



22 July 2022

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Australian Energy Regulator
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Dear Mark

Submission on AER Issues Paper – Electricity Transmission Ring-Fencing Guideline

The Australian Energy Regulator (AER) published an Issues Paper (Paper) on its Review of the Electricity Transmission Ring-Fencing Guideline on 31 May. The Paper recommenced the AER's review, which was initiated in 2019 and subsequently put on hold due to the COVID-19 pandemic and the need to address other, higher priority matters.

While the AER is consulting on a number of matters, in particular, it has sought feedback on:

- the services that TNSPs should be able to provide, including via technologies such as batteries that can be used to provide multiple services;
- the harms and benefits to consumers, the market and TNSPs of strengthening the functional separation requirements, such as separation of offices, branding and staff, between regulated and contestable services; and
- amending the current Guideline to strengthen reporting and compliance requirements.

Key Messages

Powerlink appreciates the opportunity to provide input and feedback in response to the AER's Paper. Our submission provides information on the way in which we operate our business in the long-term interests of our customers and the feedback we provided directly to the AER through our discussions on ring-fencing. In particular:

- our ownership structure and business model enables us to deliver our services in a different and better way for our customers;
- our approach provides significant benefits to our customers; and
- flexibility is key to enabling an energy market in transition, particularly where there is no strong evidence of a ring-fencing problem to be solved.

Each of these items is discussed further below.

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1. Ownership and Business Model

Powerlink's purpose is to connect Queenslanders to a world-class energy future. We are owned by not just the Queensland Government, but by the five million Queenslanders and 238,000 businesses we supply directly or through the distribution network. Our ownership arrangements help us drive value for our customers. This was made very clear in Powerlink's approach to its 2023-27 Revenue Proposal, where the AER recognised the collaborative efforts of Powerlink, and its stakeholders, particularly our Customer Panel and Revenue Proposal Reference Group, who worked together constructively in developing our proposal over almost three years, in the long-term interests of consumers. The AER considered we put forward a well-informed and high-quality Revenue Proposal, underpinned by significant consumer engagement and our overarching goal of capable of acceptance by our customers, the AER and ourselves.

We are a stand-alone electricity transmission business, with a long, strong history and significant experience in providing transmission services, particularly in relation to connections. We are at the centre of the energy sector transformation, with visibility of the whole energy system. This includes the ability to enable diversity of generation and storage, support industry and load growth, develop grid technologies to manage future network and, in doing so, work with customers and stakeholders to continue to ensure safe, secure, reliable and cost-effective supply

We operate an integrated, 'one-stop-shop' business model that provides prescribed (regulated) and non-prescribed (negotiated and non-regulated) transmission services to our customers. In the last seven years alone, we received approximately 350 enquiries from customers seeking to connect to our network. Our experience indicates that customers want an integrated, 'one-stop-shop' approach that provides a single point of contact to address their needs in a timely and efficient manner. In particular, customers value and seek out service providers that minimise the number and complexity of interfaces for them which helps to de-risk their project, both up-front and over the life of their connection agreement. Minimising the number of counterparties to a project also facilitates efficient project financing (ie. materially reduced transaction costs as a 'one-stop-shop' and enhanced bankability with Powerlink being a known and respected 'bankable counterparty').

2. Customer Benefits of our Approach

One of the key benefits we provide our customers is economies of scale. Where we can, our use of standard designs, layouts and equipment in particular helps us to secure better access to national and international supply markets and more competitive rates through the higher volumes generated from prescribed and non-prescribed works. This can impact not only the cost of the equipment itself, but shipping and freight costs as well as efficiencies in the type and volume of spares we hold. Supply chain challenges brought about by the global pandemic, commodity price increases and other geopolitical events in particular have placed even greater importance on our relationship with suppliers to manage and coordinate the procurement and delivery of equipment and materials, to manage our network risks and reasonably meet our customers' demands.

As identified above, the 'one-stop-shop' we offer all our customers provides integrated asset development/ownership and management functions. The planning, operation and maintenance of a transmission network has become increasingly complex with increased levels of variable renewable energy connected to the network. Our customers appreciate this complexity and see considerable benefit in negotiating directly with an experienced service provider in this area.

Fundamentally, at the heart of what we do as a business is coordinate and optimise the value we provide to our customer base whether that be through prescribed activities such as the revenue determination process, the connection of variable renewable and other technologies to the grid and/or other activities to assist in transformation of the energy sector.

