INFORMATION

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Inter-regional Transmission Charging:

AEMC issues final rule and determination

This determination and supporting rule introduces an inter-regional transmission charge to be levied between transmission businesses in neighbouring regions. The new arrangements will better reflect the benefits transmission provides in supporting energy flows between regions.

The introduction of an inter-regional charge will not affect the total revenues earned by each transmission business; only how those revenues are recovered from consumers across the National Electricity Market.[1]

Modelling commissioned by the AEMC shows inter-regional charges formed only a relatively small component of overall revenues earned by transmission businesses. For the period modelled (2009-2012) the net charge paid or received by a region ranged from approximately 1 per cent to 6 per cent of allowable revenues (on average over the three years).

Nationally, transmission charges equate to about 8 per cent of the prices paid by a typical residential consumer. The Commission anticipates that the average residential consumer's bill is likely to increase or decrease by less than 1 per cent as a result of the introduction of the inter-regional charge.

Current transmission charging arrangements

Before this rule consumers in the National Electricity Market only paid charges relating to transmission assets in their own regions. Existing transmission charging arrangements therefore do not recognise the benefits transmission provides in conveying electricity across region boundaries.

New transmission charging arrangements

On 28 February 2013, the AEMC published the final determination and final rule that implements a new inter-regional transmission charge for consumers.

The inter-regional transmission charge will be levied between transmission businesses in neighbouring regions. Transmission businesses will recover this charge from individual consumers through the locational component of their regulated (prescribed) Transmission Use of System (TUOS) services. The modified load export charge applying to each transmission business will be determined on a net basis, reflecting that all regions import and export electricity.

Final rule

The final rule implements the new arrangements and sets out the manner in which transmission businesses must amend their pricing methodologies (and the AER its pricing guidelines), in order to incorporate the inter-regional transmission charge.

The Commission considers that introducing an inter-regional transmission charge will provide the following benefits to the National Electricity Market:

- Transmission businesses will have stronger incentives to pursue transmission investments for which the costs fall predominantly in their own

[1] A transmission business may recover less from their own consumers under the new arrangements, but more from consumers in a neighbouring region

regions but the benefits fall in neighbouring regions. This is because they can recover some of the costs of the investment from consumers in the neighbouring region.

- Prices consumers face for transmission services will be more reflective of the actual costs incurred in providing those services.
- Credibility of, and confidence in, regulatory arrangements is improved as the costs of transmission capacity used for conveying electricity between regions is allocated to the regions that derive benefits from such capacity.

This final rule would result in transmission charges that better reflect the location of the beneficiary of use of the transmission network.

Commission's decision to make a more preferable rule

The Commission examined a range of interregional charging options since the rule change request put forward by the MCE.[2]

Having regard to the issues raised by the rule change request, the Commission has made a preferable rule which it considers better contributes to the National Electricity Objective because it:

- provides more efficient price signals;
- is calculated and applied in a more consistent way;
- provides for greater transparency and regulatory stability; and
- is more proportionate with respect to consumer impacts.

Commencement

The commencement date for the interregional transmission charging arrangements is 1 July 2015. This would require the first publication of the modified load export charge by 15 March 2015. The Australian Energy Regulator is required to amend its pricing methodology guideline by 30 September 2014, with transmission network service providers to amend their price methodologies to be consistent with the guideline no later than the 27 February 2015.

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[2] In 2011 the Standing Council on Energy and Resources (SCER) formally assumed Ministerial Council on Energy (MCE) functions as the national policy and governance body for the Australian energy market.