

18 September 2007

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Dr Tamblyn

National Transmission Planner Scoping Paper

EnergyAustralia welcomes the opportunity to respond to the Commission's Scoping Paper on the National Transmission Planner.

EnergyAustralia strongly supports the need for a national transmission planning function. The responsibilities envisaged for a national transmission planning role are the subject of the review but it is our view that it ought to be limited to those that impact national energy flows and dispatch in the wholesale market. All of EnergyAustralia's transmission assets and many of the transmission assets owned by other TNSPs do not fall within this category. Their principal function is to provide reliable supply to customers.

In this context, I have responded to each of the issues for consultation raised in your scoping paper.

- **The approach to assessing the enhanced arrangements for network planning and the basis for identifying and selecting between options for implementation of those enhanced arrangements.**

EnergyAustralia submits that the approach for assessing arrangements should have a strong bias against over-regulation and a bias towards taking this opportunity to streamline the regulatory process and remove barriers to investment in transmission. There is potential for the options for implementation to create overlapping processes, roles and responsibilities. The review should consider the roles and responsibilities of the stakeholders under each of the options and have a clear preference for removing overlapping roles and creating clear incentives for investment.

The options are likely to present a real potential for overlap of governance arrangements in respect of network planning. The bias for selection of options should have a preference for removing overlap. EnergyAustralia has previously raised this concern with the AER and its overlapping role in respect of the regulatory test.

There is a strong risk that the new information and reporting arrangements could result in a complicated highly iterative structure between DNSP's, TNSP's the AER and the National Transmission Planner. This would have a flow-on effect on the cost of regulation and poor accountability for service outcomes.

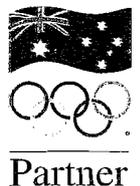


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- **Views on the appropriate governance, consultation and communication arrangements for the new national transmission planner and whether the principles for identifying the national transmission system have been resolved and correctly applied or whether there is further work to be done to identify the appropriate area of focus.**

As noted above the principles have not been resolved and more work is needed. EnergyAustralia believes that the first stage assessment framework referred to on Page 4 of the Scoping Paper is applicable to interconnections and potential interconnections between market regions for which the market effect of their availability is significant. The first stage assessment framework would not, in EnergyAustralia's view, add any value for the balance of transmission networks which supply electricity to major loads and distribution networks. The market effect of these assets is low, the principle function being to provide reliable supplies to consumers. While these assets carry energy between generators and consumers, and are inside the transmission boundary of the existing NEM, they are not in EnergyAustralia's view the subject of this review or the national planning function, and more akin to distribution networks.

- **The appropriate scope of the review in respect to planning arrangements within jurisdictions and their interaction with national planning arrangements.**

Further to the point above, EnergyAustralia believes that the scope of the review ought not to include planning arrangements between EnergyAustralia and TransGrid. The review ought to be restricted to those bodies and assets rightly described as the national power system and which have affect on the role and nature of locational signals to generators and efficient dispatch of generators in the national wholesale market.

- **Comments on the appropriate institutional arrangements for the last resort planning power and the implication for the functions of the national transmission planner.**

EnergyAustralia agrees that the new planning arrangements will replace the IRPC and that successful implementation of the national planning function ought to remove the need for last resort planning power as it is currently applied.

- **How best to ensure effective interaction between TNSP's and the national transmission planner.**

We strongly agree with the Commission's view that "it is desirable that [the national planning function] be coordinated with that undertaken by the TNSP's, however it would add no value if it simply replicated or duplicated their work" (reference Scoping Paper – Page 11). EnergyAustralia notes that the asset owners ought to be responsible for both planning and operation of their assets. While the case is made for an independent authority to assess potential for transmission services between jurisdictions and/or regions and to provide interconnection between generators in the market, there is no justification for an additional layer of authority for investment and provision of services. While the purpose of the new function is to create the right environment for investment and national flow parts, EnergyAustralia submits that it is of the utmost importance that accountability for transmission investment, operation and performance remains with TNSP's within the current regulatory framework without additional overlap or regulatory barriers.

- **Views on the costs and benefits which should be considered within the review of the options to align the re-sets of TNSP's revenue.**

Consistent with the point above, EnergyAustralia can, at this point, see no driver for conducting all TNSP's reviews simultaneously. The implication of this section is that the revenue re-set of a TNSP depends upon decisions of the national planner. As noted above, EnergyAustralia does not think that authority for investment rests with decisions by the new national planning body.

- **Views on whether simultaneous revenue re-sets would assist the AER in forming views on efficient investment requirements from a national perspective.**

EnergyAustralia reiterates that there is considerable risk in this review of creating additional regulatory overlap as demonstrated by this point. EnergyAustralia submits that the TNSP is accountable for transmission investments and therefore adding a more complex layer and particularly a very complex relationship between the AER and the national transmission planner would be an error with significant consequences for investment in transmission assets.

- **Amalgamating reliability and market benefits in the Regulatory Test and broadening the definition of market benefits.**

By introduction, EnergyAustralia notes that the Regulatory Test applies to distribution investments as well as transmission investments. Any changes arising from this scope ought not apply to distribution assets and care should be taken to avoid application to those transmission assets not affecting national energy flows or distribution assets. EnergyAustralia submits that it is not appropriate to apply the market benefits test to these asset classes. The distribution framework is being developed and any Regulatory Test development should occur within those reviews.

EnergyAustralia also submits, however, that the national planning function ought to take responsibility for certain market benefits of energy flows along interconnections and potential interconnections between market regions. This should yield improvements to the assessment of national flow paths and remove the barrier to investment for these type of transmission assets that exists under the current regulatory framework. Given that the national planning function would undertake that part of the test, it then appears the current Regulatory Test will need to be amended. We are not advocating movement away from proper assessment of investment by the economic regulator however we would advocate taking this opportunity to streamline the process and remove complexity in a new Regulatory Test. Furthermore, the recent adoption of ex-ante regulation of networks has already created powerful financial incentives which should be mirrored by relaxation of regulatory oversight and removal of some of the steps.

Please feel free to contact me at any time in regard to any of the matters raised in this response.

Yours sincerely



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