



21 December 2005

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Dear Dr Tamblyn,

**Review of the Electricity Transmission Revenue and Pricing Rules
Transmission Pricing: Issues Paper**

ENERGEX provides this submission in response to the *Transmission Pricing: Issues Paper* (Issues Paper) prepared by the Australian Energy Market Commission (the Commission) as part of the *Review of Transmission Revenue and Pricing Rules* (the Review).

This is a joint submission made by ENERGEX Limited and ENERGEX Retail Pty Ltd. The name ENERGEX will be used throughout this submission as a reference to this group.

ENERGEX acknowledges that the Commission will issue a detailed Options Paper on Transmission Pricing in April 2006, which will provide the basis for further consultation. Therefore, ENERGEX has limited this submission to those high level issues it considers most important for the Review at this stage.

This submission presents ENERGEX's specific views on issues relating to the regulation of transmission network pricing. ENERGEX notes that these views do not necessarily reflect ENERGEX's position in relation to distribution network pricing because of the differences in both the markets involved and physical nature of the systems.

Yours sincerely

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1. *Should transmission prices be regulated and why?*

ENERGEX believes that regulation of transmission prices is necessary to achieve efficient pricing consistent with the NEM objective.

Regulation of transmission pricing can be used to promote transparency and consistency between jurisdictions and Transmission Network Service Providers (TNSPs), and facilitate the development and implementation of inter-regional pricing arrangements. Furthermore, regulation can provide price certainty to customers, and protect them from price swings and shocks.

ENERGEX is a strong supporter of network regulation that provides discretion and flexibility to both the regulator and the network service provider. However in the case of transmission, it is cognisant that costs to industry participants may increase in the absence of certainty for price regulation of TNSPs. In particular, a diversity of pricing arrangements between TNSPs may:

- make it more difficult for loads and generators to assess alternative locations; and
- increase the complexity of inter-regional pricing arrangements.

The Review should therefore err on the side of providing greater certainty and minimum regulatory risk. In this regard ENEREX encourages the Commission to be cautious when providing unfettered discretion to the AER or TNSPs.

7. *Should a common service charge be maintained or should these costs be incorporated into another charge? If not, how should common service costs be allocated or incorporated into other charges?*

ENERGEX believes that separate common service charges, connection charges and usage charges should be maintained, as the separation of the total TNSP costs into these components allows for more efficient and cost reflective pricing structures.

Furthermore, the specification of these charge categories in the Rules facilitates consistency in pricing arrangements between TNSPs.

9. *If a modified CRNP usage charge is to remain an option:*

- ***Should the Rules prescribe the criteria for the AER to accept implementation of a modified CRNP?; and***
- ***Should any network customer (rather than just the TNSP) be able to request that the modified CRNP methodology be implemented?***

ENERGEX suggests that, if the option of using a modified CRNP is retained in the Rules, then it would be appropriate for the Rules to specify the criteria on which the Australian Energy Regulator (AER) approves the use of this methodology.

ENERGEX believes that this would lead to greater transparency, consistency and certainty for network users.

12. *Is it appropriate to provide scope for TUoS discounting in the Rules?*

ENERGEX acknowledges that there is a role for TUoS discounts, where there is a credible / genuine option for by-pass of the transmission network. However, ENEREX

would prefer to have the current 'safe harbour' provisions removed from the Guidelines¹ as this provision removes the need for some discounts to be justified.

ENERGEX notes that the prudent discount provisions in the Gas Code² operate in a similar manner to the TUoS discounting provisions in the Rules, except that the Gas Code does not include 'safe harbour' provisions.

ENERGEX acknowledges that in some cases the justification for TUoS discounts may be based on confidential arrangements. For this reason ENERGEX believes that a requirement to justify a TUoS discount should be made to the AER only.

14. *Is it appropriate to prescribe arrangements for TUoS rebates in the Rules? If so, could the existing arrangements be refined and how?*

ENERGEX supports the inclusion of TUoS rebate arrangements in the Rules, where it can be shown that the use of TUoS rebates promotes the NEM objective and improved locational signals for generation. The Rules should promote certainty, consistency, and transparency in relation to TUoS Rebates.

