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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Dear Dr Tamblyn

Submission in response to AEMC Chapter 6 Review: Draft Determination and Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006

Stanwell welcomes the opportunity to respond to the Commission's *Draft Determination and accompanying Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006* which form part of the review of Chapter 6 of the National Electricity Rules.

The primary purpose of this submission is to address one outstanding issue in relation to the treatment of operating and maintenance expenses under the proposed Pricing Rule. As discussed in Section 3 of this submission, Stanwell believes that in order to give effect to the Commission's intention, it should be explicitly stated in the final Rule Determination report that operating and maintenance expenses are to be treated as being attached to the capital with which they are associated.

1 Stanwell's Previous Submissions

Stanwell has made the following previous submissions in response to the Chapter 6 review process:

- 12 December 2005 – submission in response to the *Review of the Electricity Transmission Revenue and Pricing Rules – Transmission Pricing Issues Paper*; and
- 20 March 2006 – submission to the *Transmission Revenue: Rule Proposal Report and Draft National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006*.

In those submissions, Stanwell highlighted the risks for generators arising out of a reconfiguration of the transmission network being the potential for assets, which were previously shared transmission network assets, being reclassified as dedicated or entry assets, the costs of which could then potentially be sought to be recovered from an individual generator, resulting in significantly higher operating costs being incurred by that generator.

On this point, Stanwell noted the importance of investment certainty for generators when making locational decisions and maintained that generators should not be forced to bear the risk of transmission network assets being reclassified as entry assets in circumstances where the generator is unable to predict, internalise, manage or mitigate further alterations to the transmission network in their region. Stanwell observed that if generators are required to bear this risk it will operate as a disincentive to efficient investment which may ultimately lead to increased electricity costs for consumers and decreased reliability and security of supply.

2 Response of the Commission

Since those submissions, Stanwell is pleased to note that the Commission has recognised Stanwell's concerns and acknowledged the need to resolve this issue in both the Revenue Regulation and Transmission Pricing elements of the Chapter 6 Review.

2.1 Revenue Regulation Review

The Commission acknowledged Stanwell's concern in the *Draft National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006* and accompanying *Rule Proposal Report*, including the following clause in the Draft Rule:

"costs which have been allocated to prescribed transmission services must not be reallocated to negotiated transmission services";¹

and noting;

"assets cannot be reclassified and taken out of the RAB from Prescribed Services to allocate them to Negotiated Transmission Services. The Commission recognises that assets that were once used as part of the shared network may over time become dedicated to one user, as demand patterns change. However, given that the user's locational decision has already been made, there is nothing to be gained by providing a price signal to that user via a negotiated charge, and requiring that user to pay for the entire cost of the asset, when it had not previously been doing so, would increase investment risk for the user."²

Stanwell was pleased to note that this proposed clause, now numbered 6A.19.2(a)(7) has been included in the Commission's Draft and now Final Rule Determination.³

As Stanwell indicated however in its submission of 20 March 2006, in order to ensure that that the Rules give effect to the intention of AEMC to prevent network users from paying for the entire cost of a previously shared transmission service, the AEMC needs to ensure that the Transmission Pricing Review is consistent with and complements the bar on reclassification provided by rule 6A.19.2(a)(7).

2.2 Transmission Pricing Review

Stanwell welcomes the Commission's acknowledgement that there is a need for consistency between the Transmission Revenue and Transmission Pricing Review elements. Stanwell notes the Commission's position in the Draft Pricing Determination:

"The Commission also considers that it is important that the pricing rules are consistent with the approach taken for transmission revenue with regard to the future allocation of costs between transmission users;"⁴ and

¹ Australian Energy Market Commission 2006, *Draft National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006*, 6.21(a)(7).

² Australian Energy Market Commission 2006, *Review of the Electricity Transmission Revenue and Pricing Rules, Rule Proposal Report* (February 2006), 60.

³ *National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No.18*.

⁴ Australian Energy Market Commission, 2006, *Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006, Draft Determination*, 19 October 2006, Sydney, 44.

"In addition, consistent with the approach taken for transmission revenue, the Commission considers that where assets are determined to be caused by users of the shared network, these assets should not be reallocated to entry services in the future."⁵

Stanwell also notes that the Commission has proposed a causation based cost allocation methodology. As Stanwell understands, the Commission's proposed methodology uses attributable cost share as the basis for allocating costs among prescribed transmission network assets. Of this approach, insofar as it relates to the concerns raised by Stanwell, the Commission has stated that:

"As the proposed rule emphasises attribution to the service that causes development of the relevant asset or the incurring of the relevant O&M expenditure, it should also avoid the issue raised by Stanwell of common service assets being reclassified as entry assets at a later point in time. Attribution based on causation implies that attribution does not change if and when the use of the asset (or subject of the expenditure) changes."⁶

3 **Stanwell's response - Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006**

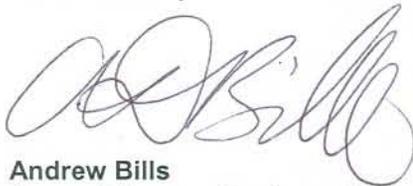
On the basis of the comments above Stanwell is pleased to note that the Commission has recognised the need to address the issue of the reconfigurations of transmission networks via both the Transmission Revenue and Transmission Pricing elements of the Chapter 6 Review.

However, one issue that Stanwell does believe should be further clarified when the final *National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006* is released, is the treatment of operating and maintenance expenses. Stanwell believes it should be explicitly stated in the Rule Determination report that operation and maintenance expenses are to be treated as being attached to the capital with which they are associated.

In the absence of this explicit reference Stanwell is concerned that, the AEMC may be misunderstood to mean that operating and maintenance expenses for a transmission service are to be allocated each year, to the party that causes those expenses to be incurred in that year. Such an outcome would be inconsistent with the stated intention of the AEMC which is discussed above.

Should you have any questions in relation to the above, please contact Erin Bledsoe on (07) 3335 3804.

Yours sincerely



Andrew Bills
General Manager Business Expansion & Trading

⁵ Ibid.

⁶ Australian Energy Market Commission, 2006, *Proposed National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006, Rule Proposal Report*, 24 August 2006, Sydney, 53.