

30 November 2006

Dr John Tamblyn
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Australian Energy Market Commission
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Dear Dr Tamblyn 

Draft Rule Determination: Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006

Flinders Power offers the following brief comments on the draft transmission pricing Rule change proposals.

The proposed Rules contain a number of improvements to the arrangements for the charging of generator connection costs. In particular, we support the concept of transmission cost attribution and pricing on a causation basis, with the revised priority ordering adopted in the Draft Determination.

It also appears clear that the intent of the arrangements is that pre-existing generator connection services (ie entry services) should be treated in a manner consistent with the treatment of negotiated transmission services (as are new connections), and indeed would progressively migrate toward negotiated services as the network evolves over time. This is also supported.

A number of detailed aspects of these arrangements appear to warrant further clarification in order to ensure the Final Pricing Rule delivers the stated intent of the new pricing framework. Accordingly we offer a number of comments on these specific issues for your consideration.

1. Grandfathering of Generator Connection Costs

It is understood that Draft Pricing Rule 11.6.2 requires that the TNSP assess which assets are attributable on a causation basis to the provision of each *category of prescribed transmission services*, and then to the provision of specific *prescribed entry / exit services*, as at 24 August 2006. This has the effect of grandfathering connection cost share (and consequent pricing) as at this date.

This provision is supported. Furthermore, as indicated in the Draft Determination, it would appear this could be achieved through a practical desktop exercise, rather than necessitating a detailed consultant-led audit and asset evaluation.

Flinders would, however, be concerned if this cost lock-in prevented the sharing of costs with other parties that later connected into or benefited from the same connection assets. This would not appear consistent with the thrust of the cost allocation principles embodied in the new framework. It would appear more consistent with these principles that new generators or loads that benefit from existing connection assets should share the cost, in order to avoid a ‘free rider’ problem. We would therefore support clarification of this aspect, as it is presently unclear under Draft Pricing Rule 11.6.2 how such costs could be shared under this scenario.

2. Negotiation of Prescribed Entry Services

The intent of Draft Pricing Rule 11.6.3 is not entirely clear. Whilst on one level it appears to complement the cost allocation process under Draft Pricing Rule 11.6.2 discussed above, it appears to allow the treatment of entry services as negotiated for charging purposes at the discretion of the parties. Specifically, clauses (b) and (c) of this Rule indicate that transitioned *prescribed entry services* may be treated as *negotiated transmission services* for the purposes of pricing under Part D of Chapter 6A, and cost allocation under Part G, respectively.

It would be useful to clarify the purpose of this Rule, including the circumstances in which it is intended to operate, and the parties which much exercise the discretion inherent in the clause. It appears to imply, for example, that the parties to a transmission connection agreement could agree to lock in charges for transitioned *prescribed entry services* in perpetuity as negotiated charges for pricing and cost allocation purposes.

The mechanics of the cost allocation and pricing process under these arrangements should also be clarified. While it appears that transitioned *prescribed entry services* can be treated as *negotiated transmission services* for these purposes, these services nevertheless remain *prescribed transmission services*. This suggests for example, that these services remain part of the Aggregate Annual Revenue Requirement (AARR).

As a minor drafting issue, it is also noted that the definition of “transitioned prescribed entry services” appears identical to that of “prescribed entry services”.

3. Replaced and Reconfigured Connection Assets

In relation to the replacement or reconfiguration of connection assets, the Draft Determination states that:

“...it would be appropriate that any replacement or reconfiguration of a connection asset, grandfathered as providing prescribed services in accordance with Rule 11.5.11, should be treated as a negotiated service asset.” (p48)

The intent of this statement is not entirely clear. Firstly, it is unclear at what point a reconfigured or replaced connection asset should be treated as a negotiated service asset, as opposed to continued treatment as a transitioned *prescribed entry service*. Secondly, it is unclear how this is achieved, as Final Revenue Rule 11.5.11 (renumbered 11.6.11) appears identical to the earlier draft. Thirdly, it is unclear how this interacts with clause 11.6.2 above, which locks in cost allocation for grandfathered connection assets as at 24 August 2006. It would be desirable to clarify these issues.

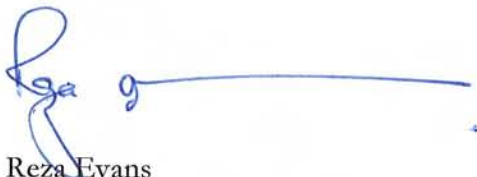
The Draft Determination also states that:

“The Draft Revenue Rule does however, address the underlying concern of the NGF that where benefits from a replacement or reconfiguration are primarily caused for the benefit of the shared network, then these costs should be allocated to the shared network. Rule 6A.19.2(a)(8) provides for costs to be allocated from negotiated to prescribed services on the basis that the costs are either ‘directly attributable to the provision of prescribed services or are incurred in providing prescribed services.’ This allows costs to be allocated from or between negotiated and prescribed services on the basis of who primarily caused the costs to be incurred. The Commission believes that these Rule provisions address the concerns identified by the NGF.” (p48)

Flinders Power supports the intent of this statement. However, it is not entirely clear how this intent is delivered in practice. In particular, it would appear that Final Revenue Rule 6A.19.2(a)(8) (now numbered 6A.19.2(8)) applies only to *negotiated transmission services* and not to transitioned *prescribed entry services*. Similarly, Final Revenue Rule 6A.19.2(7), which prevents the reallocation of shared costs, appears to apply only to *negotiated transmission services* and not to transitioned *prescribed entry services*. As above, it would be helpful to clarify the treatment of reconfigured and replaced assets for cost allocation and pricing purposes.

Flinders Power appreciates the opportunity to offer final comments on the Draft Pricing Rules, and would welcome the opportunity to discuss or clarify any issues raised in this submission, should this be helpful to the deliberations of the Commission. To this end, please feel free to contact Simon Appleby on (08) 8372 8706 or myself on (08) 8372 8726.

Yours Sincerely



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