



Our Ref: D09/74587

22 July 2009

Committee Secretary
Senate Select Committee on Fuel and Energy
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Via email to: fuelenergy.sen@aph.gov.au

Dear Sir/Madam

Senate Select Committee on Fuel and Energy

Transend Networks Pty Ltd (Transend) appreciates the opportunity to comment to the Senate Select Committee on the challenges facing the energy industries.

Transend has provided comment on the terms of reference in the attached submission. Please contact Kirstan Hoppitt on (03) 6274 3915 or at kirstan.hoppitt@transend.com.au if you have any queries relating to Transend's submission.

Yours sincerely

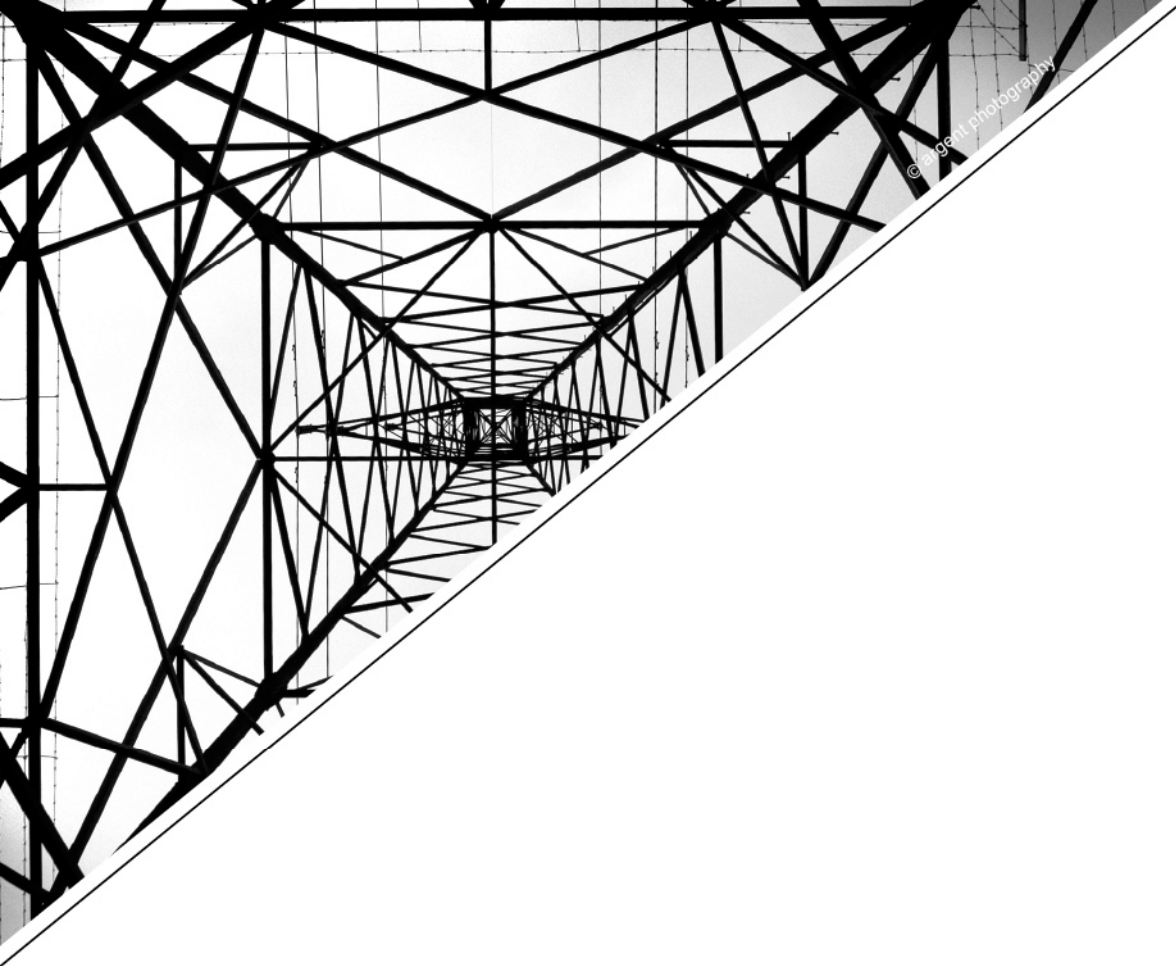
Richard Bevan
Managing Director

Encl. *Submission to Senate Select Committee on Fuel and Energy*

Transend Networks Pty Ltd
ABN 57 082 586 892
PO Box 606
MOONAH TAS 7009
Phone 1300 361 811
Fax (03) 6274 3872
www.transend.com.au

