

13 November 2024

Ms Danielle Chifley
General Manager Policy
Australian Energy Regulator
AERringfencing@aer.gov.au

Dear Ms Chifley

Re: Transmission Ring-fencing Guideline Issues Paper

TasNetworks welcomes the opportunity to provide a submission to the Australian Energy Regulator's (AER) Issues Paper regarding the potential inclusion of negotiated services in the Transmission Ring-fencing Guideline (**the Guideline**). We recognise and appreciate the AER's efforts to understand implications of changing the Guideline on transmission networks, industry and customers.

As the transmission network service provider (TNSP) in Tasmania, TasNetworks is focused on maintaining the reliability and security of Tasmania's transmission network while connecting new renewable energy generation, large industrial load customers and battery energy storage systems in Tasmania as quickly and efficiently as possible.

TasNetworks supports the Energy Networks Australia submission and makes the following comments on ring-fencing in the National Electricity Market and Tasmania specifically.

It is important that any changes to the Guideline:

- a) resolves an identified problem; and
- b) results in better outcomes for customers.

As per previous submissions to transmission ring-fencing reviews, TasNetworks considers there is no evidence of a problem that requires the inclusion of negotiated services in the Guideline. Further, we are concerned that including negotiated services in the Guideline will result in longer and more expensive connection processes that are not in the long-term interests of customers, particularly in Tasmania.

Tasmania is a small jurisdiction with a relatively small contestable market and there are high barriers to entry – that are not related to ring-fencing. The planning, construction and ongoing maintenance of transmission lines is a technically specialised and complex activity. This naturally limits competition, particularly in a small market like Tasmania. Yet, there is still evidence that the regulatory settings are correct and, even in Tasmania, parties have developed connection assets themselves, with TasNetworks only being responsible for the non-contestable components. We are not aware of any issues during the connection

process when a different party has been used to develop the contestable components of a transmission connection.

TasNetworks has received a significant increase in connection enquiries since the legislation of the Tasmanian Renewable Energy Target. The regulatory framework, including ring-fencing arrangements, must support connection of renewable energy generation and new large industrial load in Tasmania as quickly and efficiently as possible.

This is best achieved by the regulatory framework providing as much optionality as possible, and carefully applying some restrictions in the Guideline such as legal separation and cost allocation. Making the connection process harder and / or increasing transaction costs by ring-fencing negotiated services will hamper the timely and efficient connection of new transmission customers. In a small market like Tasmania, it may also result in a weakening of competition. None of these outcomes are in the long-term interests of customers and the implications or unintended consequences of introducing ring-fencing to negotiated services must be considered carefully.

The energy transition requires more flexible, innovative regulatory frameworks in order to meet the challenge of replacing retiring coal generation. TasNetworks supports the AER's approach to ring-fencing waivers and sandboxing. However, ring-fencing negotiated services – particularly where there is no demonstrated ring-fencing problem - is not reflective of the approach required to connect the required renewable energy generation laid out by the Australian Energy Market Operator in the 2024 Integrated System Plan.

TasNetworks understands that recent ring-fencing reviews have been undertaken due to a perceived conflict during the connection process. However, we posit that any issues – at least in Tasmania – aren't a result of ring-fencing but instead the requirements of the connections process under the National Electricity Rules (**NER**).

The connection timeframes can be different for different parties due to the nature of Chapter 5 of the NER. Networks need to be assured that the connecting equipment will maintain the safety and reliability of the network. This includes modelling and testing of equipment and is an iterative process, particularly if there are issues with the equipment proposed at the beginning of the process.

TasNetworks supported the June 2024 rule change¹ that addressed several gaps and hindrances to timely connections while maintaining network security and integrity and appropriate allocation of cost and risk. We have also worked with the Australian Energy Market Commission and Australian Energy Market Operator, making other suggestions on how some of the technical issues during a connection process can be overcome and we welcome further work in this space.

Another factor that can impact the timeliness of the process is the location of the proposed connection. TasNetworks (and other TNSPs) publish significant amounts of information so

¹ Australian Energy Market Commission, [Enhancing Investment Certainty in the R1 Process](#)

that proponents can see where capacity exists in the network. However, interpreting this information can require specialist knowledge. TNSPs have the expertise to support proponents to connect at a location and in a way that maximises asset utilisation and reduces overall transmission network costs to customers. Ring-fencing negotiated services may have unintended consequences on asset utilisation of the existing network.

In TasNetworks' view, continuing to improve the connection process will resolve some of the issues being raised by stakeholders and result in better customer outcomes. Conversely, including negotiated services within the Guideline will likely lead to worse customer outcomes by increasing transaction costs, reducing competition and making the existing network less efficient.

TasNetworks supports the removal of the maximum time limit for ring-fencing waivers and considers that this is likely to improve certainty in markets with high barriers to entry.

We also consider the Guideline can better support the energy transition by allowing waivers for section 4.2 of the Guideline (information sharing). There are already a number of reasons why a TNSP can share information listed in section 4.2.2 of the Guideline. However, in TasNetworks experience, the information sharing restrictions can add complexity and delays to the connection process. In our view a waiver in certain circumstances where customer benefits can be demonstrated would better support the connection of new renewable generation and the energy transition.

As mentioned above, the Tasmanian jurisdiction is small with high barriers to entry. TasNetworks continues to assess the need for ring-fencing waivers so that customers can connect to the Tasmanian transmission network in the most efficient and timely manner. In this respect, it would increase certainty for TasNetworks and industry if the Guideline sets a timeframe for the AER to respond to a ring-fencing waiver application.

We support any steps that will improve the connection process and result in better outcomes for customers. But when considering whether to extend ring-fencing to negotiated services, the AER and other stakeholders should consider if there are other opportunities to improve the connection process.

If you have any questions in regard to this letter, please contact Chris Noye, Leader Regulation at [REDACTED]

Yours sincerely



Chantal Hopwood
Acting Executive Finance and Regulation