



## DIRECTLINK JOINT VENTURERS

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Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box H166  
Australia Square NSW 1215

Dear Dr Tamblyn

### **Submission: Transmission pricing issues paper**

The Directlink Joint Venturers welcome the opportunity to make a submission in response to the Australian Energy Market Commission's ('**AEMC's**') November 2005 issues paper on transmission pricing. We wish to highlight the circumstances that exist in the NSW, Victorian and South Australian regions of the National Electricity Market in which more than one transmission network service provider ('**TNSP**') provides prescribed transmission services and the gaps that exist in the National Electricity Rules to appropriately deal with such circumstances.

In each of the NSW, Victorian and South Australian regions, a TNSP has been appointed, or is being appointed, as a Coordinating NSP that:

- allocates the combined annual allowed revenue requirements for all the TNSPs in the region and determines prices to transmission customers in that region accordingly;
- collects from transmission customers the combined annual allowed revenue requirements; and
- pays the other TNSPs their proportion.

For easy reference, we have listed in **Attachment 1** of this letter the relevant provisions of the National Electricity Rules ('**Rules**'), including those that relate to TNSPs whose networks include interconnectors like Directlink. These provisions are located mostly within part C of chapter 6 of the Rules.

The Australian Energy Regulator ('**AER**') is currently considering an application from Directlink Joint Venturers for Directlink's network service to be classified as a prescribed service and for us to receive a regulated revenue. The AER has issued its draft decision and we anticipate its final decision in a month or two. We will soon be in a position of having a regulated revenue determined for us, but will have to rely on a Coordinating NSP to pay it to us. From our perspective, there are several shortcomings of the Rules that complicate our access to our revenue. In particular, the National Electricity Rules does not provide adequately for:

- the manner in which TNO/TNSPs in a region will [agree to] appoint a Coordinating NSP (clause 6.3.2(b));
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- the terms of the appointment of a Coordinating NSP, for example:
  - the manner in which the Coordinating NSP will conduct its obligations and recover its consequential administration costs;
  - credit risks associated with the recovery of revenue from transmission customers and payments by a Coordinating NSP;
  - the Coordinating NSP's direct obligation to collect payments from transmission customers and make payments to other TNSPs, and timing of these payments; and
  - recovery and interest on over/under recovery for another TNSP's revenue by the Coordinating NSP;
  - when a Coordinating NSP may withdraw from its role; and
- the manner in which NEMMCO will estimate and attribute settlement residue auction proceeds to each TNSP's network assets that form part of a regulated interconnector and how this could offset another TNSP's transmission prices (clauses 3.6.5, 3.18.4, 6.4.3, 6.4.3B(b)-(d) & 6.19(c)).

At present, TNSPs must resolve or manage these matters through commercial negotiation. This places TNSPs such as us in a different situation to TNSPs who allocate, price and collect their regulated revenue directly, as the AEMC has assumed in its issues paper is the case for all TNSPs. Our situation is less certain, less clear and inconsistent with that which applies to most other TNSPs.

We request that the AEMC gives due consideration to the circumstances in which more than one transmission network service provider operates in a region and ensures that its review of the transmission pricing provisions in the National Electricity Rules results in a commensurate level of certainty, clarity and consistency for all TNSPs. This can be achieved by the Rules dealing explicitly with the issues listed above in a cohesive manner. We would be happy to provide the AEMC with further detail and guidance if it would assist you to achieve this.

Yours sincerely



Dennis Stanley  
Directlink Joint Venture Manager

## **ATTACHMENT 1 COORDINATING NSP ARRANGEMENTS - SUMMARY OF RELEVANT RULES**

### **1. Settlement Residue and Auction Proceeds**

- NEMMCO must distribute the settlement residue auction proceeds, or any settlement residue that has not been auctioned, to the appropriate NSP in relation to the respective directional/regulated interconnector (clauses 3.6.5 & 3.18.4).

