



# Transmission General Holdings Australia

5 December 2016

Mr Franc Cavoli  
Manager Transmission Procurement  
Australian Energy Market Operator Ltd  
Postal Address GPO Box 2008  
Melbourne VIC 3001

By email: franc.cavoli@aemo.com.au

Dear Mr Cavoli

## **Victorian Generator Connections Reform – AEMO Consultation Paper November 2016**

Transmission General Holdings (Australia) Pty Ltd (**TGHA**) welcomes the opportunity to respond to the Australian Energy Market Operator's (**AEMO**) paper relating to the proposal to reform the process for connecting new generation to the Victorian "declared transmission system" (DTS).

TGHA is a Declared Transmission System Operator (**DTSO**) providing competition in the provision of transmission connection services. TGHA has provided a commercial alternative to the incumbent DTSO in Victoria delivering cost efficient and reliable transmission services.

TGHA has demonstrated the current arrangements are workable, enabling competition in the provision of connection services leading to cost savings for generators. Whilst recognising the benefits already being delivered by the current generator connection arrangements, TGHA supports the opportunity to explore improvements in the process.

### **1. Background**

TGHA is the parent company of two subsidiaries that have been contracted to build, own and operate contestable transmission connections in Victoria. The two subsidiaries are Transmission Operations (Australia) Pty Ltd (**TOA**), and Transmission Operations (Australia) 2 Pty Ltd (**TOA2**).

TOA constructed, owns, operates and maintains the connection for the Mt Mercer Wind Farm which was commissioned in late 2013. The connection involved the establishment of the Elaine Terminal Station and a 132kV power line from the windfarm to the terminal station. The transmission connection of the Mt Mercer Wind Farm was constructed on time and is operating with a very high level of reliability.

**Transmission General Holdings (Australia) Pty Ltd**

40 Market Street Melbourne VIC 3000

ACN 159 519 632 ABN 12 159 519 632

TOA2 constructed, owns, operates and maintains the connection for the Ararat Wind Farm. The connection includes the establishment of the Ararat Terminal Station and a 132kV power line from the terminal station to the windfarm. The transmission connection has been constructed within the required tight timeframes and is delivering a very high level of reliability.

This submission provides TGHA's response to the proposed reform of the Victorian generator connections process as outlined in AEMO's consultative paper released in November 2016. Our submission addresses a number of the specific issues identified by AEMO in the consultation paper.

## **2. Reform Proposal and TGHA Response**

### **2.1 Support the primary intention**

TGHA strongly supports the primary intention of the proposed reform to replace the reliance on contracts by a regulatory framework enabling AEMO to enforce its network planning, performance and service requirements. Whilst we consider that the current arrangements has delivered benefits by creating competition in the provision of generator transmission connections, we agree that there are further realisable benefits to reform the process in the direction outlined by AEMO.

In responding to specific matters raised by the proposed reform, TGHA's position is guided by the aims of simplification of contractual structure and minimising the number of contracts.

### **2.2 Enabling optimisation of the connection**

TGHA proposes that prior to financial close, there should be opportunities for the contracting parties to seek AEMO's agreement to modify the technical requirements to allow for innovation and enabling more economic solutions to be achieved.

### **2.3 Remove the option for generators to request AEMO issue a tender on their behalf**

The Rules currently provide an option for generators to request AEMO to tender for shared network augmentation services on their behalf. TGHA agrees with AEMO's proposal to remove this option as it hasn't been used by generators since they have been allowed to arrange funded augmentations themselves. TGHA's experience is that the parties to a contract should negotiate directly in the establishment of the contract. In that way, the parties to the contract gain a clear understanding of their obligations, how the risks are allocated and how their risks should be managed.

#### 2.4 AEMO to verify that contracts comply with the technical and incentive requirements

AEMO propose that their approval will be required before contracts are finalised. This mandatory step is proposed to ensure the contracts comply with AEMO's technical and incentive requirements and also take into account any adjustment to the requirements arising from changes to the shared network that have occurred during the contract negotiations, e.g. during negotiations another generator finalises its contracts for connection.

TGHA agrees that AEMO approve technical requirements incorporated in contracts prior to their finalisation. However, it is proposed that

- AEMO would be obligated to advise the negotiating parties within a reasonable time from it becoming aware of any circumstance that could cause changes to the technical requirements; and
- Time limitations should be placed on AEMO's review of the technical requirements in the contracts and granting approval of the contracts.