Submission to Senate Select Committee on Fuel and Energy
22 July 2009





Submission to Senate Select Committee on Fuel and Energy

Transend Networks Pty Ltd

22 July 2009



TRANSEND

Our mission is transmission



Introduction

Thank you for the opportunity to make a submission to the inquiry undertaken by the Senate select committee on fuel and energy (the committee).

Transend Networks Pty Ltd (Transend) owns and operates the electricity transmission system in Tasmania. Transend transmits electricity from power stations to its substations around the State. The company owns 3650 circuit kilometres of transmission lines and 47 substations. Transend is a registered participant in the National Electricity Market. Transend has invested over \$400 million in the Tasmanian electricity transmission system over the past 5 years and recently received approval from the Australian Energy Regulator to invest a further \$606 million from 1 July 2009 to 30 June 2014.

Transend's submission is in two parts. The first part provides an overview of the national electricity market (NEM) regulatory framework, and Transend's involvement in that evolving framework. This is of relevance to the inquiry's terms of reference with respect to the government regulatory powers related to energy markets and the impact of an emissions trading scheme on the energy industry.

The second part of the submission addresses a number of factual inaccuracies included in the Tasmanian Chamber of Commerce and Industry (TCCI) presentation to the committee on 9 July 2009 in Hobart, and clarifies Transend's position as transmission network service provider in Tasmania.

Part 1

Impact of an emissions trading scheme on the energy industry and regulatory powers related to energy markets

As the committee would be aware, the Council of Australian Governments, through its Ministerial Council on Energy (MCE), established a NEM governance model which encompasses the:

- Australian Energy Market Commission (AEMC) as the Rule maker, responsible for Rules and policy advice covering the NEM and elements of the natural gas markets. The AEMC's key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council on Energy as requested.
- Australian Energy Regulator (AER) as the Rule enforcer, responsible for regulating the wholesale electricity market and for the economic regulation of the electricity transmission and distribution networks in the NEM. The AER is also responsible for the economic regulation of gas transmission and distribution networks and enforcing the national gas law and national gas rules in all jurisdictions except Western Australia.
- Australian Energy Market Operator (AEMO) as the market operator and national transmission planner. AEMO's responsibilities include management of the NEM and the retail and wholesale gas markets of eastern and southern Australia and overseeing system security of the NEM electricity grid and the Victorian gas transmission network. In addition, AEMO is responsible for national transmission planning and the establishment of a short term trading market for gas.

Transend considers that, broadly, these governance arrangements provide an appropriate regulatory model for the NEM. Further, in respect to the committee's terms of reference, the relevant NEM issues are properly managed through these NEM governance arrangements. In particular, the AEMC is presently undertaking a Review of Energy Market Frameworks in Light of Climate Change Policies at the request of the MCE. As part of this review the AEMC is considering whether the existing market framework—the rules and regulations governing market behaviour—will continue to deliver the market efficiency objectives following the commencement of the Carbon Pollution Reduction Scheme (CPRS) and expanded Renewable Energy Target (RET).

Transend actively participates in the current energy sector investment and climate change debate, with much of this participation by way of the industry association, Grid Australia. Grid Australia represents the owners of Australia's electricity transmission networks in the NEM, plus Western Australia. Its members are Transend, ElectraNet (South Australia), Powerlink Queensland (Queensland), SP AusNet (Victoria), TransGrid (New South Wales) and Western Power (Western Australia). Collectively, the NEM members own over \$10 billion worth of assets, operate over 40,000 kms of high voltage transmission lines, and invest approximately \$1.2 billion in the networks each year. As the 'backbone of the NEM', Grid Australia seeks to work closely with NEM institutions and key stakeholders to ensure the NEM regulatory arrangements and National Electricity Rules (NER) can benefit from the capabilities (both present and future) of the interconnected transmission network.

