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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
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Dear Dr Tamblyn

Transmission Pricing for Prescribed Transmission Services: Rule Proposal Report

Introduction

AGL is pleased to comment on the Australian Energy Market Commission's above Report ("the Report") in relation to the Review of Electricity Transmission Revenue and Pricing Rules ("the Review").

AGL has made a number of submissions in relation to the Review. This submission highlights a number of key areas of interest and concern and should be read in conjunction with our previous submissions on this matter.

As acknowledged by the Commission, there are a number of significant transmission reviews currently under way (eg: the Congestion Management Review and the Energy Reform Implementation Group) which are likely to impact the regulatory framework for transmission. As previously stated by AGL, it would have been preferable for these reviews to be finalised prior to the Commission finalising its own Review. Given that this did not occur, it's likely the Commission will have to reconsider some of the issues raised in the Report at a later stage.

In addition, AGL would have preferred for the Commission to examine Chapter 5 of the National Electricity Rules, prior to considering the Chapter 6 issues which were the subject of this Review. AGL considers it more appropriate for the performance standards of transmission service providers ("TNSPs") to be finalised prior to considering the price and cost allocation methodology. That said, AGL acknowledges the Review has taken account of some of the Chapter 5 issues in relation to performance of TNSPs.

Rebates to embedded generators

AGL supports rebates for embedded generators equivalent to true avoided network costs. While commercial negotiations between the generator and TNSP should be encouraged to determine the level of the rebate, given the imbalance of power, it is vital the Rules provide a reasonable default position for embedded generators and provide certainty for generators regarding their rights to access and payment.

In the absence of deep connection charging, AGL believes that embedded generators should be rebated the full cost of transmission, calculated on an energy basis. This reflects savings from shallow connection charging.

AGL agrees that embedded generators should not be over-rewarded for their investment. Accordingly, we support consideration of amendments to the Rules to provide a more robust rebate regime. The Commission will be aware that original rules provided a negotiated rebate between the NSP and generator but that proved unworkable. AGL therefore supports an automatic rebate for small generators (say <5MW), despite the potential to over-compensate, and a more precise approach for larger generators. AGL considers that a larger generator should be rebated the actual expected savings and that this amount should be in addition to any negotiated network support agreements with the NSP.

Interregional settlements

As stated in AGL's previous submissions, the use of inter-regional settlement residues as a surrogate for inter-regional TuoS transfers should lapse and be replaced by a robust method for charging for interstate networks.

The current method for settling interregional TuoS transfers lacks transparency and equity. It is important for the Commission to fully consider this issue and draft Rules that reflect the agreed approach. While AGL notes that the ACCC rejected the methodology proposed by NECA in 2002, the Commission could still adopt that approach, which is simple to apply.

AGL suggests a simple methodology for making the calculation. That is, to treat flows between regions as if they were a load or a generator at the boundary. If a region has a net load from an adjacent region during the peak twelve days for that region (the period that impacts augmentation decisions) then the region should be able to allocate a charge to the adjacent region. The amount to be recovered should be subtracted from AARR to be recovered within the region and added to the AARR to be recovered in the adjacent region.

Shallow versus deep connection costs

AGL believes that in order for there to be robust locational investment signals, deep connection charging is vital for all new connections. A right of access to network capacity should accompany such a regime.

It's AGL's understanding that the current Rules in fact provide for deep connection charging by TNSPs and firm access, and that this was always the intention when the NEM was formed. The fact that TNSPs have not applied deep connection charging should be a cause for concern by the AEMC rather than a reason to modify the rules to assist this process. In the initial access decision the ACCC said:

"Although NSPs are not obliged to provide firm access in every case, the code includes a set of obligations in terms of negotiation, information and compensation arrangements. Similarly, generators are limited to their maximum power input and any arrangements must account for its impact on firm access for other generators.

Improved cash flow provides a major incentive for both generators and NSPs to bargain firm access. Generators are either compensated when constrained-off or are able to bid unconstrained (because of network improvements) when spot prices are favourable; and

NSPs derive revenue from the sale of firm access rights which can partly fund those network improvements." *P 89 of access decision*

"Nevertheless, if the generators' concerns are realised, and the NSPs refuse to negotiate terms and conditions, then at that stage it may be appropriate for the Code Change Panel to consider alterations to the code which provide NSPs with additional incentives or obligations to provide firm access arrangements." *P90 of the access decision*

There are also numerous similar references in the ACCC Authorisation and elsewhere in the access decision. AGL does, however, accept the Commission's decision not to amend the Rules in relation to this issue until the outcome of the Congestion Management Review is known. We would therefore argue that no substantive changes be made to related clauses (eg Schedule 6.2) until that time.

Negotiated transmission services

Commercially negotiated contracts are preferred over regulated arrangements, even where there is an obvious imbalance of power between a TNSP and a customer. AGL therefore supports the amendments to the Rules which set the parameters for negotiating prices while allowing for a commercial arbitrator should negotiations fail.

However, it also vital that TNSP's be required to provide the terms and conditions for any negotiated contract. Currently TNSP's provide a price for a requested service, but will often not accompany the price with terms and conditions. This creates considerable risks for the parties.

AGL encourages the Commission to amend the Rules to require that TNSPs submit terms and conditions along with any price to a requesting party. This contract would then be the subject of negotiation and potential arbitration with a commercial arbitrator.

Bank guarantees

AGL understands the Rules do not provide explicit guidance in relation to bank guarantees demanded by a TNSP for generator TuoS and connection payments. It is important to note that bank guarantees are expensive and for credit worthy participants are unnecessary.

AGL believes that the Rules should state a TNSP can not require a bank guarantee from a customers which is rated at least BBB minus. This is in line with the rules for distribution network providers and for the TNSP in Victoria.

If you have queries in relation to this submission, please contact Michelle Shepherd, Manager Electricity Market Development, on ph: (03) 8633 6625.

Yours sincerely



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