

Electricity Transmission Network Owners

**AEMC Review of Electricity
Transmission Revenue and
Pricing Rules**

**Response to Initial Consultation
Scoping Paper**

August 2005

ElectraNet ♦ *Powerlink* ♦ *SP AusNet* ♦ *Transend* ♦ *TransGrid*

1. INTRODUCTION

This submission is made on behalf of electricity transmission network owners ElectraNet Pty Limited, Powerlink Queensland, SP AusNet, Transend Networks Pty Ltd and TransGrid (the "TNOs").

The first priority for TNOs in relation to the Australian Energy Market Commission (AEMC) review is ensuring regulatory certainty and stability for both investors and users of the transmission networks. In particular, TNOs believe that this can best be achieved by not re-opening the *Statement of Regulatory Principles* (SRP) and its supporting regulatory framework.

2. REVIEW CONTEXT AND OBJECTIVES

The TNOs note that the ACCC's SRP was developed following extensive consultation with industry, user groups and other interested parties over an extended period. The SRP has only recently been finalised. TNOs are of the view that preserving the key elements of the SRP and its framework would not only promote certainty and stability for investors and users alike, but is also consistent with the Market Objective set out in the National Electricity Law (NEL), in that removal of impediments to efficient transmission investment ensures the long term delivery of safe, reliable, low cost electricity to consumers.

The TNOs understand that the statutory requirement for the Review was driven by the policy objective to separate Rule making (AEMC) from Rule enforcement (AER) in order to achieve appropriate National Electricity Market governance arrangements as they relate to transmission revenue regulation.

Consideration of the above factors requires that the scope of the Review be limited to ensuring that the recently finalised regulatory framework is clearly reflected in the National Electricity Rules.

3. REVIEW PROCESS

The AEMC Scoping Paper considers both revenue regulation matters and transmission pricing. It is understood that the AEMC is consulting with the Ministerial Council on Energy on the merits of adopting a two-staged approach to the Review that considers the rules for price regulation on a different timetable to the rules for revenue regulation.

It is essential that making Rules for transmission revenue regulation be completed quickly to avoid the creation of regulatory uncertainty which would impair investment (in that context, there are discretionary investments in interconnector upgrades which could be delayed). This should be achieved by limiting the extent of the Review as described above while adopting a working presumption that other elements of the Rules are effective in fulfilling their function for the purposes of the Review.

For the same reason, the TNOs support the Review being run in two stages:

- Stage 1 - an expedited review to make Rules for revenue regulation, and in the process of preserving the key elements of the SRP and its framework, removing any inconsistencies and ambiguities in the present Rules; and

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- Stage 2 - to review transmission pricing.

In regard to transmission pricing, it should be noted that a number of the complex matters raised for consideration in the AEMC Scoping Paper could not be resolved by NECA in over four years. Policy guidance may be required to assist in resolving a number of these matters.

4. TRANSMISSION REVENUE REGULATION

TNOs are concerned that while the AEMC Scoping Paper may have been intended as a broad canvassing of issues, the paper indicates the potential for re-opening of all the main elements of the ACCC's SRP, which was finalised as recently as December 2004. The SRP was developed over an extensive 16-month consultation period (or some five years after the release of the *Draft Statement of Regulatory Principles* in 1999).

The focus of the Review should, therefore, be to ensure that the current framework is reflected in the Rules so that investors can rely upon it.

To achieve the objectives set out above, the review should focus on the following issues:

- establishing meaningful high level objectives and criteria within the Rules to guide revenue cap decisions;
- ensuring that the SRP framework is reflected in the Rules at an appropriate level of detail;
- ensuring that businesses have appropriate incentives and sufficient certainty to undertake long term efficient investment decisions;
- improving the revenue setting process by establishing in the Rules clear rights and responsibilities for both regulated transmission entities and the AER;
- clarifying within the Rules the scope of services to be regulated by the AER;
- establishing in the Rules the extent of, and criteria for, the exercise of regulatory discretion by the AER; and
- providing certainty that commitments under existing revenue cap decisions are adhered to.

In establishing the SRP regulatory framework in the Rules, the review should provide greater certainty in relation to:

- the basic model for deriving revenue caps, namely by adopting formally the building block approach;
- asset base valuation;
- the incentive framework applying to capital and operating expenditure;
- service incentive mechanisms;

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- achieving long term stability in WACC parameters; and
- pass through arrangements and provisions governing the re-opening of a revenue cap.

Other matters contemplated in the Scoping Paper should be taken as given in the context of this review.

5. TRANSMISSION PRICING REGULATION

The limited legislative timeframe for the review suggests that a wide-ranging review of pricing regulation is not intended. TNOs support limiting the scope of the review of transmission pricing regulation to improving and clarifying the current pricing regime.

TNOs consider that there is an appropriate level of coverage and prescription regarding transmission pricing in the Rules.

Should a wide-ranging transmission pricing review be contemplated, then it should be carried out after the Rules for revenue regulation have been settled.

6. SUMMARY

TNOs consider that the AEMC should incorporate the key elements of the framework set out in the SRP clearly within the Rules. This limited scope will allow the AEMC to meet its legislative timeframe for completion of the Review, whilst promoting investment certainty.

TNOs also consider that any review of transmission pricing arrangements should be considered after the new Rules for electricity transmission revenues have been developed.