As a result, we do not support legal or functional separation of our prescribed and non-regulated transmission services business as we do not consider this would be in the interests of our customers, both generators seeking to connect and electricity consumers.

3. Flexibility

We are in the midst of an energy market transition where the breadth and pace of change is substantial. There are calls from the Australian Energy Market Operator, governments and other stakeholders for significantly more transmission to enable more efficient capacity development in the National Electricity Market, provide savings in wholesale energy costs and provide a pathway for Australia to net zero emissions.

As a transmission network service provider, our job is to meet these demands and navigate our way through these challenges, all while ensuring that we continue to provide safe, secure, reliable and affordable services. In our view, this requires a more rather than less flexible regulatory requirements to recognise the value we have delivered to Queensland customers to date and incentivise us to adopt more innovative approaches going forward.

To assist in meeting these objectives, we urge the AER to be flexible and practical in its approach to this review. In particular, if the AER has no strong evidence of a problem vis-à-vis transmission services, we would caution against creating one. Having said this, we were encouraged by discussions to date advising the AER intends to take a proportionate approach to its Electricity Transmission Ring-Fencing Guideline Review.

AER Questions

Our response to specific questions from the AER is provided in the attachment.

Powerlink has also provided input to Energy Network Australia's submission on the AER's Issues Paper, which responds to some of the broader matters for consultation. In particular, we would like to highlight.

- the Australian Energy Market Commission established a very comprehensive and effective framework for the provision of electricity transmission services in the National Electricity Rules, including in relation to contestable network connections. We consider that this framework remains appropriate and protects against the potential harms that ring-fencing is designed to address; and
- the AER must have regard to the important differences between the nature, operating environment and regulatory framework for electricity transmission and distribution. This includes not only the bespoke nature of the works typically sought by customers seeking to directly connect to the transmission network, but the size, level of sophistication and resources available to and used by them, particularly for contestable services.

If you have any questions in relation to our submission or would like to discuss this matter further, please contact Jennifer Harris at jenny.harris@powerlink.com.au or on (07) 3860-2667.

Yours sincerely



Jacqueline Bridge

Executive General Manager, Energy Futures

Attachment – AER Questions for TNSPs

AER question	Powerlink response
Services	
<p>What services are currently provided with the same legal entity that is responsible for providing prescribed transmission services? Be as detailed as possible.</p>	<p>Consistent with the National Electricity Rules (NER) and as described in our AER approved Cost Allocation Methodology (CAM), Powerlink provides three types of transmission (Tx) services. Broadly speaking these include:</p> <p>Prescribed Tx Services</p> <ul style="list-style-type: none"> • NSP to NSP connections, eg. to Energy Queensland and/or Transgrid • services required by legislation or by AEMO to ensure the integrity of the system; • grandfathered connections; • shared network services to standard levels; and • above standard shared services that provide system wide benefits. <p>Negotiated Tx Services</p> <ul style="list-style-type: none"> • non-NSP connection works (eg. Identified User Shared Assets or IUSAs) <u>we must provide</u> under the Rules, namely: <ul style="list-style-type: none"> – all substation works < \$10m (brownfields); or – transmission line cut-in works and secondary systems (greenfields); • Operations and Maintenance (O & M) for non-NSP connection assets owned by a 3rd party: <ul style="list-style-type: none"> – substations (IUSA); and – lines >30km (Designated Network Asset or DNA) or lines <30km that opt-in to a DNA; and • above standard shared services not in prescribed. <p>Non-Regulated Tx Services</p> <p>These are services that are neither prescribed nor negotiated Tx services. These include:</p> <ul style="list-style-type: none"> • non-NSP connection works <u>we negotiate to provide</u>. For example: <ul style="list-style-type: none"> – substation works >\$10m, greenfield substation works and line works; – DNA services; and • other services, such as: <ul style="list-style-type: none"> – oil testing and laboratory diagnostic services; – transmission line relocations; – PSCAD modelling, beyond TNSP due diligence; – connection options associated with connection enquiries; – asset management and O&M support services; – tower access to co-locate mobile phone carrier equipment – property searches; and – consulting services including engineering, asset design, project management and construction management. <p>All three types of services are provided under the single Powerlink entity.</p> <p>We can also advise that contestability exists and is active in Queensland.</p>
<p>Are any of these services being provided under the 5% revenue cap? If so, what is the value of those services? What processes do you have in place to ensure</p>	<p>The 5% annual revenue cap under the Transmission Ring-Fencing Guideline (TRFG) allows TNSPs to carry on generation, distribution and/or retail activities up to this amount.</p> <p>Powerlink does not provide generation, distribution or retail services.</p>

