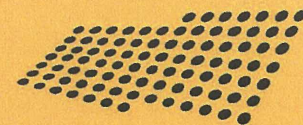


570 George Street  
Sydney NSW 2000

Address all mail to  
GPO Box 4009 Sydney  
NSW 2001 Australia

Telephone +61 2 13 1525  
Facsimile +61 2 9269 2830



**EnergyAustralia**<sup>®</sup>

23 February 2011

Mr John Pierce  
Chairman  
Australia Energy Market Commission  
Level 5, 201 Elizabeth Street,  
SYDNEY NSW 2000

By email to [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Mr Pierce,

### **AEMC Draft Rule Determination - Inter-regional Transmission Charging**

EnergyAustralia is pleased to respond to the AEMC's draft Rule Determination of 2 December 2010 on the matter of inter-regional Transmission Charging (draft Determination)<sup>1,2</sup>. EnergyAustralia has a particular interest in this matter, as a utility that owns and operates both Transmission and Distribution assets to provide network service to a large number of customers, all of whom would be affected by the proposal.

One of the major concerns that EnergyAustralia and several other respondents expressed in relation to the AEMC's consultation paper on Inter-regional TUoS charging (Consultation Paper) was the lack of any quantification of the pricing impacts of the proposal<sup>3</sup>. EnergyAustralia is encouraged that the AEMC has now provided some analysis of its pricing effects. This analysis is informative, but highlights additional issues that are discussed further below.

As an important matter of principle, EnergyAustralia believes the AEMC needs to examine and publish the economic impact on participants of all of its regulatory proposals. This is a particular issue whenever changes are being contemplated which would affect transmission or distribution pricing allocations, connection policies or other procedures having cost impacts on participants.

In this response, EnergyAustralia raises a number of significant issues concerning the draft Rule Determination and strongly recommends that the matter be subsumed into the AEMC's current Transmission Frameworks Review.

### **Composition of inter-regional charges**

EnergyAustralia, Grid Australia, the AEMO and the MEU all responded to the AEMC's Consultation Paper expressing concern over the inclusion of the Non-locational and Common Service components within Inter-regional TUoS charges. The concern was based on the potential effects of consumption patterns in passing

<sup>1</sup> Australian Energy Market Commission, Draft Rule Determination - National Electricity Amendment (Inter-regional Transmission Charging) Rule 2010, 2 December 2010.

<sup>2</sup> Australian Energy Market Commission, Draft National Electricity Amendment (Inter-regional Transmission Charging) Rule 2010.

<sup>3</sup> Australian Energy Market Commission, Consultation Paper - National Electricity Amendment (Inter-regional Transmission Charging) Rule 2010, 13 May 2010.

through postage stamped costs, as well as differences in the Regional allocation processes used for these components. These concerns have only been heightened by the AEMC's analysis of pricing effects.

EnergyAustralia has extended the AEMC's analysis of inter-regional charging outcomes. Table 1 repeats the information contained in Table 7.1 of the AEMC's draft Determination. It also displays the Locational charge as a percentage of the Total charge in the right hand column.

**Table 1 – Locational charge as a proportion of inter regional charge (\$M p.a.)**

Region	Load export charge		\$M to be paid by the "Adjoining Region" to the "Region"				
	Adjoining Region		Locational TUoS	Non-Locational TUoS	Common Service	Total Export Charge	Locational charge, % of Total
SA	VIC	SA to VIC	27.0	5.4	1.8	34.2	79%
VIC	SA	VIC to SA	14.5	2.8	3.5	20.9	69%
VIC	TAS	VIC to TAS	0.7	9.0	11.2	20.8	3%
VIC	NSW	VIC to NSW	19.1	7.5	9.4	35.9	53%
NSW	VIC	NSW to VIC	24.8	7.7	3.7	36.2	69%
NSW	QLD	NSW to QLD	9.6	0.6	0.3	10.5	91%
QLD	NSW	QLD to NSW	15.0	27.2	17.7	60.0	25%
TAS	VIC	TAS to VIC	5.7	0.6	0.4	6.6	86%
<b>Total</b>			<b>116.4</b>	<b>60.8</b>	<b>48.0</b>	<b>225.1</b>	<b>52%</b>

