16 May 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

By email: submissions@aemc.gov.au

Dear John

Cost allocation arrangements for transmission services

The Major Energy Users Inc has reviewed the Rule change initiated by the National Generators Forum, relating to the shifting of costs from historically shared transmission services, to entry or exit services as a result of a re-allocation of costs or a network reconfiguration undertaken for the benefit of network users generally. The proposed Rule change is supposed to increase efficiency in the National Electricity Market (NEM) by removing the price shocks from the shifting of costs and by increasing regulatory certainty.
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As a basic premise, the MEU has no objection to a Rule change that requires costs to be allocated efficiently to reflect the costs of providing the service for which the tariff applies. Thus, an entry service tariff should reflect the costs associated with providing that service, and none of the costs for providing this service should be included in another element of the tariff structure.

The MEU would point out, however, that in relation to the proposed Rules change, there are two issues that need to be considered:-

1. There has to be equity between the costs incurred by current asset users and the costs a new entrant user will have to pay for the same service. In this regard, the MEU notes that any new entrant user of the transmission network must pay for all of the costs needed for the new entrant to be able to connect to the existing shared network, noting that this service will be a negotiated arrangement. A negotiated arrangement perforce will include an all encompassing cost structure for all of the assets needed for the connection to the shared network.

   Therefore, if the proposed Rule change will allow an existing user of the network to otherwise incur a lower cost due to cost elements comprising the network service to be embedded in another element of the network cost structure, then under the basis of equity between existing and new users of the service, the Rule change should not be permitted.

Thus, in principle, the MEU considers that a current user of the transmission network should be required to pay for the service it receives on the same basis as a new entrant would incur, and the Rules should not permit one user (particularly if it has incumbency) to have a commercial advantage over another user due to the institutionalising of an incumbency benefit, as this is contrary to the basic premise of equity between existing and new entrants to the NEM.

2. There has to be equity between users of the same assets. Where entry and/or exit services utilise assets that are used by a number of different users, the cost of providing the service should be shared in proportion to the use each user derives from the service.

   The MEU sees that the proposed Rule change has the potential for current practices to be institutionalised by “grandfathering” so that equity between users will be prevented. Therefore, the MEU considers that a proposed Rule change (or even the continued use of a Rule) should not permit one user of an asset to obtain a commercial benefit at the expense of another user of the same assets.

It is suggested by proponents that the Rule change will prevent price shocks to users of the network. Just because there may be a price shock, this should not be the basis for the maintenance of inequity. If there is likely to be a price shock, then this should be treated in another way, other than by creating inequity.

We apologise for the late submission of the MEU views. If you have any queries or require clarification of the MEU views espouse above, please contact the undersigned in the first instance.

Yours sincerely

David Headberry
Public Officer