that the revenue earned from those services does not exceed the 5% cap?	
What other legal entities is the TNSP affiliated with and what services do they provide?	<p>We note that an affiliate/affiliated entity is not a term defined in the current Electricity Transmission Ring-Fencing Guidelines. However, the AER's Distribution Ring-Fencing Guidelines define an affiliated entity as:</p> <p><i>affiliated entity, in relation to a DNSP, means a legal entity:</i></p> <ul style="list-style-type: none"> <i>(a) which is a direct or indirect shareholder in the DNSP or otherwise has a direct or indirect legal or equitable interest in the DNSP;</i> <i>(b) in which the DNSP is a direct or indirect shareholder or otherwise has a direct or indirect legal or equitable interest; or</i> <i>(c) in which a legal entity referred to in paragraph (a) or (b) is a direct or indirect shareholder or otherwise has a direct or indirect legal or equitable interest.</i> <p>Powerlink is owned by the Queensland Government and has the following subsidiaries:</p> <ul style="list-style-type: none"> • Harold St Holdings Pty Ltd; • Powerlink Transmission Services Pty Ltd; and • Queensland Capacity Network Pty Ltd. <p>The principal activities of both Harold Street Holdings Pty Ltd and Powerlink Transmission Services Pty Ltd are to act as holding companies for investments made by the parent company, Powerlink Queensland.</p> <p>Queensland Capacity Network Pty Ltd (known as QCN Fibre) is a telecommunications company set up for the purpose of enabling faster and more reliable internet services in regional Queensland. It is jointly owned by Powerlink and Energy Queensland. Powerlink owns a controlling 51% of ordinary shares in Queensland Capacity Network Pty Ltd, along with 90% of non-voting shares. The non-voting shares confer the right to receive any dividend or distribution from the entity and therefore represent the basis of consolidation.</p>
Separation	
Do the affiliated entities share the same office and/or staff?	QCN Fibre does not share the same office or staff as Powerlink.
What policies and processes do you have in place to restrict the flow of confidential information between:	<p>All connection works (both contestable and non-contestable) are treated as confidential until such time as they are deemed a committed connection (i.e. executed Connection & Access Agreement).</p> <p>The main participants within a connection enquiry process are dedicated non-regulated personnel. For example, the Project Sponsor, who scopes the works and determines whether they meet/exceed the contestability threshold. Irrespective of contestability, all non-regulated works are treated individually until such time as they become committed projects.</p> <p>Powerlink's Business Development Group provides the primary interface for customer enquiries. Within the BD Group, a small dedicated team exists that is focused on identifying and negotiating non-regulated opportunities.</p>
<ul style="list-style-type: none"> • Staff involved in contestable and non-contestable transmission services? • Staff involved in transmission services and those involved in the provision of other services? 	

Batteries (if relevant)	
Does the TNSP own, operate and/or control a battery? If so, what services does the TNSP use the battery to provide?	<p>Powerlink does not own, operate or control a battery used for the purpose of providing transmission services. As a business, our preference is not to own a battery.</p> <p>We released an EOI (March 21) for the installation and operation of large-scale energy storage systems in our network. We consider battery energy storage systems (BESS) have the ability to provide positive commercial outcomes for owners and investors and positive outcomes for our stakeholders and customers. We do not propose to operate BESS in the market but seek synergies with commercial operators to enable scale and scope efficiencies and achieve the objectives of both technical network requirements and commercial outcomes for investors.</p> <p>We offered BESS proponents the opportunity to construct and install their BESS at key points in the network. We would facilitate this through various technical and commercial support mechanisms, eg. provide access to Powerlink land, substation connection bays, engineering support, connection and development approval and maintenance support in return for potential future network services.</p> <p>Following the EOI process, CS Energy and Powerlink recently entered into an arrangement where CS Energy will build and own a 200MW/400MW battery at the Greenbank substation which will provide grid and other services to Powerlink. Construction is to begin in 2023.</p>
Is the battery leased to an affiliate or third party? If so, what services does the affiliate or third party provide?	NA.
How are costs shared between the TNSP and the leasee, including capex and opex? What proportion of the battery is in the RAB?	<p>NA.</p> <p>Nil \$ for batteries are currently included in our regulatory asset base.</p>