NATIONAL GENERATORS FORUM

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20 March 2006

Dr. John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

emailed to submissions@aemc.gov.au

Dear Dr. Tamblyn

AEMC Transmission Revenue Rule Proposal Report

The NGF thanks the AEMC for the opportunity to comment on its *Transmission Revenue Rule Proposal Report*. The NGF's comments relate to the proposed performance incentive scheme and negotiation framework, and the treatment of contingent projects.

Performance incentives

The AEMC is recommending that the reward/penalty should be no more than plus or minus 1%, that the AER develop and publish service targets by the end of 2006, and that the scheme should take account of the existing stock of TNSP assets, including the age and rating of the TNSP's network assets.

The NGF supports the AEMC's objective of adopting revenue rules that align the incentives of transmission network service providers (TNSPs) with the interests of the broader market. The size of the performance bonus is a critical element in achieving this objective.

At this stage, the NGF considers the performance bonus should continue to be focused in the first instance on controllable revenue and planned outages. In particular, a first objective for the performance bonus should be to provide incentives to shift planned outage work to non-peak times.

The NGF considers that the size of the bonus should be determined in conjunction with the parameters of the scheme. Previous work by the regulator has suggested a performance incentive of plus or minus 1% may be too small to provide incentives to provide longer term improvements through capital expenditure–related approaches, particularly in view of the associated risks and the asymmetric nature of the costs of improving service quality compared with avoiding declines in service quality. The NGF does not consider that the AEMC should seek at this stage to limit the size of the performance incentives to plus or minus 1% prior to further development of the scheme by the AER.

As performance incentives are typically set based on historical performance, it is not clear that the scheme should directly take account of the age and ratings of TNSP's network assets.

Negotiation framework for non-prescribed services

The AEMC has proposed to promote a negotiation framework for connection services, use of shared network to deliver services above minimum network performance standards, and agreed network augmentations or extensions for loads, generators, or MNSPs.

The NER currently provides a basic negotiating framework for negotiable services. Clause 6.5.9 requires TNSPs to publish frameworks for negotiation. However, the current NER arrangements have not been effective in encouraging commercial negotiation. For example, some TNSPs have excluded connection services from their negotiating frameworks.

The negotiation framework should be focused on services and assets lying outside core shared services the subject of TUOS but are closely connected to those services. These services and assets warrant a framework for negotiation because the TNSP may hold a significant advantage in relation to negotiations due to its ownership of the shared network. Difficult areas for negotiation include augmentations to shared assets, shared assets with the potential to be converted to connection assets, or connection assets with the potential to be converted to shared assets. For example, negotiations over the construction of connection assets may be problematic where the assets are likely to become shared over time, or the TNSP already owns existing shared assets or easements over relevant land that would form the connection corridor.

The NGF supports the efforts of the working group that has been established to work through the issues surrounding the definition of negotiated transmission services. This work needs to be supplemented by ongoing monitoring of the development of robust negotiating frameworks.

Contingent Projects

The NGF supports the AEMC's proposal to deal with contingent projects through reopening processes rather that at the time of revenue resets.

As a practical matter, it is likely to be easier to deal with contingent projects at the time they arise as a realistic expectation rather than at the time that the revenue cap is set. A particular concern is that the preapproval process may be perceived as an indication that the capex associated with a contingent project would meet the Regulatory Test. That is a matter that can only be considered at the time that a project moves beyond the contingent stage.

Please do not hesitate to contact me if the NGF can assist further.

Yours faithfully,

John Boshier
<u>Executive Director</u>