

2 November 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

Dear John

Modelling of Load Export Charges Report (21 September 2012)

Thank you for the opportunity to comment on the recently released Modelling of Load Export Charges report prepared by ROLIB Pty Ltd for the AEMC (the Report) as part of its consultation on the Inter-regional Transmission Charging Rule change proposal.

Grid Australia has over time provided a high level of support to the AEMC in its endeavours to progress inter-regional transmission charging. This includes active engagement in modelling during the Review of Energy Market Frameworks in light of Climate Change Policies and subsequently in the Inter-regional Transmission Charging rule change proposal. Following earlier modelling conducted by TNSPs in December 2011 the AEMC engaged a consultant to conduct more extensive modelling.

Unfortunately, while Grid Australia members provided extensive data in relation to this modelling, there were limited opportunities for engagement in the modelling itself. Therefore, Grid Australia does not offer commentary in this submission on the methodology employed by the consultant nor the accuracy of the associated modelling. Comments in relation to the Load Export Charges Modelling report are accordingly at a high level.

Grid Australia notes that the report has been critical of TNSPs in relation to the data provided for the modelling exercise.

Therefore, this submission will first explain the background of the data provision, before commenting specifically on several elements of the Report.

Grid Australia also notes that the Transmission Frameworks Review (TFR) Second Interim Report includes specific recommendations on national transmission pricing arrangements, which impact on some of the recommendations in the AEMC's Inter-regional TUOS Draft Determination.

Background

In December 2011, the AEMC contacted TNSPs individually with a high level description of the proposed modelling methodology, data requirements and indicative time lines.

On 19 December, the AEMC conducted a teleconference with TNSP representatives to discuss details of the proposed modelling and data requirements and undertook to provide written confirmation of the data requirements together with a formal request to CEOs.

At this teleconference TNSPs expressed concern regarding the timing and volume of the data request versus their requirements under the Rules to publish annual transmission prices.

On 23 December, the AEMC provided more detailed written confirmation of data requirements and a requested due date of 24 February 2012.

On 16 January 2012, the AEMC provided copies of the formal request for the work to be conducted to respective company CEOs dated 12 January 2012.

Extensive modifications to TNSP pricing models were required to produce the requested data. TNSPs anticipated that this, the high volume of data required and the compressed timeframes would result in a significant degree of interaction with the consultant being required after the data was submitted. TNSPs believed that time had been allowed for an extensive collaborative review process for data acceptance, including a workshop. This was not the case and resulted in unanticipated delays in the modelling process.

Specific Comments:

The requirement for a common pricing methodology

Grid Australia agrees that for inter-regional charges to be calculated at a regional level a consistent methodology for allocating charges between a region and the adjacent regions is required. This may be overlaid on approved pricing methodologies that apply in each region or it could be a consistent pricing methodology which applies to all transmission pricing across the NEM as has been proposed in the Transmission Frameworks Review Second Interim Report).

The use of Standard or Modified Costs Reflective Network Pricing

The limited modified CRNP methodology used for the Report's modelling of Load Export Charges provides limited insight into the effect of application of the modified CRNP described in the Rules. Under the methodology contemplated under the Rules and used by ElectraNet the utilisation of transmission elements determines the split between locational and non-locational TUOS rather than using the arbitrary 50:50 split of standard CRNP.

Nonetheless, the modelling should give an indication of the relative charges at the extremities of the network under a standard or modified regime which may inform the Commission's deliberations on a consistent national pricing regime.

Cost Data

Grid Australia notes the normalisation of the network cost data by the Aggregate Annual Revenue Requirement (AARR) in order to have consistent cost data for NEM wide solutions. While not the focus of this report, should the Commission pursue a consistent national pricing regime under the Transmission Frameworks Review, a national approach to replacement cost valuation of the networks would be required.

Trading Intervals

As noted in the report the use of the full year of trading intervals is applied in all regions except Victoria. This is consistent with each TNSPs AER approved Pricing Methodology. The use of 10 peak trading intervals is not supported by Grid Australia as is unlikely to reveal the circumstances under which augmentation of network elements would be contemplated as is required under the Rules.

The Report notes that a number of additional 10 peak interval scenarios were pursued following exploratory discussions with Grid Australia members. Grid Australia reiterates its concerns with the appropriateness of the 10 peak interval methodology and does not endorse this methodology as it does not signal effectively investment and network utilisation decisions.

All Asset or Cumulative Assets

Grid Australia understands the intent of this variation was to determine the flow on effects of a new major interconnector asset on charges to adjacent regions.

Grid Australia believes that the analysis carried out in this area is unlikely to satisfy this intent.

A more robust methodology would involve identifying an interconnector asset in each region and inflating its value. By doing this for each region in turn the contribution of that element to prices in other regions should then be apparent. Alternatively it may be possible to modify the software used to identify the contribution of an identified interconnector asset to each connection point. This would effectively be a variation of the existing LOADSUM switch which looks at the contributions of all lines to the charges at that connection point.

Capacity or Energy Model

As has been previously stated Grid Australia supports the use of the capacity mode in conjunction with the full year of trading intervals. It is understood that the use of energy mode for large sample sizes tends to diminish the cost reflectivity of the methodology. The advice of the consultant in this area would be welcomed.

Load Data Accuracy

Grid Australia is concerned that the AEMC has characterised the quality of the load data provided as poor.

As noted earlier in this response it was expected that the data acceptance process would involve a high degree of collaboration between TNSPs and the consultant in order to identify material issues and resolve them promptly.

Notwithstanding concerns regarding the timeliness of the data acceptance process it is not apparent that all issues identified in section 8 of the report were drawn to the attention of TNSPs. An example of this is reference in section 8.3 to missing trading intervals in the ElectraNet load and generation data. By default ElectraNet's load data is filtered for trading intervals which exceed the expected maximum demands at any connection point in order to ensure that abnormal operating conditions due to temporary reconfigurations in the distribution or transmission networks do not inadvertently impact prices. Had this been raised with ElectraNet

the consultant would have understood that the trading intervals were omitted by design. Data could also have been readily resubmitted without the filter applied if desired.

The Report suggests the use of a system wide load data model as used by AEMO for marginal loss factor calculations. The Report notes that the TNSPs may need to “align their cost data with the AEMO network model”. While such a data set may provide a useful check for TNSPs, Grid Australia considers the use of the AEMO model would significantly complicate the cost allocation process for TNSPs and add additional complexity to the pricing process.

The Report’s Conclusions

Grid Australia supports the conclusion of the Report that a full year, capacity mode, standard CRNP approach be adopted for calculating inter-regional charges on a regional basis.

Grid Australia notes the complementary nature of the inter-regional charging proposal and the pricing proposals being progressed under the Transmission Frameworks Review. Grid Australia considers that it would be inefficient, and confusing to customers, to implement inter-regional charging and then soon after change again to a national approach to transmission pricing. Grid Australia therefore recommends that implementation of inter-regional charging be progressed only if there is no decision to implement national pricing in the near term.

In the event that the final Transmission Framework’s Review proposes a national approach to transmission pricing, Grid Australia considers that the choice between standard and modified CRNP be explicitly considered.

Given the process issues outlined earlier, Grid Australia would appreciate the opportunity to discuss this submission and the way forward with the Inter-Regional Transmission Charging Rule change with the Commission and staff.

Please don't hesitate to contact Bill Jackson on 08 8404 7969 if you require any further information or me on 08 8404 7983 to discuss any broader process issues related to the Rule change.

Yours sincerely



Rainer Korte
Chairman
Grid Australia Regulatory Managers Group