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22 September 2011

Mr John Pierce
Mr Neville Henderson
Dr Brian Spalding
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Commissioners,

RE: ERC0106 National Electricity Amendment (Inter-regional Transmission Charging) Rule 2011

By way of background InterGen Australia (IGA) is owned by InterGen N.V. (InterGen) and the China Hua Neng Group (CHG), China's largest generation company. InterGen and CHG are leading developers and operators of electricity generation facilities worldwide. In Australia, IGA is the operator and majority owner of the 852MW Millmerran Power Station and a 50% owner of the 840MW Callide C Power Station.

The Australian Energy Market Commission (AEMC) has sought stakeholder submissions to the Inter-regional Transmission Charging Discussion Paper dated 25 August 2011 (Discussion Paper).

The AEMC is specifically seeking stakeholder comments on the objectives of inter-regional transmission charging and the range of options which may facilitate achievement of those objectives. The AEMC has proposed the following options in the Discussion Paper:

- Option 1: Modified Load Export Charge (MLEC)
- Option 2: Cost Sharing (CS)
- Option 3: NEM –wide Cost Reflective Network Pricing (CRNP)

InterGen Australia (IGA) Position

As part of this process, the AEMC is seeking views on:

1. The objectives of inter-regional transmission charging
2. Which of the proposed options (including methodologies) for inter-regional transmission charging in the Discussion Paper best achieves the objectives

IGA's position in relation to item 1 is outlined below.

1. Objectives of inter-regional transmission charging

It is noted that the proposed rule change has arisen in response to the Ministerial Council on Energy's (MCE's) request to have the AEMC consider the need to improve the existing inter-regional transmission pricing arrangements as part of the Climate Change Review. In its response to this Review, The MCE supported the introduction of a load export charge on the basis that it would better reflect the costs of providing transmission capacity to transport electricity to adjoining regions.

As indicated in the Discussion Paper, the proposed introduction of an inter-regional transmission charging mechanism is aimed at improving price signals, so that more efficient network investment decisions are made.

IGA supports the broad Assessment Framework for Developing Options on Inter-regional Transmission Pricing as set out in Chapter 3 of the Paper.

In particular, IGA supports the two key criteria for assessment which include:

- 1. Achieving more cost-reflective price signals**, including the methodology for:
 - (a) Recovering the costs of the existing network
 - (b) Providing a signal for future investment
 - (c) Reflecting a "causer or beneficiary pays" approach.

- 2. Procedural and implementation efficiencies**, including:
 - (a) Administrative efficiency
 - (b) Transparency and
 - (c) Stability and regulatory certainty.

IGA is supportive of a charging methodology for recovering costs of inter-regional transmission assets which considers these factors in a balanced manner. This includes having regard to a methodology which reflects the total cost of the existing network, provides adequate signals for future investment and appropriately identifies causers or beneficiaries of transmission assets. These factors should have regard to the complex and integrated nature of the broader network.

In this regard, it is noted that the current review is limited to consideration of 'prescribed transmission services', excluding 'negotiated' and unregulated services. While the introduction of an inter-regional transmission or load export charging mechanism in relation to prescribed services is considered important, IGA submits that there may be further opportunities to improve cost-reflective network pricing by expanding the scope to include negotiated or unregulated services. This could be considered where assets are critical to executing flows to other regions that benefit from these unregulated investments.

On this basis, IGA submits that any new rule associated with inter-regional transmission charging should be applied to both new and existing infrastructure (including unregulated assets), to the extent that existing infrastructure facilitates the execution of inter-regional flow and that efficient costs may be recovered. This could be effected where the asset passes a threshold economic test that demonstrates that its inclusion provides a benefit that is at least commensurate with or greater than its cost. Under such an approach, a regulatory requirement could be imposed so that benefits are recoverable by a counterparty that has entered into a bilateral, non-prescribed arrangement with a Transmission Network Service Provider for assets that meet the test. Assuming the pricing

mechanism provides sufficient transparency, it could be left to the parties to separately agree the recoverable amounts.

IGA considers that such an approach would be consistent with the broader objectives of the MCE, as well as those articulated by the AEMC in section 3 of the Discussion Paper. That is, it would promote a more balanced and integrated approach to reform and one that would enable NEM-wide sharing of system costs and benefits in a complex and maturing system.

IGA understands that the scope of the Discussion Paper and consultation process does not extend to changing the approach to the current intra-regional transmission charging arrangements and there is a subsequent opportunity to raise such issues in the longer term Transmission Frameworks Review. It is noted that the AEMC has invited additional commentary where stakeholders consider that relevant factors or design features may impact on the design or national inter-regional transmission charging regime. IGA considers that broadening the consideration of the Discussion Paper to include non-prescribed services is relevant to the overall efficiency of any proposed regional transmission charging regime and methodology.

IGA also proposes to raise this issue in greater detail during the consultation process in relation to the longer term Transmission Frameworks Review.

We trust that the AEMC will carefully consider the issues we have raised in relation to this Rule change. If you have any enquiries regarding this submission, please feel free to contact me on 07 3001 7116

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Bristow', is written over a horizontal line.

Sam Bristow
General Manager, Trading & Development
InterGen (Australia) Pty Ltd