

30/08/06

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By email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

**Re: Submission to National Electricity Rule Change Application**  
**Rules to establish a comprehensive inter-participant framework for addressing network replacement or reconfiguration**

Definition of "the Group". "The Group" consists of:

- TRUenergy
- International Power
- Loy Yang Marketing Management Co.
- NRG Flinders
- Hydro Tasmania

Dear John

The above group of participants "the Group" are pleased to comment on the Rule change proposal by Stanwell Corporation, to establish a comprehensive inter-participant framework for addressing network replacement or reconfiguration. In general, "the Group" supports the Stanwell proposal.

## **I. Introduction**

Stanwell Corporation has initiated a Rule change that establishes a comprehensive inter-participant framework for addressing network replacements or re-configurations. The proposed Rule change reduces the level of regulatory risk associated with generation investment in the NEM. It increases investment certainty, by preserving access of generation to the market or alternatively by compensation, in the event that access is reduced as a result of network replacement or reconfiguration.

Regulatory risk has the potential to distort the level of investment in the market and the timing of investment. It reduces expected returns by increasing risk. As a result some investors will abandon projects that have the potential to deliver economy wide benefits, resulting in a long-term loss to consumers. Thus, the AEMC should look to constantly improve the regulatory regime, to eliminate any unnecessary regulatory risk.

Stanwell has identified a gap in the National Electricity Rules "The Rules". The Rules are unclear about what rights and obligations exist between TNSPs and network users, in situations where a TNSP proposes a network replacement or reconfiguration. The Group supports the proposed Rule change on the basis that it will delivery greater clarity and certainty than the existing rules and thus provide more effective signals for generation investment in the NEM, strengthening the incentive to invest in generation in the future.

## **II. The proposed Rule change reflects a natural progression from recent regulatory developments that apply to connection assets that help sustain generators' abilities to transmit their generation to the market.**

The Group supports the rule change because in principle it is consistent with the latest changes to regulations in different jurisdictions that seek to maintain generators' current ability to transmit their generation to the market without incurring further costs, or being forced to subsidise the investment decisions of others, thereby strengthening the investment environment in generation in the NEM.

Some of these changes include:

### **a) Changes to the definition of 'negotiated services' being reviewed by the AEMC**

The AEMC Draft Rule <sup>1</sup> provides that where new users come along and enter into agreements for negotiated services which are supplied using assets the costs of which are already being recovered from another user under an agreement for negotiated services, the original user has the right to negotiate a reduction in charges or potentially repayment of part of the funds provided for a funded augmentation. For example, where Generator A seeks access to a remote radial line built and funded by Generator B for its own use, then Generator B needs to compensate Generator A through some scheme of payment. This provides a disincentive for new users to 'free ride' on the remote radial line, maintaining the existing Generator's current ability to transmit its generation to the market.

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<sup>1</sup> Australian Energy Market Commission, Review of the Electricity Transmission Revenue and Pricing Rules – 'Draft Rule' 6A.9.1 (6)

**b) Victorian Electricity Transmission Connection Augmentation Guidelines (Vencorp)**

VENCorp has developed the Electricity Transmission Connection Augmentation Guidelines with the aim of ensuring that all new connection applicants are treated equitably, transparently, consistently and efficiently where practicable. The guidelines provide compensation for the parties funding the augmentation in the event that a new party requires access to the augmentation. This creates an incentive for parties to come forward and join in the original negotiations to jointly fund the augmentation, helping to prevent any future 'free-riding'. Also, it provides a disincentive for new users to 'free-ride' on the connection asset, maintaining the existing generator's ability to transmit its generation to the market.

We recognise that these developments are not identical to Stanwell's proposal in mechanism, however we see parallels in their objective to provide a degree of stability in relation to a Generator's access to transmission access and in supporting economically efficient investment in the NEM.

**III. The proposed Rule change provides a range of benefits to generation in the NEM**

Some of the benefits of the Rule change include:

**a) Safeguards the basis of the original investment decision**

The Rule proposal provides that the Generators' ability to transmit their generation to the market will not change due to a reconfiguration of the transmission system. Thus, the Rule change minimises an exposure to a risk that Generators in the market are currently unable to mitigate. It means that Generators are given greater certainty that the environment in which they made their original investment will not change to the detriment of the asset over its life.

**b) Reduces the risk of investment in generation**

Given that a major risk has been mitigated, the Rule change should encourage investors to commit more capital to generation, reducing the long-term cost of capital to the sector.

**c) Encourages greater competition in generation**

The Rule change improves the investment environment for generation. It encourages greater investment in generation that will ultimately lead to a more competitive generation sector.

**d) Requires TNSP to take into account the cost of reconfigurations**

The Rule change obligates TNSP's to keep Generators whole during changes to the configuration to the transmission system. It requires the transmission development assessment to consider the true costs of the reconfiguration, effectively capturing a net loss of welfare that had been overlooked, namely the impact on Generator access. Capturing this cost in the economic assessment should lead to more optimally efficient investment decisions.

**e) Reduces cost to consumers**

Given a major risk has been mitigated, the Rule change should encourage investors to commit capital to generation at lower long term cost to the sector and ultimately electricity consumers.

**V. Drafting Comments**

At an editorial level, we also believe that the Rule change would benefit from a minor enhancement. The proposed wording used to define a reconfiguration (namely works to “permanently re-route the path or the network”, or “modify the technical capabilities”) may not be sufficiently broad to capture all network reconfiguration works - for example reconfiguration projects involving the re-use of existing easements or corridors, the restringing of transmission towers, relocation of transformers and other assets to different parts of the network, etc - which may nevertheless constitute a reconfiguration, and therefore carry the same potential financial impacts.

To remove this uncertainty, we suggest that the wording of the definition of *network reconfiguration* be modified, along the following lines:

***“Network reconfiguration***

*Works*, which are not *a new large transmission network asset* or *small transmission network asset* to:

- (a) Permanently re-route the path or the *network* or otherwise alter the configuration of the network;

**V. Conclusion**

The Group supports the proposed Rule change on the basis that it reduces the level of regulatory risk for investment in generation by recognising the value of and supporting a Generator’s ability to transmit its generation to the market.

We believe that this Rule change reflects a current trend by regulators towards providing Generators greater certainty in their capacity to transmit load to market (especially with regard to the treatment of connection assets) and we support the change as ultimately providing long-term benefits to consumers.

The Rule change is consistent with the market objective because it encourages efficient investment and therefore provides long-term benefits to consumers.

We appreciate the opportunity to participate in this consultation. For further information regarding this consultation please contact Mr. Con Noutso, Manager Regulation (Access), TRUenergy on Tel: 8628-1240.

Regards

Con Noutso  
Manager Regulation (Access)  
On behalf of the Group

