



23 February 2011

Mr John Pierce
Mr Neville Henderson
Dr Brian Spalding
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Commissioners,

**ERC0106: National Electricity Amendment (Inter-regional Transmission Charging) Rule 2010-
Draft Rule Determination**

A: Introduction

The National Generators Forum (NGF) welcomes the opportunity to provide a response to this Draft Rule Determination.

The Ministerial Council of Energy (MCE) rule change proposes to establish an inter-regional transmission charging regime. Transmission businesses in each region would levy a new charge – a load export charge – on transmission businesses in adjoining areas. The charge would reflect the flow of electricity from one region to adjoining regions. The Rule change provides that the load export charge reflect the costs incurred in the use of the transmission network in the region to conduct electricity to the adjoining network. As such, it will be calculated as if the relevant interconnection with the adjoining network was a load on the region boundary.

The AEMC approved the MCE rule change which recommends inter regional TUOS be introduced in the form of a load export charge in its Draft rule determination on 3 December 2010. Following a review of that decision, the NGF confirms its support for the introduction of inter regional TUOS.

The NGF agrees with the AEMC that inter regional TUOS:

- improves the allocative efficiency of the transmission charging arrangements by making the transmission charges more cost reflective
- enhances the dynamic efficiency of the transmission charges by minimising the potential barrier to coordinated planning of network investment

The NGF offers the following comments on the key areas of the Draft Rule Determination for the AEMC's consideration.

1: Composition of a load export charge

The NGF supports a load export charge that reflects the costs of all assets that contribute to export flows to the adjoining regions as if an adjoining region was a load on the region boundary.

Our support for this general principle is strengthened by the cost information provided with the draft determination. This reveals that the practices of cost allocation appear to differ markedly between regions. In this context, the broadest spread of cost classification included in the inter-regional TOUS charges is most likely to result in an equitable outcome of these charges.

We note in this context that some stakeholders have raised the issue of the inter-regional TOUS charges potentially having a price signalling function. We note that these charges do not have any role in either the planning of network augmentation or in the dispatch of flows over the network. We therefore contend that price signalling is not an outcome of the introduction of inter-regional TUOS, and further that as a matter of policy it should not be.

The function of the charges as we see it is to give a more equitable distribution of the cost of transmission within a region between users within the region and users outside of the region. On this basis, any difference between charging practices between these two groups would need a clear and explicit justification

However, while we can see that broadly-based charges are most likely to give an equitable outcome in the face of different cost allocation practices, we are not able to support the detailed charging arrangements as we do not have any relevant analysis.

We are mindful of the possibility that different pricing methodologies in different regions, while justifiable in the context of charging within a region, may lead to inequitable outcome when applied to inter-regional charges.

The NGF therefore recommends that the revised Rules should impose on the AER a specific responsibility to consider whether the inter-regional TUOS charges provide an equitable outcome, and to make any changes in cost allocation practices that are necessary to achieve an equitable outcome.

2: Calculation of the load export charge

The NGF supports the introduction of a load export charge by amending the regulatory framework to facilitate this change.

To achieve this, we propose:

- The National Electricity Rules (Rules) be amended to include the principles for the load export service charge
- The AER formulate the changes to its PMG to accommodate a load export charge. This would allow AEMC to clarify how the load export charge would be determined. Any other implementation issues could also be considered under the process of amending the AER's PMGs.
- The AER review the pricing methodology of all TNSPs to ensure they comply with their PMG following the implementation of a load export charge

- TNSPs apply a load export charge which could be implemented on a gross or net basis, but should be levied on the same basis throughout the NEM. They would set the charge based on the use of each individual TNSP's assets on either side of a region and ensure it was developed in accordance with their own pricing methodology.

The AEMC's outlines its preference for a load export charge to be applied on a gross basis in its Draft Rule Determination. It argues that a gross charge would be much more transparent for all parties. In this regard, whilst the NGF did not articulate a preference for either cost recovery method, we would not object to inter regional TUOS being applied on a gross basis.

- TNSPs develop a load export charge in accordance with their pricing methodology in a transparent and predictable manner.

