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Mr J Pierce
Chairman
Australian Energy Market Commission

Via email: submissions@aemc.gov.au

Dear Mr Pierce

I understand that the AEMC is seeking responses to the Transmission Frameworks Review Direction Paper and, in particular, how the Commission has framed the issues, and whether this represents an appropriate structure for resolving them.

We are pleased to respond but, as requested, have contained our comments to the scope of the issues rather than provide our detailed policy response.

The Review is relevant to Ausgrid for several reasons:

- Ausgrid owns and operates transmission assets and may be directly impacted by these reforms.
- Ausgrid is responsible for passing through transmission costs to customers as part of our network charge. We are therefore interested in changes that may affect the prices we pass on to our customers.
- Regulatory changes made in transmission are often adopted in distribution. Alternatively, to the extent they differ any changes potentially affect investment decision making in end user and generation markets.
- Ausgrid as a distribution network service provider is required to undertake joint planning with TransGrid.

We are therefore interested in any proposed changes to the transmission framework and its impact on us as a distribution network service provider that also owns and operates transmission assets.

We broadly agree with the approach taken by the AEMC in framing the issues. We consider the four work streams identified in chapter 2 as an appropriate grouping of issues for a review of Transmission Frameworks.

We accept that issues surrounding economic regulation are sufficiently complex to warrant their own review. However, issues such as network charges, connection arrangements, investment planning and access arrangements are inextricably linked with the economic regulatory framework. While we support the narrowing of scope, we would

ask the Commission to ensure that economic regulation and pricing impacts in transmission and distribution networks are taken into account when considering changes to the existing framework.

Shaping and defining the role of transmission

Ausgrid would support a Transmission Frameworks Review focussing initially on the existing taxonomy surrounding the role of transmission networks, services provided and their obligations in the market. We believe that many existing terms and concepts have either lost or changed meaning over the last decade of reform such that there are now overlaps and ambiguity in the definitions of some terms. Recent Rule change requests have highlighted the need for a review and clear annunciation of what the Rules say now about transmission networks and whether some rationalisation of definitions is needed.

We note the AEMC's initial view that the role of transmission should be: "To provide services to competitive and regulated sectors of the electricity market in a manner that is in the long term interests of consumers of electricity"¹. To the extent this represents a shift away from the current framework which emphasises network obligations for load, this would directly impact distribution networks, the allocation of transmission costs to our network, and the arrangements between distribution businesses and embedded generators.

While we do not necessarily disagree with the AEMC's approach to framing the issue, we ask that the AEMC be mindful that altering the role of transmission will, most likely, have consequential impacts on distribution networks.

Nature of access

The AEMC has discussed a range of complex matters in relation to the nature of generator access to the networks. Many of the issues raised appear to repeat previous policy reform agendas. Issues such as generator access rights, financiability and tradeability of those rights have been discussed since the NEM itself began.

We do note the AEMC has sensibly concluded that any changes to the non-firm access arrangements in the NEM should best be considered from first best principles rather than attempting to structure them to fit certain provisions in the Rules which might be ambiguous, unworkable and contentious and which would not result in a coherent regime. We agree with this position. We also agree with the AEMC's view that the different interpretations from stakeholders on the nature of the existing arrangements is an indication that that this is an area that would benefit from further consideration and clarification.

The AEMC's consideration of the nature of access is importantly linked to the definitional characteristics and purpose of networks. That is, the physical nature of networks means, generally, it is not possible to allocate a property right to any one party for the exclusive use of the capacity of the shared network. This has implications for matters such as negotiation of standards of service, setting a transmission reliability standard for generators and access rights for generators.

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In this regard, we reiterate our concern expressed in our previous submission (September 2010) about the feasibility of financial access rights under the current framework. We question whether exposing TNSPs to market risk is in the long term interests of consumers.

Network charging

The AEMC has flagged a number of issues in relation to network charging, including costs imposed by generators under current frameworks; impacts of changes to access arrangements; design issues for generator charging; and transmission charging for load.

We agree that a Transmission Frameworks Review needs to include a consideration of the nature of services provided to load and generation. These matters are consistent with issues raised by Ausgrid in the submission to the Issues Paper.

Congestion

The AEMC presents differing stakeholder views on the materiality of congestion and in response canvasses views on developing the analysis for the costs of congestion. The AEMC comments that the use of financial incentives may be an important way to encourage TNSPs to take steps to maximise network availability and minimise the market impacts of congestion. In relation to this, the AEMC notes the AER's intention to commence a review of the STPIS in the second quarter of 2011.

The only congestion management technique discussed by the AEMC is congestion pricing. The AEMC intends to give further consideration to the costs and benefits of congestion pricing.

Ausgrid wishes to point out that another congestion management technique may be to encourage greater demand management in the electricity sector. One of the underlying causes of congestion on the network is peak demand reaching the capacity of the network. We consider that management of peak demand by distribution networks could contribute to reducing the impact of network congestion and to improve efficiency in the electricity sector.

We consider that there is a link between the problems of congestion and the potential for demand management to assist ameliorate this problem. The AEMC's discussion about congestion management techniques would benefit by being broadened to include demand management. Ausgrid's submission to the AEMC on the Strategic Priorities for Energy Market Directions presents discussion on a proposed incentive mechanisms aimed at encouraging distributors to engage in more demand management.

Connections

We note the AEMC's concerns about the current connection regime including negotiation arrangements, concluding that there is a lack of clarity surrounding connection arrangements and how new assets required for the purpose of connection should be classified and funded. We agree that this matter would benefit from greater examination to ensure that there is seamless interaction between the connection arrangements and economic regulation. Ausgrid has provided some comments on connection arrangement in its submission to the AEMC on SENE.

We see the issues regarding connections being fundamentally interwoven with other issues regarding roles and definitions of transmission and access arrangements for the transmission network. To this end we would welcome a reconsideration of the negotiation framework and in particular, greater clarity about actual scope for negotiation on service levels within the shared network. In response to the Issues Paper we stated that we have struggled with the concept of carving out different service levels for specific customers from networks that convey electricity to multiple customers.

We look forward to continuing our participation in the Transmission Frameworks Review. If you wish to discuss any aspect of this submission please do not hesitate to contact me or Ms Catherine O'Neill, Executive Manager – Regulation and Pricing on 02 9269 4171.

Regards,

A handwritten signature in black ink, appearing to be 'PB', written in a cursive style.

Peter Birk
(Acting) / Executive General Manager System Planning & Regulation