Grid Australia has participated in many recent reviews relevant to the committee's inquiry, including responses to the:

- AEMC "Climate Change Policies" *Discussion Paper* (April 2009)
- Department of Resources, Energy, and Tourism's (DRET) six Discussion Papers as part of the 2009 Energy White Paper (EWP) consultation and development process (May 2009)
- AER's Decision on the Weighted Average Cost of Capital (WACC) Parameters for regulated electricity network businesses (May 2009).

Grid Australia's submissions to the AEMC's Climate Change Policies discussion paper and the DRET discussion papers:

- Proposed that any changes to energy market frameworks to accommodate such policies should recognise the following guiding principles:
 - Market-led developments should be supported to the extent possible;
 - Where necessary, arrangements for socialisation of costs should not preclude market-led developments that can proceed without such support (e.g. more efficient renewable generation that is closer to the existing network and capable of paying its stand-alone connection costs);
 - Changes to frameworks should complement rather than replace or complicate existing arrangements;
 - Incentive based arrangements lead to better outcomes than imposing obligations; and
 - Accountability for transmission investment decision making, operation and performance to remain with Transmission Network Service Providers (TNSPs), consistent with governance arrangements adopted by the Council of Australian Governments.
- Generally supported the AEMC's proposal for a network-led approach to the implementation of Network Extensions for Remote Generation (NERGs).
- Reinforced the need for appropriate return on transmission investment.
- Summarised that overall, Grid Australia considers that a stable, predictable and commercially appropriate investment environment which provides as much certainty as possible is essential to facilitate transmission investment. Policy-makers and regulators should endeavour to provide conducive and responsive incentive-based frameworks when attempting to implement new policy directions (e.g. environmental and climate change) that enable efficient and prudent long-term investments. As Grid Australia members invest in extremely long-lived and capital-intensive assets, such conditions are fundamental criteria when making the decision to invest, especially on a discretionary basis.

Transend and other Grid Australia members are presently considering the AEMC's Review of Energy Market Frameworks in light of Climate Change Policies Second Interim Report, published on 30 June 2009 with submissions due on 3 August 2009.

In addition to participating in reviews initiated by policy and regulatory bodies, Transend and Grid Australia actively seek to improve the regulatory framework to facilitate efficient use and development of transmission infrastructure. For example, under existing Clause 5.3.8 of the NER, TNSPs are required to treat as confidential, information associated with connection



applications. This confidentiality requirement may stand in the way of potential solutions for dealing with some of the transmission investment issues arising from implementation of climate change policies (e.g. coordinating customer connections to nodes on the network). In April 2009, Grid Australia submitted a Rule change proposal to the AEMC that would allow certain basic information associated with connection applications to be treated as non-confidential, e.g. the size, location, type and proposed completion of the project. On 14 May 2009, the AEMC commenced initial consultation on the proposal.

Grid Australia has also commenced discussions with the AEMC to promote the need for an appropriately scoped and defined AEMC review to address transmission access issues, particularly addressing Chapter 5 of the National Electricity Rules.

Within the NEM framework Transend continues to work with existing and potential transmission customers and generators in Tasmania to respond to their enquiries about, and requests for, connection to the transmission network.

Transend considers that appropriate arrangements are in place to manage the government regulatory powers related to the NEM and to identify and respond to the impact of an emissions trading scheme on the NEM.

Part 2

Addressing matters raised by the Tasmanian Chamber of Commerce & Industry (TCCI) on 9 July 2009 recorded in Hansard

Messrs Scobie and Dowling, representing the TCCI, gave evidence to the Senate Select Committee on Fuel and Energy in Hobart on 9 July 2009. Transend is disappointed that the TCCI made a number of incorrect statements about the Tasmanian power system and market arrangements. Examples of these are provided below. Transend has offered to provide a special briefing to the TCCI about the how the electricity transmission system is regulated in Australia and the issues they raised with the Senate Select Committee.

1. Mr Dowling stated that in relation to sources of electricity in Tasmania the supply “*is 95% hydro power*”. The fact is that the supply side in Tasmania has evolved over the past five years, and in 2008–09 approximately 66% of the total electricity supply was from hydro sources. Although hydro is still the dominant source of generation, gas and wind power are increasing their share of the market, and a significant portion is imported from the mainland via Basslink.

