Reference: CP/TP

30 December 2005

Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215
submissions@aemc.gov.au

Dear Sir/Madam

AUSTRALIAN ENERGY MARKET COMMISSION

Ergon Energy is pleased to make this submission, which is available for publication, in its capacity as an electricity Distribution Network Service Provider in Queensland.

We have reviewed the AEMC’s Issues Paper entitled “Review of the Electricity Transmission Revenue and Pricing Rules – Transmission Pricing: Issues Paper” (the Paper). Ergon Energy recognises that the timing of the Paper has been driven by provisions of the NEL and as such has not been completely within the control of the AEMC. Nevertheless, Ergon Energy notes that the MCE is undertaking parallel processes addressing similar issues with respect to regulation of the energy sector and Ergon Energy has concerns that the AEMC process could potentially result in regulatory changes for electricity transmission that are incompatible with eventual MCE recommendations.

In preparing this response to the Paper and the AEMC’s previous Revenue Requirements Issues Paper, Ergon Energy has attempted to establish a consistent theme, namely, that the Rules should not seek to impose unnecessary prescription but rather should establish high level principles and provide the AER with discretion in undertaking its task. Further, an incentive based propose/respond model should be adopted whereby network service providers are able to submit a preferred approach consistent with the Rules and reflecting their individual commercial and operating issues. This model should include stronger incentives whereby network service providers are given property rights to a greater percentage (at least 50%) of the benefits accruing from efficiency improvements attributable to their actions. The AER should only be able to reject the proposal where it is inconsistent with the Rules or where parameter values are outside a reasonable range. The ability of the AER to reject network service providers’ proposals means that it is essential that network service providers have access to merits review.

This submission follows the structure of the Paper and reproduces and responds to those questions that Ergon Energy has a specific view on. These are detailed below.
should also have regard to the distinguish of the 

5. Chapter 3 - Context and Objectives for the Review

4. Section 3 - Context and Objectives for the Review

3. What role, if any, should the AER have in determining the nature and form of price

2. If regulation is required, what form should this take? For example, should it be less

1. Should transmission prices be regulated and why?


Resolution/Regulation Provisions.

Negotiation framework would clearly need to be supported by appropriately discipline regulatory requirements within the rules, rather than the basis of higher consumer prices. The point by which services within the tariffs remain on the basis of higher consumer prices. The

Ergo: Energy believes that where possible system changes should be subject of negotiation guided

TNSP or should they be prespecified in the Rules?

Should generator and MSN use of system changes remain a matter for negotiation with the

below.

charge to users a particular connection point is subject of the pricing structure in the

recorded as a single charge against each connection point. The subsequent allocation of this

charge is subject to the forward looking structure associated with transmission and distribution infrastructure. An such, Energy

Energy's position is that in general, the revenue burden arising from participant connection points can be shared across the network, subject to the specific terms of service and the structure of the network. However, in particular circumstances, such as the situation of a single node connected to the network, the costs of the network assets used by that node may be directly attributed to that node.

In general, Energy Energy believes that it is appropriate to allocate a category of costs relating to

costs and therefore such categories could be combined.

The initial question is whether the cost drivers for common costs are the same as any other

in understanding long term growth and increased economic welfare.

other changes?

another charge? If not, how should common service costs be allocated or incorporated into

should a common service charge be maintained or should these costs be incorporated into

Chapter 4 - Current Transmission Pricing Regime

requirement for real time be given to distributed impacts.

Ergo: Energy's experience as a DTP is that the cost allocation between common and shared

the rules broadly applicable? If not, how could it be improved?

is the allocation of network costs between the connection and shared network categories in

Time.

that there should be no negative impact on the network service providers revenue recovery over

constraints should be symmetrical. That is, should apply to both price increases and decreases and
is appropriate to provide scope for those discounting in the rules?

Providing appropriate arrangements consistent with applicable overarching principles of the methodologies within the rules is essential provided doing so does not prejudice the NSP’s service offerings within the rules. That is, ensuring Energy pricing models are consistent with level playing fields based on economic principles. Where multiple proposals are consistent with level playing fields based on economic proposals, the AER’s discretion to accept alternative cost allocation proposals from network service providers is crucial.

Energy considerations are the critical issue; to ensure the rules are sufficiently flexible to cater for the methodologies in the rules sufficiently detailed and clear, ‘if not, how could they be changed?’. If the CRNP and/or modified CRNP methodologies were to be retained and the descriptions of transmission and distribution infestations (underground). If the subject of the ongoing procedure discussed below is considered to be a single change agreement an actual change agreement, the changes would be allocated by the common service charge for a NSP across the forecast energy charges would be allocated by the common service basis for allocating common service revenue.

AS such, Energy delivers that a more appropriate basis for allocating common service revenue through and distribution infestations (underground) in O&M costs, where there is a combination of rapid growth and required connection points and the modification of actual change agreements are potential changes in the board meeting of actual change agreements. Energy acknowledges the significant challenges in the past and seeks further changes to the common service basis. The standard CRNP approach for the modification CRNP approach for the purpose of this allocation of all costs. As noted in the paper, the model CRNP approach for the purpose of this allocation of all costs.

How well do the CRNP and modified CRNP methodologies accord with different pricing models? Could similar approaches be applied to produce similar outcomes?