The following points may be drawn from Table 1:

- The proportion of the Locational charge to the Total TUoS charge varies significantly, dependent upon the regional boundary and downstream direction. This proportion varies from 3% to 91%, despite the Rules which require a 50:50 split, or an alternative allocation that is based on a reasonable estimate of future network utilisation. The 50:50 split is also set out in the Draft Rules for this Rule change.
- In the case of the Victoria – Tasmania interconnection, the substantial charge to Tasmania arises almost entirely from the Non-locational and Common Service components. This outcome requires explanation and calls into question the way in which the MNSP, Basslink, has been modelled in the pricing allocation.

Table 2 repeats Table 7.2 of the AEMC's draft Determination and has been extended to compare the AEMC's proposal to pass through three components of inter-regional TUoS with the outcome if only the Locational component were passed through.

**Table 2 – Comparison of AEMC proposal and recovery of inter regional locational component only**

Region	Net inter region charge (all 3 components) \$M	Net charge as % of AARR	Net inter region charge (Locational component only) \$M	Net charge as % of AARR	Difference as % of AARR
SA	-13.3	-4.8%	-12.5	-4.5%	+0.3%
VIC	-0.66	-0.2%	23.2	5.5%	+5.7%
NSW	49.3	5.8%	-0.3	0.0%	-5.8%
QLD	-49.5	-7.7%	-5.4	-0.8%	+6.9%
TAS	14.2	8.1%	-5.0	-2.9%	-11.0%

The fundamentally different outcome for most regions illustrated by Table 2 demonstrates the significantly distorting influence of Non-locational and Common Service cost components on the resultant Net Inter-regional charges.

On the basis of the AEMC's analysis, EnergyAustralia reiterates its concern over the AEMC's inclusion of Non-locational and Common Service components within the Inter-region TUoS charge.

The Non-locational and Common Service cost components of Inter-regional charges are generally allocated on the basis of energy imported by the downstream region, which has no impact on the upstream network's costs. Network cost structures are driven by the capability of the network and accordingly Locational network costs are allocated on the basis of the capacity utilisation of the network. This dichotomy means that the inclusion of non-price signalling components in the Net Inter-regional charge produces a wide variation, attributable to the Regional postage stamp allocation processes. The AEMC's analysis demonstrates very significant distortion of the price signalling effect, sufficient to reverse the direction of the Net Inter-region charge in some instances.

The AEMC's stated objective of introducing Inter-regional TUoS charging is to improve the cost reflectivity of transmission charging and thereby promote more efficient use of the electricity system<sup>4</sup>. EnergyAustralia contends that the proposed arrangement would not only fail to contribute to this objective but indeed would create perverse incentives.

EnergyAustralia recommends that if the AEMC does proceed to introduce an Inter-region TUoS charge, it should comprise only the Locational component.

### Customer pricing impacts

It must be noted that the AEMC is contemplating introducing this price change, which will create winners and losers, during a period of heightened customer and Government concern over energy prices.

The AEMC has carried out some analysis of the impact on price of its proposed Inter-region TUoS charging arrangements. Specifically, the impact on the bills of small customers has been considered<sup>5</sup>.

<sup>4</sup> AEMC, Draft Rule Determination, p.i.

<sup>5</sup> AEMC, Draft Rule Determination, p.28.

The AEMC has not considered the impact of the proposed change on larger customers. For large customers, the TUoS charge usually represents the whole, or the great majority of their network component. For these customers, the percentage change in their network price would approach and may even exceed the average for the region (depending on the composition of their TUoS charge). For example, a large energy intensive customer in NSW could experience a network price increase approaching 10% under the AEMC's proposal. For Tasmania, that increase could approach 15%. Changes in TUoS prices arising from variation of the non-locational and Common Service charges are not subject to the side constraint of 2% per annum that applies to the Locational component and would be directly passed through to these customers<sup>6</sup>.

EnergyAustralia has thirty large customers, for whom this change in TUoS price would be material.

