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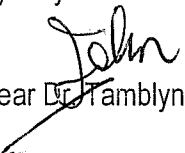
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George Maltabarow
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Dear Dr. Tamblyn

Rule Change Proposal: Variation of Date of Publication of Transmission Network Prices

Following on from issues which have arisen in the past associated with the annual approval of distribution network prices in NSW by the Independent Pricing and Regulatory Tribunal (IPART), EnergyAustralia is proposing that the National Electricity Rules (NER) be changed to improve the distribution price approval process. This proposal would very significantly streamline the annual price approval for the majority of distribution businesses and for the Australian Energy Regulator (AER). It would also provide significantly improved signalling of transmission prices to customers.

This letter constitutes a request for a Rule change under section 91(1) of the National Electricity Law (NEL). The following information is provided in support of the proposed Rule change and meets the requirements of section 92 of the NEL.

Person making the request

This Rule change is requested by EnergyAustralia's network business of 570 George Street, SYDNEY. EnergyAustralia is a NSW Statutory State Owned Corporation established under the Energy Services Corporation Act 1996 (NSW), ABN 67505337385. EnergyAustralia is registered in the National Electricity Market as both a TNSP and a DNSP.

Description of the proposed Rule

This proposed Rule change seeks to alter the date on which transmission prices are required to be published by TNSPs.

Section 6A.24.2 of the NER requires that TNSPs must publish prices for each of the categories of prescribed transmission services to apply for the following financial year, by 15 May each year. EnergyAustralia is proposing that this Rule be changed, to require TNSPs to publish prices by 15 March each year.

The purpose of the proposed Rule change is to permit transmission prices to be properly incorporated into distribution prices to apply in the following financial year and significantly streamline the price approval process for both the regulator and the DNSPs.

Statement of Issue concerning the existing Rule and proposed solution

Transmission Use of System (TUoS) charges form a component of each DNSP's prices. The majority of DNSPs in the NEM prepare and establish their Network Use of System (NUoS) prices on a financial year basis¹. For those DNSPs, transmission prices published on 15 May cannot be satisfactorily factored into distribution prices.

During the current regulatory control period (2004-2009) EnergyAustralia has submitted its pricing in accordance with a timetable set by IPART in its "NSW Electricity Distribution Pricing 2004/5 to 2008/9 Determination No 2, 2004". The timetable is set out in Annexure 15 to the determination and is Attachment 1 to this rule change request. A similar timetable has been now been incorporated into Chapter 6 of the National Electricity Rules including the transitional Rules that apply to NSW and the ACT for the 2009-2014 period set out in Appendix 1 to the Rules.

Clause 6.18.2(a) of the Rules (and clause 6.18.2(a) of the transitional rules) provides that a DNSP must:

- (1) submit to the AER, as soon as practicable, and in any case within 15 business days, after publication of the distribution determination, a *pricing proposal* (the "initial *pricing proposal*") for the first *regulatory year* of the *regulatory control period*; and
- (2) submit to the AER, at least 2 months before the commencement of the second and each subsequent *regulatory year* of the *regulatory control period*, a further *pricing proposal* (an "annual *pricing proposal*") for the relevant *regulatory year*.

The timetable for submission of the pricing proposal for the first year of a regulatory control period is therefore different from the timing of pricing proposal submissions for the remaining years of the regulatory control period.

Clause 6.11.2(2) of the Rules (and Clause 6.11.2(2) of the transitional rules) provide that the AER must publish a distribution determination for a regulatory control period as soon as practicable, but not later than 2 months before the commencement of that regulatory control period (ie. by 1 May).

By way of example, for the 2009 – 2014 regulatory control period, unless the AER makes its distribution determination before 1 May 2009, the DNSP's initial pricing proposal for the 2009/10 financial year will be required to be submitted by mid-May 2009. For the remaining years of the regulatory control period, the annual pricing proposal for each regulatory year is required to be submitted by 1 May. With the possible exception of the first year in a regulatory control period (in which case, the DNSP may be notified of transmission prices for the year (t) only marginally before it is required to submit its pricing proposal), for each regulatory year, the timing for submission of distribution pricing proposals for year (t) is in advance of the DNSP being notified of transmission prices for the year (t). This means that the DNSP is unable to incorporate the relevant transmission prices in the DNSP's pricing proposal for that year.

As a consequence, the DNSP must rely on the previous year's (t-1) transmission prices, updated by scaling to meet any estimate either the DNSP can make (or the TNSP is prepared to provide) on matters such as the TNSP's revenue entitlement, its unders/overs position, and settlement surplus outcomes.

When a TNSP recalculates its prices, including the cost allocation and demand signalling at specific locations, for year (t), it uses the most recent full year of data, which is the system configuration and loading patterns of year (t-2).

¹ Of the 14 electricity distribution businesses in the National Electricity Market, all except the 5 Victorian businesses, which set prices each calendar year, set prices each financial year.