#### 2.5 Contract Model

AEMO outlines two contract models being a "*single contract model*" and a "*multiple contract model*". TGHA considers that the *single contract* model is preferable as it best meets the aim to simplify the connection process for the generator, places the responsibility for meeting the technical requirements with appropriately skilled parties (the TNSPs) and enables the connection to be project managed by a single party, being the contestable TNSP.

#### 2.6 Construction completion and commissioning

AEMO state that once the assets are constructed, they will ensure compliance with the PFRs and PCR's and system security by conducting energisation and commissioning tests. The generator will not be granted registration until AEMO is satisfied that the TNSPs have met the PFRs and PCR's. Also AEMO is considering whether regulatory provisions are appropriate to incentivise TNSPs to meet all necessary service requirements within agreed timeframes.

Timeframes for the contestable TNSP's to meet all the service requirements with associated penalties would be incorporated in the contracts, taking into account timelines for constructing the windfarm and financial implications of delays in generating. Accordingly, TGHA does not consider it to be necessary to overlay regulatory timeline requirements for the services provided directly by the contestable TNSP. However, TGHA agrees that regulatory provisions could frame incentives for the undertaking of interface works so that the timing of those works is consistent with the timeframes for the contestable works.

## 2.7 Enforcement of minor outstanding items

AEMO propose that the regulatory framework include provisions that ensure all minor outstanding items are completed.

TGHA consider if such regulatory provisions are deemed to be necessary they should include a period for minor outstanding items (MOI's) to be completed. TGHA suggests that this period should be specified as a "reasonable period", to allow for the particular circumstances to be taken into account. The regulatory provisions could include a financial penalty that is imposed if the MOI's are not completed within the reasonable period. The amount of the penalty should relate to the particular service charge of the TNSP. On completion of the MOI's the penalty would be remitted to the TNSP consistent with the arrangements within the contracts.

## 2.8 Enforcement of PFRs and PCRs

The current contractual arrangements provide for AEMO to enforce PFRs and PCRs. AEMO are suggesting two possible means whereby they can enforce PFRs and PCRs. The two suggested means are:

- 1) AEMO enters into direct NSAs with the TNSPs containing the PFR and PCR obligations.
- 2) The AER enforces compliance with them as part of the compliance program it currently runs for conformity with the requirements of S5.1a and S5.1 of Chapter 5 of the NER.

TGHA agrees with AEMO that Option 1 reintroduces complexity in contracts which is inconsistent with the aim to simplify contractual arrangements where possible. TGHA suggest that Option 2 be further explored to determine the appropriateness of the provisions in the NER S5.1a and S5.1 for generator connections and AER resourcing issues associated with Option 2.

## 2.9 Variations to PFRs and PCRs

During construction AEMO may identify the need to vary the technical requirements. The cause for a variation may or may not be caused by a change in circumstances.

If such a change in technical requirement occurs between financial close and practical completion, AEMO contend that the NER should permit AEMO to raise a variation to the technical requirements and the relevant TNSP would be required to ensure that the varied requirements are met at their cost, which would be passed through to the generator.

The current agreements for contestable generator connections allow for the PCR's and PFR's to be altered in this period and the associated cost impacts to be borne by the generator. However, TGHA consider that it would be preferable to remove this risk to the generators by treating variations that occur subsequent to financial close in the same way as variations to requirements which occur after practical completion, i.e. the cost of the variation is either borne by a new connecting customer if that is the cause of the variation or otherwise by shared network users.

## 2.10 Availability scheme

A new connection may cause outages to existing network users but also to other generator(s) already connected at the same connection point. Accordingly, TGHA considers that incentive measures should be able to cater for the varying connection arrangements by being tailored to new situations as they occur. Also, as it is likely that the Victorian arrangements for transmission connections will remain for some time different to the other NEM states, TGHA considers that the availability schemes should be designed for the Victorian arrangements and AEMO determines the availability incentives for each connection as part of determining the technical requirements.

If you have any questions in relation to this submission, please contact Alex Wheeler on 03 9683 2096 at first instance.

Yours sincerely

A handwritten signature in blue ink that reads "Eric Lindner". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Eric Lindner  
Chief Executive Officer