

10 July 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
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submission

Dear Mr Pierce

Annual Network Pricing Arrangements Rule Change Request (ERC0149)

AEMO welcomes the opportunity to comment on the rule change request submitted by the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) which seeks, among other things, to bring forward the date of publication of transmission prices by two months from 15 May to 15 March each year.

AEMO has had the opportunity to review the Grid Australia submission and agrees with the majority of the concerns raised in that submission. While AEMO agrees with Grid Australia that there is value in allowing customers the best possible opportunity to respond to price levels and structures, AEMO is concerned that bringing forward the publication date of transmission prices will require more estimated data to be used and this will lead to more volatility in transmission pricing.

Bringing forward the publication date for the transmission use of system (TUoS) charges would require greater estimation of many inputs to the calculation of the TUoS prices and charges. In many cases the TNSPs cannot confirm these inputs until after April for the following reasons:

- The AER does not release the final Service Target Performance Incentive Scheme results for the year until April.
- The Australian Bureau of Statistics does not release the consumer price index data for the March quarter until late April.
- The settlement residue revenue needs to be estimated for the balance of the current year plus the following year. The earlier publication date would require the use of additional estimated data to that currently used.
- Under the new inter-regional transmission pricing requirements this component of costs would not be confirmed until 15 March.

Grid Australia stated that the new inter-regional transmission pricing requirements will drive the need to start the pricing process earlier than usual to ensure final inter-regional charges can be incorporated into each national electricity market (NEM) region's transmission prices. Further, if the timing of the transmission publication dates are not synchronised in all NEM regions this would create further volatility in transmission pricing. This would occur because a region with an earlier publication date would estimate the import charge of its adjacent region for inclusion into its transmission pricing.

AEMO acknowledges that the TUoS pricing methodology allows charges in the following year to be adjusted for the unders and overs caused by the use of estimated data. However, AEMO considers that it should be a priority to minimise annual variations to ensure businesses are exposed to less price volatility.

The Grid Australia's submission noted that the timing issue raised by IPART may be local to NSW, and therefore could be better addressed administratively in that jurisdiction. AEMO supports a local issue being addressed by a specific mechanism that does not impact on the other NEM region's practices. However, AEMO considers that Grid Australia's proposed approach is inconsistent with this principle. As noted in the comment above it is desirable to ensure the inter-regional pricing arrangements are aligned and the coordinating TNSPs for all regions need to work to the same timelines. Therefore, AEMO considers that IPART should consider administrative changes to their regulated retail pricing regime as an alternate.

As identified in the AEMC's Consultation Paper, the Victorian arrangements are unique and AEMO and SP AusNet are both currently required to publish new prices by 15 May each year. The Victorian regulatory period commences on 1 January and DNSPs are required to submit their prices by 1 November for the next year. Given this, these proposed changes do not provide any benefit to Victorian customers and are likely to increase volatility of charges and arguably will increase the costs to customers.

If you have any questions regarding this submission please do not hesitate to contact Rob Jackson on (03) 9609 8362.

Yours sincerely



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