In the event that the TNSP publishes prices on 15 May, which materially differ from earlier estimates, the DNSP has two choices:

- it can accept that a material over or under recovery of TUoS will occur in the following year, with financial impacts on the business; or
- it can request the regulator to allow it to resubmit its prices. This allows only a very limited period for the DNSP to recalculate and submit compliant prices and for the regulator to assess and approve them.

A casualty of this sequence of events is the price signals which are passed on by the TNSP to the DNSP, which are intended to influence customers' consumption patterns. Even if the DNSP resubmits its prices, the cost allocation at specific locations is, of necessity, simply scaled to match the required transmission revenue to be recovered. The transmission price signals (ie. the demand related component of the charges) included in the distribution prices of year (t) are those that were calculated from the operating configuration and loading patterns of the transmission network in year (t-3).

EnergyAustralia's proposed solution is to bring forward the timing of the date by which TNSPs must publish their transmission pricing, in order to allow those prices to be incorporated in the DNSP's pricing proposals for the upcoming financial year. The proposed Rule change addresses this by requiring transmission prices to be published by 15 March each year, instead of 15 May each year.

How this proposed Rule change contributes to the National Electricity Objective

The national electricity objective is stated in section 7 of the NEL, as being:

“to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity;
- (b) the reliability, safety and security of the national electricity system.”

EnergyAustralia considers that the proposed Rule change would contribute to the national electricity objective by:

- streamlining the price approval process and minimising the administrative burden for both the DNSP and Regulator, which will contribute to the efficient operation of electricity services; and
- improving the communication of transmission price signals, particularly to large customers for whom price signals may be expected to influence consumption patterns, is in the long term interests of those customer and market participants in general, by reducing overall the costs of supply and encouraging efficient investment on both the supply and demand side.

Benefits, costs and the potential impacts of the proposed change on those likely to be affected

The benefits including cost savings of this Rule change proposal are not readily quantifiable but will nonetheless be significant. The existing timing of the transmission price publication has led to significant administrative costs being incurred each year, both by DNSPs and the distribution regulator.

In 2008, successive estimates of the transmission price change forced EnergyAustralia to resubmit distribution prices to IPART (together with a request to vary the pricing side constraint by differing amounts) on three occasions. As this was the final year of the current determination period, recalculation of the price modelling for the 2009 regulatory proposal was also required on each occasion plus revision of the information required under the AER's Regulatory Information Notice.

The economic effect of improved price signalling, particularly to larger customers, of up-to-date and transmission prices is also hard to quantify. In general, large customers are strongly price sensitive and thus it is highly desirable for their distribution prices to fully reflect the transmission price signals.

In terms of costs, we have not identified any costs arising from the proposal. We have consulted with TransGrid informally as part of the development of this rule change and we are not aware of any additional costs to TNSPs in publishing prices two months earlier than currently required.

Other implications of the proposal for those likely to be affected are as follows:

- **TNSPs** would be obliged to finalise and publish their prices two months earlier than is presently the case. This would involve a one-off change, which would require prices to be calculated on the basis of CPI calculated from the January quarter result, rather than the March quarter (this is already the case with the NSW DNSPs). It would also require transmission prices to be based on second quarter settlement surplus outcomes, rather than the third quarter.

Once these one-off adjustments had been made, there would be no change to the current arrangements, save for the earlier date of price publication.

Section 6A.13.3 of the Rules requires the AER to make final TNSP determinations two months prior to the commencement of the regulatory control period (ie. by 1 April), prior to the first annual price change in each 5 year period. The proposed Rule change would not permit this first annual price change to be incorporated in the TNSP prices in the initial year of the regulatory control period. It is therefore proposed that TNSPs would set their prices for that initial year based upon the AER's draft determination and that this process would form part of the TNSP's pricing methodology approved by the AER in accordance with Part E of chapter 6A. Any differences in transmission pricing between the draft and final determinations would be reconciled through the overs and unders provisions in the Rules.

If TNSPs set prices earlier (without the availability of the most recent settlement reserve outcomes) there will be slightly greater uncertainty in their estimates of settlement reserve proceeds. Settlement proceeds are netted off the regulated revenues in setting transmission prices. There is potential that this uncertainty will flow through to greater TNSP unders-overs variations. However, this aspect is considered to be of secondary importance compared with the operational and market efficiency benefits of earlier publication of transmission pricing.

- **DNSPs** who charged prices on a financial year basis would receive finalised transmission prices in sufficient time to enable their impact to be adequately considered and incorporated into distribution prices at each annual price change.

There would be no risk that last minute changes to estimated transmission prices by the TNSP (after distribution prices had been submitted for regulatory approval) would lead to significant unders/overs outcomes, with financial consequences. There would be no need to rework distribution prices for late resubmission to the regulator, in the event that a material transmission price change would cause undesirable financial outcomes.