3: Recovery of the load export charge

The NGF supports the cost recovery proposals put forward by the AEMC in the Draft Rule Determination.

In short, we support:

- A load export charge that is made up of a locational and non locational component of prescribed transmission use of system (TUOS) charges and a common service charge. The load service charge should be recovered on the same basis as it is charged. Therefore, the locational service charge imposed on a region should be recovered from the locational TUOS service charge and similarly from other tariff components.
- An amendment to the Rules that sets out the necessary principles that should be followed in developing the load export charge. As previously discussed, the implementation details of the load export charge should be set out in the AER's PMGs & TNSP's pricing methodologies.

4: SRA Auction proceeds

The NGF submits that Settlement Residue Auction (SRA) revenues should be offset against a common service charge. Under this proposal, all customers receive a more even spread of revenue from SRA auctions.

In its Draft Rule determination, we note that the AEMC has made no change to the way in which SRA proceeds are returned to customers. It determined that SRA proceeds should continue to be redistributed on a locational basis in accordance with the current provisions.

The AEMC argues that if the SRA proceeds were distributed via the non locational component, it would be likely dampen the cost reflectivity of the load export charge. In this regard, whilst we prefer SRA revenues are offset against the common service charge, we do not object to SRA proceeds being redistributed on a locational basis via the locational tariff component. As previously discussed, this will just help maintain the cost reflective nature of the load export charge.

5: Impact of a load export charge on MNSPs

The NGF supports the exclusion of Market Network Service Provider (MNSPs) from the proposed load export charge.

As MNSPs are unregulated in the NEM, they are excluded from the Pricing provisions of chapter 6A of the Rules. Furthermore, MNSPs recover their revenues from the market and are not relevant to developing a load export charge.

Therefore, we support the AEMC's decision in the Draft Rule determination on this issue.

6: Procedural and implementation issues associated with implementing a load export charge

The NGF supports the current proposal for Coordinating Network Service Providers (CNSPs) to publish inter-regional TUOS charges by 15 May each year.

In short, we believe:

- CNSPs should provide estimates of the load export charge to be levied to other CNSPs before 15 May each year. CNSPs should be able to agree to suitable timeframes and dates on which information can be exchanged.
- Credit issues between CNSPs regarding the billing of inter regional TUOS can be resolved between TNSPs without guidance from the AEMC
- DNSPs & TNSPs should share any relevant information that might help improve the efficiency of the overall pricing process.

7: Prescription and transparency of any new pricing provisions to accommodate a load export charge

The NGF supports the introduction of a load export charge by enacting changes to the pricing methodology of all TNSPs to allow them to apply a load export charge.

To achieve this, we submit the AER:

- amend its PMGs to allow for the introduction of a load export charge
- review the pricing methodology of all TNSPs to ensure they comply with its PMG following the implementation of a load export charge
- refrain from adopting a new set of guidelines, independent of the PMG, to develop a load export charge
- develop consistent and transparent guidelines in gross payment procedures with TNSPs for the billing of inter regional TUOS

8: Implementation date

The NGF supports the implementation date for the load export charge of 1 July 2012.

We agree that this provides the AER with sufficient time to:

- consult with TNSPs and other interested parties in developing the amended pricing methodology guideline
- review the TNSPs' amending guidelines in order to allow for the implementation of a load service charge.

C: Conclusion

The NGF appreciates the opportunity to provide a submission to this Rule change.

We support the key parts of this Rule change request subject to some minor qualifications.

We consider that the introduction of inter regional TUOS in the form of a load service charge will improve the cost reflective nature of the pricing arrangements in transmission. As a result, we agree with the AEMC that this will improve the allocative and dynamic efficiency of the transmission charging arrangements.

As such, on the basis that we believe the current transmission pricing arrangements can accommodate the introduction of inter regional TUOS whose volatility in price can be restricted, then we support this change.

If you have any enquiries regarding this submission, please feel free to contact Mr. Con Noutso - Regulatory Manager at TRUenergy on Tel: 03 8628 1240

Regards



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