16. *Should TUoS rebates also apply to generators connected to the transmission network, DSM or other non-electricity options? Does this depend on whether generators generally pay shared transmission costs?*

While ENERGEX provides in-principle support for TUoS rebates (for avoided TUoS), ENERGEX does not believe it appropriate to apply the TUoS rebate provisions to generators connected to the transmission network, demand side management (DSM) or non-electricity options. Given the potentially large number of TUoS rebates this would involve, ENERGEX believes that this would create inefficient administrative burden for the distribution network service providers (DNSPs). ENERGEX notes that this administrative burden could be reduced by applying a minimum threshold for eligibility for TUoS rebates.

As noted by the Commission, the TUoS rebate provisions "*were intended as a substitute for generator locational network charges*".³ Thus, if generators did pay shared transmission costs, then there would be no need for TUoS rebates. This applies to generation generally, not just generation located on the transmission network, DSM or non-electricity options.

¹ Australian Competition and Consumer Commission, *Statement of Principles for the Regulation of Transmission Revenues: Guidelines for the Negotiation of Discounted Transmission Charges*, 3 May 2002.

² Section 8.43 of the *National Third Party Access Code for Natural Gas Pipeline Systems*.

³ AEMC, *Transmission Pricing: Issues Paper*, November 2005, p.29.

22. Should NEM connection charges continue to be based on a shallow connection approach or should a deep connection approach be adopted?

As noted by the Commission, the benefit of a deep connection approach is that it signals to the generator the longer term costs of its locational decision, which in turn promotes long run efficiency.⁴ While acknowledging that a shallow connection approach fails to signal the full cost of generators' connection decisions, deep connection cost allocation can only be realistically implemented if a low cost and unambiguous methodology is developed that efficiently allocates costs and provides generators with an appropriate level of access to the deep connection investment.

27. Are there any reasons why generators should make some contribution to shared network costs? If so, what approach should be used to determine the share of shared network costs that should be paid by generators?

ENERGEX believes that contributions by generators to shared network costs would provide better locational signals to generators. For these locational signals to be effective would require that generators make a material contribution to the shared network costs.

ENERGEX acknowledges that TUoS charges are passed through to the customer, irrespective of whether these costs are initially borne by the generators or retailers. However, in the long term, the improved locational signals should result in lower overall network costs, and thus lower TUoS charges for customers.

Generators are exposed to locational signals through transmission loss factors. However, ENERGEX believes that the existing signals in the NEM are inefficient to promote efficient locational and operational decisions, particularly within a region. The current mechanisms tend to focus on inter-regional issues, rather than intra-regional issues.

In particular, there is room for intra-regional congestion to be more efficiently priced. Therefore, ENERGEX suggests that the Commission consider this issue in conjunction with the congestion management review.

As noted in ENERGEX's response to Q16 above, if generators did make a contribution to shared network costs there would be no need for TUoS rebates for embedded generators.

45. Could the current provisions in the Rules regarding inter-regional TUoS payments be improved? If so, how?

ENERGEX considers the current provisions on inter-regional TUoS rebates to be unnecessarily restrictive, not cost reflective and ambiguous. ENERGEX would support any amendments to the Rules that would clarify and promote the use of inter-regional TUoS payments.

ENERGEX supports prescribing (in the Rules) a transmission pricing methodology that accommodates inter-regional pricing, so that customers or generators that benefit from the transmission system in a region other than the region in which they are located pay

⁴ AEMC, *Transmission Pricing: Issues Paper*, November 2005, p.45.

for the use of that network. The methodology used to determine pricing within a region could be applied to inter-regional TUoS pricing.

Additional Comments

In addition to the issues raised in the Commission's Issue Paper, ENERGEX suggests that the allocation of TNSP pass-through costs should be considered as part of the Commission's review of transmission revenue and pricing. Taking grid support pass-through costs as an example, these costs are currently recovered by the TNSP on a postage stamp basis across a TNSP's designated area. This is despite the fact that these costs can often be clearly attributed to a specific geographical area.

Grid support is considered as an alternative to network augmentation in the regulatory test. However the costs of these alternatives are not recovered on the same basis – network augmentation is recovered on a largely cost reflective basis, whereas grid support is recovered on a postage stamp basis. To be true alternatives in the regulatory test compared on an equal basis, the methodology used for cost recovery should be equivalent.

Passing on grid support costs on a cost reflective basis provides incentives to those customers able to respond to adjust their behaviour to help relieve the network constraint.

ENERGEX would support a methodology that allocates pass-through costs on a cost reflective basis.