



**Hydro Tasmania**  
*the renewable energy business*

20 March 2006

Australian Energy Market Commission  
PO Box H166  
Australia Square NSW 1215

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

**Transmission Revenue: Rule Proposal Report**

Dear Sir,

Hydro Tasmania would like to thank the AEMC for the opportunity to assist the Commission in its review of the National Electricity Rules, (NER) in relation to electricity transmission revenue. Our submission is attached to this letter.

If you require any further information, please contact Greg Jones (telephone 03-62305485).

Yours sincerely,

David Bowker  
Manager Regulatory Affairs

# Transmission Revenue: Rule Proposal Report

## Hydro Tasmania Submission

### **1 Overview**

Hydro Tasmania submits that:

- The definition of prescribed and negotiated services should be reviewed to ensure that it adequately deals with existing regulated connection assets;
- The AEMC should produce cost allocation guidelines as a Schedule to the Rules, and the AER should developed a detailed cost allocation methodology to improve the consistency between different transmission network service providers;
- Grandfathering of historic arrangements should be envisaged, and if necessary should be available when the Pricing rule proposals are brought forwards; and
- While a pricing matter, a shallow approach to connection assets should be adopted.

The AEMC and participants may have to revisit some revenue matters if they prove to have unexpected implications for the Pricing Rules Proposal. These matters are amplified further in the rest of this submission.

### **2 Introduction**

Hydro Tasmania appreciates the opportunity to contribute to this consultation process. In particular, Hydro Tasmania endorses the Australian Energy Market Commission's (AEMC) open-minded approach to these matters.

This submission sets out Hydro Tasmania's commentary on the Rule Proposal in respect of revenue matters. However, it is difficult to provide definitive position statements when the issues interact so closely with pricing matters. Nonetheless, it is in pricing that the substantive effects on generators occur. Consequently, some comments here foreshadow matters that we are sure will be discussed further in any Pricing Rules Proposal.

Aside from anything else, revenue and pricing matters have been the subject of considerable confusion in the market. The AEMC is encouraged to ensure that the eventual Rules implement its policy intentions and provide clarity, certainty and transparency to the market. Given the complexity of the matters addressed and the need for drafting clarity, there would be value in a further round of consultation.

### **3 Definition of services**

The AEMC's objective of a clear and service based definition of transmission services (rather than asset based) is worthwhile, and should be pursued. An improved service-based definition would also help remove the circularities and difficulties in the current definitions.

However, this must be tempered with realism. As the Rule Proposal report implicitly acknowledges, connection services are largely provided by assets that are user-specific, costly and long-lived. These factors cannot be ignored as a clearer service definition is sought.

The treatment of historic connection assets already in the RAB will require care, as the definitions in draft rules do not, on our reading, address these matters coherently. There will be ongoing provision of connection services that are prescribed services, and this should be

reflected in the definition. We acknowledge that this should largely be addressed in the Pricing Rules Proposal.

Hydro Tasmania recommends that the working group consults fully on these definitions.

#### **4 Cost allocation methodology**

As the AEMC suggests, the cost allocation methodology should be more prescriptive, and provide more explicit guidance to Transmission Network Service Providers (TNSPs) and users.

Hydro Tasmania further agrees that the Australian Energy Regulator (AER) should take a more active role in “policing” this area than the ACCC traditionally did. The identification of prescribed, negotiated and contestable services has been subject to confusion and differing practices – across TNSPs and across time. The underlying issue is not particularly whether TNSPs double-dip or cross-subsidise their contestable services, but whether there are subsidies from one customer to another. Ambiguous drafting also leads to inefficient operation of participants.

However, the Rules Proposal implies a lengthy period before there will be further clarity:

- AEMC Rules determined with principles;
- AER publish their guidelines; and
- TNSPs publish their methodology.

It would be more effective if the AEMC provided more detail in Schedules to the Rules, and the AER subsequently published a detailed methodology. Both processes would, of course, draw on detailed industry support, expecting that the interpretation of cost attribution and allocation will be contentious. The TNSPs would then apply the methodology.

This would provide additional transparency and consistency. In these fundamental allocations, TNSP discretion should be limited as far as possible, if only to improve regulatory consistency between jurisdictions.

This also offers the potential to provide improved stability to transmission customers, as any changes would be subject to a regulatory consultation.

The AEMC should also provide more clarity on the boundary between negotiated services and contestable services. In fact, if this is not already the AEMC’s intention, the working group could usefully consider this matter. This has been an area of particular confusion and, again, is too important to be left to the discretion of the TNSPs. The definition of contestable in the draft rule is insufficient. The definition should allow the AER discretion to consider whether genuine competition for these services exists, rather than a simple test of the jurisdiction’s legislative position. This competition test could include that:

- Anti-competitive practices are prevented, ensuring TNSPs cannot unduly favour their contestable offerings;
- Customers are aware of a range of competitive offers from suppliers; and
- Evidence of new undertakings entering and challenging the market.

#### **5 Grandfathering**

In an industry where costly and long-lived investments are commonplace, grandfathering allows regulatory change without undermining investor confidence. The grandfathering principles adopted here should be reflected later in the Pricing Rule Proposal.

As above, Hydro Tasmania acknowledges that there many diverse approaches to these matters, for largely historic reasons.

In the Pricing Rule Proposals, it would be helpful to clarify that not only will assets not move from Prescribed Services to Negotiated Services, but that those assets will not be able to switch from TUsS to Connection within the RAB. The alternative would be to undermine the intent of the restriction in its practical effect. This will depend, of course, on the eventual definitions of entry, exit and Transmission Use of System services.

## **6     *Shallow connection***

The Revenue Paper foreshadows discussion on shallow and deep connection policies. Hydro Tasmania recognises that this matter will be dealt with in the Pricing Rule Proposal Paper. Nonetheless, this pricing matter interacts with definitions of negotiated and prescribed services for revenue purposes.

Aside from any commercial impact on Hydro Tasmania, a shallow approach is preferred on the following economic grounds. For new facilities, a shallow approach:

- Is much clearer from a definitional perspective, and removes investor uncertainty and information costs as they consider options.
- Removes barriers to entry, and so stimulates investment. The UK has adopted a very shallow approach to connection on these grounds.
- Removes the risks of assets changing category later, again removing investor uncertainty.

The approach for existing facilities should be aligned with new facilities to ensure that new generation is not given a windfall advantage.

Whatever approach is taken, it must be set out clearly (and in some detail – lines, establishment costs, switchgear and so on) in Schedules to the Rules. Hydro Tasmania would echo the AEMC's previous conclusion that the existing provisions are somewhat unclear.

The AEMC and participants may have to revisit some revenue matters if they prove to have unexpected implications for the Pricing Rules Proposal.