



Office of the Minister for Energy and Water Supply

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Mr John Pierce
Chairman
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FAXED
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Dear Mr Pierce

RE: Queensland Government response to the second interim report on the *Transmission Frameworks Review*

The Queensland Government welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) second interim report on the Transmission Framework Review (the Review).

The Queensland Government has recognised the key role that cost increases in poles and wires have played in driving electricity price rises and is actively working to achieve cost reductions and improve efficiency in this area of the energy market. The Queensland Government has established an Independent Review Panel to examine the cost drivers for electricity transmission and distribution networks, with the panel to report before the end of 2012.

Queensland also strongly supports the investigation of demonstrated issues and inefficiencies in the energy sector at the national level and supports a measured and evidence-based approach. However, the benefits of any proposed reform package must be evaluated against the costs and potential market disruption that may result.

In considering the options discussed in the second interim report, Queensland is concerned with aspects that may increase electricity costs to consumers, transfer functions from State bodies without an obvious benefit, or increase regulatory red tape, potentially hampering development of Queensland's economy.

Comments on specific issues raised within the Review are below:

Transmission Access for Generators

The Queensland Government notes and agrees with the AEMC's findings that the current framework is, by and large, delivering efficient investment to meet reliability standards and is promoting effective co-ordination between generation and transmission businesses. Accordingly, the Government supports the adoption of the non-firm access model, largely preserving the status quo. Queensland does recognise the need for effective incentives to encourage efficient investment by Transmission Network Service Providers (TNSPs) and believes minor improvements could be made to the framework to encourage co-optimisation of transmission and generation investment and address disorderly bidding by generators.

Queensland opposes the optional firm access model as it represents a fundamental change to the National Electricity Market (NEM) and the Review does not quantify a clear failure in the

existing framework that requires such structural reform. As with any large reform package, adoption of this model would generate significant implementation and transition costs that have the potential to increase electricity costs for consumers. The model would also carry ongoing price risks for the TNSPs and electricity consumers. Queensland strongly supports an evidence-based approach to any reform proposal and awaits the AEMC's quantitative analysis and assessment of any material benefit which might justify adoption of the optional firm access model.

Transmission Planning

The Queensland Government supports an enhanced role for the Australian Energy Market Operator (AEMO) as the National Transmission Planner (NTP) and supports the transfer of the Last Resort Planning Power to AEMO. In particular, the Queensland Government notes the benefits of AEMO forecasts in testing TNSP forecasts, and the benefits of TNSP inputs to the AEMO National Transmission Network Development Plan (NTNDP).

However, Queensland does not support proposals for AEMO to produce the demand forecasts for TNSPs. The TNSPs would need in any event to continue to produce their own forecasts on a sub-regional and even more local basis, on a regular basis, to support their final investment decisions and pricing, among other things. Queensland considers it is more appropriate for AEMO to continue in its current role, providing an important and independent review of the jurisdictional demand forecasts, and for the TNSPs' local forecasts to inform the AEMO forecasting and planning functions. A requirement for AEMO to produce demand forecasts for each TNSP, particularly at the local level, would be expected to generate further costs, potentially increasing electricity costs for consumers.

As a general principle, the Government supports the AEMC's proposed enhancements to the nationally-coordinated planning framework to identify cross-regional and intra-regional investment opportunities, as well as the formalisation of the TNSPs' input into the National Transmission Planner's annual reports.

The Government cannot support the proposal to introduce a NEM-wide transmission pricing scheme. The Review notes that pricing impacts of the scheme are not certain and individual customers may experience significantly different charges under the proposed scheme when compared to the status quo. Before a firm position can be reached, quantitative analysis on the pricing implications and their distribution amongst customer classes must be provided.

Queensland is also concerned by the AEMC's proposal to align the TNSPs' regulatory control periods. Aside from the peaks created in the AER's workload, any inaccuracies in forecast demand, such as those resulting from the Global Financial Crisis, could be replicated within all TNSPs' revenue determinations. That is, there would be a complete loss of diversity of view, without any compelling benefit. It is noted that each TNSP maintains a continuous planning process and publishes an Annual Planning Report and that the planning process (including inter-regional planning) is not limited to the time in which submissions on regulatory determinations are being prepared.

The proposal is in direct contrast to the approach taken to the proposed Economic Regulation Rule change transitional arrangements, which involve pushing out determination processes for 12 months specifically to avoid the greater resource burden of overlapping or clustering of determination processes. These transitional arrangements not only acknowledge the issue of increased burden on the Australian Energy Regulator, TNSPs and other stakeholders, but also recognise that all of those parties compete for the time of a limited number of consultants / experts to support their work.

Further, aligning the regulatory control periods could also negatively impact on TNSPs' ability to manage interest rate risk, because rate reset periods may overlap and multiple TNSPs may be seeking to execute transactions in the debt markets simultaneously.

Transmission Connections

Queensland agrees that negotiations between generator or load customers and TNSPs could be improved from a practicality, time and cost-efficiency perspective. The Government supports enhancing transparency in the connection process by including the requirements to publish standard contracts and design standards and to provide detailed cost information to applicants. Further, we support enabling connecting parties to have a greater role in the tender process for construction of assets by requiring TNSPs to make tender responses available and demonstrate consideration of an applicant's priorities when selecting a contractor.

However, initial consideration suggests that the proposal to compel TNSPs to provide network extensions as negotiated transmission services could reduce commercial flexibility with attendant implications for connection timeframes. The Queensland Government would be concerned by any proposal that would increase timeframes for transmission developments required to support economic development and supports the retention of an option for parties to agree to unregulated delivery of extensions.

I thank you for your consideration of the issues mentioned and wish to remind you that Queensland remains open to considering any further evidence the Review may present that supports a more comprehensive reform package.

Should you have any further enquiries, please contact Jon Black, Director-General of the Department of Energy and Water Supply on telephone 07 3006 2390.

Yours sincerely



Mark McArdle MP
Minister for Energy and Water Supply