Possible development proposals aimed at delivering those services in the most efficient manner. Energy considers that any network service providers should be able to propose an approach for the purpose of this allocation of all costs. As noted in the paper, the model CRNP approach for the purpose of this allocation of all costs.

Should any network customer (other than just the NSP) be able to request that the model CRNP be implemented?

Energy believes that it is essential to continue to allow a model CRNP approach given the

If a modified CRNP usage charge is to remain an option:

- Should any network customer (other than just the NSP) be able to request that the model CRNP be implemented?

- Should any network customer (other than just the NSP) be able to request that the model CRNP be implemented?
service provider revenue risk.

network service provider revenue risk.

network service provider revenue risk.

network service provider revenue risk.

the violation of DSM network regulations.

Do these transmission costs or other non-billable issues depend upon the rules on generators connected to the transmission network? DSM.

16. Should these fees also apply to generators connected to the transmission network? DSM.

15. Do the current pricing arrangements for transmission or grid transmission apply to generators? DSM.

14. Could the existing arrangements be retained and how?

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Improvements on long run efficiency but should also give appropriate pricing signals to producers and retain the proper balanc between NEM and well regulated markets. Further, the retail market should not loose flexibility. The current is a key factor in maintaining the long run potential of the NEM and should be retained.

Earnings Energy encourages the dominant regulatory principle to promote efficiency in the energy sector.
Chapter 7

Allocation of Regulated Revenue Across Transmission Users

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should NEM connection charges continue to be based on a shallow connection approach or

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should NEM connection charges be based on a deep connection approach?

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If a deep connection approach is broadly to be maintained, are there any circumstances

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where connection charges should be based on deep or downstream upgrades to the shared

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network?

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Do signals from the regional planning structure of the NEM, non-NEM generator access and

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transmission investment arrangements provide different locational and operational signals?

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to generators, loads and competing sources of energy supply?

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If so, where appropriate should the share of regional network costs be determined by

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assessing the key network and costs and to being the optimal proportion of shared costs that

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should be borne by generators.

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Are there arrangements operating in other jurisdictions for the recovery of shared network

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costs that would be more appropriate for the NEM? If so, which jurisdictions and which

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aspects of their arrangements would be applicable for the NEM?

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Alternatively, if not, what improvements could be made?

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should be borne by generators.

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Are these arrangements operating in other jurisdictions for the recovery of shared network

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costs that would be more appropriate for the NEM? If so, which jurisdictions and which

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aspects of their arrangements would be applicable for the NEM?
33. Should avoided TNSPs be required in the rules of last resort for the Management of Interconnection? Should the provisions for reconnection of interconnection between the NEM and the DNIP and connected parties?

32. Should any conditions for recovering the cost of disconnection from other customers be prescribed in the rules or act to the AER to determine if so, what should be the general principles that apply?

31. Important if TNSPs continue to be regulated under revenue caps. How much discount should TNSPs have to discount charges if properly introduced.

30. Effectively and efficiently introduced.
Chapter 8 - Structure of prices

35. If TOUS Electric refers to the charges, what changes should they comprise?

36. To what extent is it necessary or worthwhile to prescribe transmission pricing structures in order to promote the NEM objective?

37. Would it be appropriate to provide guidance to TOUS on what pricing should achieve, based on the degree of pricing structure prescription vary depending on the relevant class of network user paying the charges? If so, how could this be implemented?

38. Should the queues of pre-existing service connected to the NER be given significant discretion over the shape of the charging structure?

39. How much discretion should be given to the TNSP and the NER over the shape of the charging structure?
Chapter 10 - Inter-Regional Issues

Establishing regulatory regimes for inter-regional TNSP services

42. Should the negotiation of inter-regional payments be between TNSPs rather than

43. Improvements could be made?

44. Should the current dispute resolution processes be appropriate?

45. Are the current dispute resolution processes appropriate?

46. What are the improvements, if any, to reaching inter-regional agreements?

47. What criteria provide criteria for determining the extent of use of a network?

48. Would it be appropriate to extend the expiry date of inter-regional TNSPs, from 1 July 2006 to 31 December 2006?

49. Would it be appropriate to extend the expiry date of clause 3.6.9(iii) from 1 July 2006 to 31 December 2006? Is there a need for greater clarity in the rules on the treatment of the negotiated charge paid for TNSPs?

50. Do the current arrangements provide TNSPs with adequate incentives to

51. Should the negotiation of inter-regional payments be between TNSPs rather than
City East Old 4002
P O Box 16216
Department of Energy
Deputy Director General
CC: Mr Alan Miller

Manager Regulation Networks
Tony Pfeiffer

[Signature]

Yours faithfully,
Tony Pfeiffer (07 3228 7111),

If you have any questions on this and related matters, please contact our Manager Regulation Networks.

A comprehensive review as modelled by the ACCC is a complex issue and Ergon Energy believes that it should be the subject of a more detailed consideration. This is likely to involve investments in market interconnections and regulated retail markets. However, the potential for greater competition in the national electricity market, Ergon Energy considers that there are significant questions that need to be addressed. For example, with the interaction between regulated and retail markets, the need for an effective and fair framework. Should the provisions of clause 3.6.5 be replaced by a modelled approach to thus address these issues?

Agreement is in place.

Should incentives/premia be in place in the rules to ensure that an inter-regional