### **2. Allocating Revenue of Multiple Transmission Network Owners in a Region**

- The transmission services in a region may be provided by more than one TNSP (clause 6.3.2(a));
- Where there is more than one TNO in a region, those TNOs must appoint one **'Coordinating NSP'** to be responsible for allocating all the transmission revenue in that region (clause 6.3.2(b));
- Each TNSP must determine the proportion of its revenue for its assets that are used to provide transmission service in each region (clause 6.3.2(d));
- A Coordinating NSP must allocate the total revenue of all TNSPs for the relevant region (clause 6.3.2(f)); and
- A Coordinating NSP must allocate transmission use of system ("**TUOS**") revenue to transmission customers using a "cost reflective network pricing" method, or a modified version of that method (clauses 6.3.2(g) & 6.4.3B(c));
- Two or more [Coordinating] NSPs in adjacent regions may agree to allocate the total regional revenues across those adjacent regions (clause 6.3.4(a));
- TUOS revenues are to be recovered through either charges for generator TUOS service costs, charges for customer TUOS service costs, or revenue from the settlement residue auction proceeds (clause 6.4.3);
- A [Coordinating] TNSP must take into account the estimated revenue from settlement residue auction proceeds attributed to a network asset in allocating costs to a connection point (clause 6.4.3B(d) and Schedule 6.4);
- A [Coordinating] TNSP must deduct (add) to the annual revenue to be allocated and collected in the next financial year, the surplus (deficit) of revenue that was collected in the previous financial year compared to the allowed revenue requirement (clause 6.4.3C(a));
- A [Coordinating] TNSP must allocate costs for transmission services annually to form the basis of transmission service prices to apply for each financial year (clause 6.4.6(a));

### **3. Transmission Service Pricing**

- Customer transmission use of system service costs will be recovered by an individual TNSP from financial transfers between TNSPs from the customers connected to another TNSP's network (clause 6.5.4(a));
- Each financial year, the [Coordinating] TNSP must determine the customer TUOS energy and capacity prices (clause 6.4.3B(b));

### **4. Settlement between Network Service Providers**

- Each NSP is entitled to receive or is required to make financial transfers determined in accordance with clause 6.4.3;
- From 1 July 2003, each TNSP must pay to each other relevant TNSP the revenue that is estimated to be collected during the following year by the first TNSP as transmission service charges for the use of transmission networks owned by the other TNSPs (clause 6.7.3(d));
- Payments between TNSPs under clause 6.7.3(d) are determined to be in accordance with the allocation procedures in clause 6.4.3 (clause 6.7.3(e));
- All payments under clause 6.7.3 must be paid in 12 equal instalments and are to be settled on the same day (clause 6.7.3(f));
- If the allocation, pricing and charging methods result in the allocation of some of a NSPs costs to another TNSP's customers, a fix annual amount will be transferred between NSPs (clauses 6.7.4(a)-(b));

### **5. Transmission Network Data for Transmission Network Pricing**

- The electrical characteristics, load and generation data, and the annual revenue of each optimised network and connection asset in interconnected transmission systems must be exchanged by NSPs to permit cost allocation and calculation of prices (clauses 6.9.1(a) & (d));
- Where a Coordinating NSP has been appointed, each TNSP must supply the following data to the Coordinating NSP and other NSPs for cost allocation (clause 6.9.1(b)):
  - (1) electrical parameters for each optimised element of the network and the network configuration;
  - (2) hourly load data for each exit point for the survey period;
  - (3) hourly generation data for each entry point for the survey period;
  - (4) voltage control arrangements and voltage profile;
  - (5) the aggregate annual revenue requirement in the following classes of service:
    - (i) transmission network use of system service; and

- (ii) common service; and
  - (6) the annual revenue requirement as defined in clause 6.3.1 for each asset providing transmission network use of system service.
- The survey period is to be selected on the basis of the previous year's metering data for a sample of days agreed among the relevant NSPs (clause 6.9.1(c));
  - All information used by TNSPs for the purposes of transmission service pricing is confidential information (clause 6.9.2);

#### **6. Network Pricing for Interconnectors**

- All regulated interconnectors are subject to the transmission service regulation and pricing arrangements in accordance with Parts B & C of the Code (clause 6.19(b)); and
- The NSP [for a regulated interconnector] must adjust the annual revenue for each of its assets providing interconnection by the amount of settlement residue auction amounts in respect of the relevant directional interconnectors (clause 6.19(c)).