical requirements in the connection process, the AEMC recommended that either party should have the option to appoint an independent engineering expert to provide an opinion around the appropriateness of the technical specifications for that connection asset. The choice of engineer is to be agreed between the TNSP and the connecting party, and the cost of the engineer's services should be shared equally between the two parties.

SCER supports the strengthening of the negotiation framework by providing for access to independent technical experts. SCER considers that it is appropriate for the choice of such an expert to be agreed between the parties, as the connecting party is responsible for meeting the costs

associated with building to the resulting specifications and the TNSP is responsible for maintaining the reliability of the system.

However, SCER notes that there may be circumstances where parties are unable to agree to an expert. In such instances, SCER considers that it would be appropriate for the parties to request that the AER nominate a technical standards expert to determine the technical requirements for that connection. A panel of potential technical standards experts for the AER to nominate will be identified by AEMO.

SCER notes that this approach is similar to that adopted for the resolution of generator performance standards under the National Electricity Rules. SCER has tasked officials with developing and submitting a rule change request to this effect.

Clarification of dispute resolution

The AEMC recommended that it should be clarified that the price, terms and conditions of all negotiated transmission services are subject to commercial arbitration processes.

SCER supports clarifying the dispute resolution provisions in the rules, specifically, that commercial arbitration should apply for all negotiated transmission services. SCER has tasked officials with developing and submitting a rule change request to this effect.

Connection of major loads

While acknowledging that the terms of reference for the *Transmission Frameworks Review* requested the AEMC to look into the efficiency of arrangements for connecting generators to the transmission network, SCER agrees with the AEMC that it is appropriate for large loads to benefit from contestability. Consequently, as part of the process for developing the rule changes to give effect to SCER's agreed policy for connections, SCER has tasked officials with considering whether these changes are adequate to address any inefficiencies in the framework for the connection of loads, including distribution networks. If there are load-specific issues that will not be addressed, officials should advise SCER on the need to seek additional advice from the AEMC to address these issues.

Next steps

SCER will consider the advice on further analysis of the OFA by the end of July 2013. Subject to that decision, work will commence on the design, testing and analysis at the beginning of 2014. Ministers would then consider whether to proceed to implementation of the framework by the end of 2014.

For those rule changes that can be progressed prior to the finalisation of this advice, SCER has tasked its officials with submitting the relevant rule change requests to give effect to the policy positions outlined above.