Table 1: Sources of electricity energy in Tasmania

| Generation source (%) | 2008–09 | 2007–08 | 2006–07 | 2005–06 |
|-----------------------|---------|---------|---------|---------|
| Hydro | 66% | 64% | 72% | 90% |
| Gas | 7% | 11% | 8% | 5% |
| Wind | 4% | 3% | 2% | 2% |
| Import (via Basslink) | 23% | 22% | 18% | 3% |

Source: Transend metering data

The recent commissioning of the Tamar Valley gas-fired power plant is expected to increase the proportion of electricity generated from gas. Transend has provided connection services to new sources of generation and continues to work with prospective customers that have plans for installation of new electricity generation capacity in Tasmania.

2. Mr Scobie stated that “*no-one has coherently set about aggregating that (the capacity for renewable energy in Tasmania) into a single Tasmanian position*”. Transend is required to publish an Annual Planning Report and a Tasmanian Annual Planning Statement that consider the future development of the power system in Tasmania. That information is available on Transend’s web site. Both the APR and TAPS provide regular reviews of the electricity market in Tasmania from both supply and demand perspectives.

Transend has also produced and updating a 30 year Grid Vision incorporating the expected significant expansion in the number and capacity of renewable generation on Tasmania. Transend has had significant input to this long-term plan from generators (both existing and prospective), the distribution company (Aurora Energy), industrial customers and other interested stakeholders.

3. Mr Scobie and Mr Dowling made statements that the main constraints to investment in renewable energy in Tasmania “*relate to the legislative framework for transmission in Tasmania*”. Transend is a registered participant in the National Electricity Market subject to



the National Electricity Law and regulated by the Australian Energy Regulator. Although some Acts of state legislation create obligations for Transend, the national arrangements are the primary legislative framework that Transend must operate within. As noted in Part 1 of this submission, the national regulatory framework continues to evolve, including facilitating efficient investment in the increased renewable energy forecast as a result of climate change policies.

4. Mr Dowling contended that *“Transend can charge whatever price they like for someone who wants to invest in generation and if you go to an alternative provider to do that connection then you are faced with a penalty fee from Transend for choosing an alternative provider.”*

Transmission services provided by Transend are categorised into prescribed, negotiated and non-regulated services. The transmission services required to connect a new generator will generally fall into the negotiated and non-regulated categories. For negotiated services Transend must submit a negotiating framework for approval to the AER. In effect the framework limits the amount Transend can charge for negotiated services.

This negotiating framework outlines how we provide services to customers and the amounts we can charge. It is available to all prospective customers and published on our website. Transend cannot charge a penalty fee to a connection customer because it chooses an alternative provider. For non-regulated services the connection customer is able to choose any service provider and may even choose to build the new transmission line themselves.

Under the national regulatory framework Transend cannot use its market position to charge unreasonable rates for services that only Transend can provide.

5. Mr Dowling asserted that *“Tasmania is already subject to frequent periods of blackouts due to the very fact that Tasmania cannot meet demand.”* Mr Dowling provided no evidence to verify his assertion: the fact is that blackouts in Tasmania are very rare. The number and duration of loss of supply events have decreased over the past five years

A large portion of Transend’s capital program is centred on reducing constraints and improving reliability and security of supply for customers. Mr Dowling would realise that this type of investment directly benefits customers, including TCCI constituent businesses and industrial customers. Of course renewal of the network and the additional capital investment needs to be paid for and explains part of the recent increases in electricity prices in Tasmania.

Transend makes its capital investment decisions within the regulatory framework. Every five years the AER reviews Transend’s proposed capital program for prescribed (regulated monopoly) transmission services as part of the incentive-based regulatory regime. The AER’s review is a public process, with consultation invited from all interested parties. The TCCI was given the opportunity to raise any concerns with Transend’s service performance, proposed capital program and other matters as part of this review process.

The fact is that Transend’s service performance in recent years has been outstanding. Over the past five years the performance of the transmission system in Tasmania has improved substantially and since 2003 Transend has exceeded the AER’s service performance targets in each and every year.