EnergyAustralia recommends that the impact of Inter-region TUoS charges on the prices charged to large customers needs to be examined and justified, before implementation of any changes to the TUoS pricing allocation.

### **Uniform TUoS pricing in Regions**

In responses to the AEMC's Consultation Paper, both EnergyAustralia and AEMO expressed concern that the existing non-uniform TUoS pricing arrangements within Regions would result in significant distortion of the Locational component of Inter-regional TUoS charges. This concern remains valid and is heightened by the broad variation in Net Inter-regional payments that the AEMC's analysis has demonstrated.

The principal issue here is the adoption by some TNSPs of the 'modified CRNP' form of cost allocation, which can have a significant effect on the Locational and Non-locational cost components of TUoS charges, both within and between Regions.

Most participants would accept that the 'modified CRNP' approach provides improved price signalling, by increasing the Locational TUoS component where the network is nearing its capability. However, that approach can result in doubling of the standard 50% Locational cost allocation for specific assets and thus have a significant effect on the Locational TUoS charge for market participants in heavily utilised locations.

The AEMC has proposed that the AER should be required to amend its pricing methodology to clarify the approach to TUoS pricing, particularly for interconnection assets, and with a view to a greater level of National consistency<sup>7</sup>.

In principle, EnergyAustralia endorses the need for greater consistency and improved cost signalling of TUoS prices. However, any change from the status quo would have potentially significant distributional effects within, as well as between, Regions. As noted above, these changes would be reflected directly in the prices of large customers and may require an extended period of transition to mitigate price shocks.

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<sup>6</sup> National Electricity Rules, Clause 6A23.4(f).

<sup>7</sup> AEMC, Draft Rule Determination, p.16.

EnergyAustralia recommends that:

- Any change to the TUoS pricing allocation must only be considered after full 'before and after' modelling has been performed, to identify the impact on prices of transmission and distribution connected customers;
- Any allocation change would cause distributional impacts that must be justified in terms of improved pricing efficiency;
- Appropriate measures to mitigate price impacts for both small and large customers must be established before any change is implemented; and
- Inter-regional TUoS charging should not be introduced until uniform TUoS cost allocation approaches have been established throughout the NEM.

### **A holistic approach to the review of TUoS pricing**

EnergyAustralia reiterates the concern expressed in its submission to the AEMC's consultation paper, that the proposed change to introduce inter-regional TUoS should not be introduced at this time.

On 20 April 2010, the MCE requested the AEMC to carry out a Review of Transmission Frameworks, which has now been initiated<sup>8</sup>. A specific area of consideration in the Terms of Reference for this review is:

*"... the development of improved locational signals for generators, and, if necessary, any implications for transmission pricing more broadly, including transmission pricing for loads."*

In its consideration of improved locational signals for generators, a particular area of significance for the AEMC will be to review the arrangements that apply to generators that export to other regions using the interconnections between Regions, utilising relatively lengthy, high value transmission assets. Clearly, whatever price signalling arrangements are determined for the generators that use these interconnection assets will also affect the prices for customers that use the same assets.

It follows that the Inter-regional charging arrangements proposed by the AEMC in this draft Rule Determination may well need to be modified in the near term, following the review of Transmission Frameworks. In particular, it 'smears' inter-regional charges across the locational cost components within the downstream region, rather than reflecting the utilisation of interconnection assets by individual network users.

The AEMC's piecemeal approach to reviewing aspects of TUoS charging in the draft Determination:

- Pre-empted the outcome of the Transmission Frameworks review; and
- Is likely to result in two TUoS pricing changes in close succession.

<sup>8</sup> Australian Energy Market Commission, Issues Paper - Transmission Frameworks Review, 18 August 2010.

EnergyAustralia strongly recommends that the proposed Rule change to introduce Inter-regional TUoS charging for loads:

- should not be introduced at this stage; and
- should be considered as part of the holistic review of TUoS charges in the Transmission Frameworks review.

Should you have any questions in relation to this submission, please contact Catherine O'Neill on 02 9269 4171.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'C. Moody', with a long horizontal stroke extending to the right.

CRAIG MOODY  
A/Executive General Manager – System Planning & Regulation