- **The Regulator** would benefit from having a streamlined, properly sequenced, price change and approval process. Transmission prices would be incorporated into the DNSPs initial submission of distribution prices. There would not be last minute requests from DNSPs to resubmit prices, to take into account unanticipated transmission price movements.
- **Customers** would benefit by having up-to-date transmission price signals incorporated in their distribution prices. This is of particular significance to larger customers with 10 MW demand or 40 GWh consumption, who normally have an individually calculated network price.

Customers would also benefit from reduced price variability, caused by greater unders/overs variation, where transmission prices are estimated by distributors from the prior year notification.

Non-Controversial Rule

EnergyAustralia requests that the AEMC treat this Rule change request as non-controversial.

Section 87 defines a non-controversial Rule as “a Rule that is unlikely to have significant effect on the national electricity market”.

Whilst the Rule change proposal implements an important improvement for the setting of DNSP prices, it is unlikely to have a significant effect on the national electricity market as it is defined under the NEL. The relevant definitions are set out in full below², but they effectively provide that there are three main elements of the national electricity market:

1. The wholesale market exchange operated and administered by NEMMCO;
2. The generating systems in the participating jurisdictions connected to the interconnected national electricity system; and
3. The interconnected transmission and distribution systems (the interconnected national electricity system).

To have a significant effect on the national electricity market, a rule change proposal would need firstly, to affect the market as a whole and secondly, that effect would need to be significant.

This proposal only affects one element of the national electricity market, being the “interconnected national electricity system” and that effect, whilst important for the efficient calculation and operation of DNSP pricing, could not be considered significant in terms of the market or its systems. The proposal will have no impact at all on the physical operation of these systems. The impact will be confined to improving the efficiency of calculation of pricing and the timely delivery of TNSP price signals to customers.

Proposed draft Rule

The following draft change to the Rules is proposed.

6A.24.2 Publication of pricing methodology and transmission network prices

A Transmission Network Service Provider must publish:

- (a) a current copy of its *pricing methodology* on its website; and
- (b) the prices for each of the *categories of prescribed transmission services* to apply for the following *financial year* by 15 ~~May~~ March each year for the purposes of determining *distribution service* prices.

² Relevant definitions are as follows:

The “national electricity market” is defined in section 2 of the NEL as:

- (a) the wholesale exchange operated and administered by NEMMCO under this Law and the rules; and
- (b) the national electricity system.

The “national electricity system” is defined in section 2 of the NEL as:

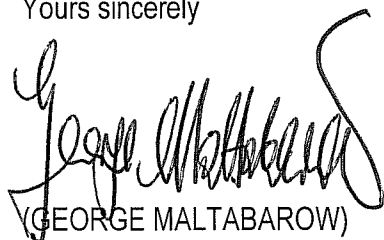
- (a) the generating systems and other facilities owned, control or operated in the participating jurisdictions connected to the interconnected national electricity system; and
- (b) the interconnected national electricity system.

The “interconnected national electricity system” is defined in section 2 of the NEL as “the interconnected transmission and distribution system in this jurisdiction and in other participating jurisdictions used to convey and control the conveyance of electricity to which are connected:

- (a) generating systems and other facilities; and
- (b) loads settled though the wholesale exchange operated and administered by NEMMCO under this Law and the Rules.

Please do not hesitate to contact Mr. Chris Amos on (02) 9269 2136 if any clarification of this matter is required.

Yours sincerely

A handwritten signature in black ink, appearing to read 'George Maltabarow', written in a cursive style.

(GEORGE MALTABAROW)
Managing Director

Attachment

Attachment – Timetable for Annual [distribution] Pricing proposals

From Independent Pricing and Regulatory Tribunal (IPART) Determination No. 2, 2004.

Annexure 15 Timetable for Annual Pricing Proposals

| Action | Due Date |
|---|---|
| 1. DNSPs to submit to the Tribunal (for the Year $t+1$): - Annual Pricing Proposals - Annual Prices Report | First Monday in April of the year t <i>(or date otherwise set by the Tribunal)</i> |
| 2 Tribunal to notify DNSPs whether satisfied/not-satisfied | 20 Working Days after first Monday in April of the year t <i>(or date otherwise set by the Tribunal)</i> |
| 3 Final date for DNSPs to submit an alternative Annual Pricing Proposal and/or Annual Prices Report to the Tribunal (for the Year $t+1$) | 23 Working Days after first Monday in April of the year t <i>(or date otherwise set by the Tribunal)</i> |
| 4 Final date for Tribunal to notify whether satisfied/not satisfied with alternative Annual Pricing Proposal and/or Annual Prices Report | 31 May of the year t |
| 5 Final date for DNSP to publish notice of prices and Compliant Annual Prices Report for the Year $t+1$ under clause 12.5 (e) (unless default pricing arrangements under clause 12.7 apply) | 5 Working Days after being notified by the Tribunal of its satisfaction about the matters in clause 12.5(c) |
| 6 Commencement of network price changes | 1 July of the Year $t+1$ |