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Dear John

Congestion Management Review - Arrangements for Recouping Costs for Participant Funded Network Augmentations

VENCorp welcomes the opportunity to provide a submission to the AEMC on its Congestion Management Review - Exposure Draft on Arrangements for Recouping Costs for Participant Funded Network Augmentations (**Exposure Draft**) of 2 May 2008.

From the Exposure Draft it seems as though the main concern was to reduce the impact of the "free-rider" problem and make negotiated access rights "firmer". VENCorp is not convinced that the proposed rule change set out in Appendix A to the Exposure Draft (**Rule Change**) is an appropriate solution to the congestion management issue that the generator access provisions try to address.

While the free-rider problem is one aspect of a generator funded augmentation that may be addressed in part by the payment adjustment provision in rule 6A.9.1(6), this will not improve rule 5.4A in a way that will reduce congestion.

Additionally, as elaborated on below, while generators may in some cases contemplate funding augmentations as a method to achieve a level of "firm" generator access they are not ordinarily linked and the attempted linking of the two in the manner suggested is unlikely to produce any notable congestion relief. VENCorp believes that this objective can only be achieved if there is a complete ground up review of the principles underpinning rule 5.4A.

VENCorp is generally supportive of the intention behind the Exposure Draft and the proposed Rule Change

However, we are concerned that the Exposure Draft may confuse negotiated use of system charges under existing rule 5.4A(f)(3) and the compensation arrangements contemplated by existing rules 5.4A(h)-(j). VENCorp's concern is primarily informed by:



- the statements made in the *Congestion Management Review Draft Report (Draft Report)*, that '[t]he key message from submissions on this issue is that rule 5.4A should be strengthened to provide for negotiated access rights to the transmission network to be "firmer"; and
- the insertion of a new rule, intended to compel the application of rule 6A.9.1 to the negotiation of negotiated use of system charges under existing rule 5.4A(f)(3), into the existing rule 5.4A(h) which contains the provisions contemplating 'compensation' payments between TNSPs and generators.

VENCorp observes that negotiated use of system charges in relation to any augmentations or extensions to transmission networks required to facilitate connection are separate from the compensation arrangements contemplated under rule 5.4A(h) and the charges for that access under rule 5.4A(f)(4).

There is no inter-relationship between the payment by a generator of negotiated use of system charges and the provision to it of any form of compensation arrangement under rule 5.4A(h). Negotiated use of system charges may be paid by a generator in the absence of any compensation arrangements under rule 5.4A(h) and, likewise, the compensation arrangements under rule 5.4A(h) may be established in the absence of any augmentations or extensions associated with the generator's connection. The AEMC's Draft Report appears to recognise the distinction between negotiated use of system charges and the compensation payments under rules 5.4A(h).¹

Further, as noted above, the payment adjustment provision in rule 6A.9.1(6) does not amount to the provision of firm or 'firmer' access (neither does any other provision in rule 6A.9.1 for that matter). As recognised by the new 'Note' to rule 6A.9.1 proposed by the Rule Change, the payment adjustment in rule 6A.9.1 reflects the reduction in costs to the TNSP of providing the negotiated transmission service associated with the subsequent use of, and payment for, the augmentation by another person. This does not involve any recognition that a generator is entitled to compensation, because, for example, it funds an augmentation to the shared network to avoid being constrained on or off.

Given this, VENCorp believes that it may be better to locate new rule 5.4A(h)(3) elsewhere in existing rule 5.4A or more desirably, design a new generator access scheme that would be implemented by participants more readily.

Finally, VENCorp also points out that that this rule change does not deal with two important issues relating to the application of rule 6A.9.1. They are:

¹ More specifically, the relevant passage from the Draft Report (at 131-2) reads as follows:

'Other provisions relating to pricing are contained in Chapter 5 of the Rules. These provisions enable TNSPs to contract with connection applicants or participants for the provision of particular services. Both Rules 5.4A and 5.5 provide for negotiated use of system charges to be levied on "connection applicants" to reflect the incremental costs (or savings) of any augmentations or extensions to transmission or distribution networks that arise from their new connection (see Rules 5.4A(f)(3)(i), 5.4A(f)(3)(ii), 5.5(f)(3)(i), 5.5(f)(3)(ii)).

Further, there are a series of provisions broadly relating to the topic of "firm access", in which TNSPs and participants make various "compensation" payments to one another under different market conditions (see Rules 5.4A(g)-(h) and 5.5(f)(4)). To the Commission's knowledge, agreements or payments pursuant to these Rules have not been implemented to date'.



- if the intention of the rule is to set up a framework to negotiate "funded augmentations", then similar to the notification processes required of other augmentations, what notification to the market is required of a TNSP? The Principles in rule 6A.9.1 contain no similar requirement; and
- does the same adjustment in price in rule 6A.9.1(6) occur when a load connects to the assets referred to therein or is it more appropriate for the asset to be classified as providing a prescribed service and be rolled into the TNSP's regulated asset base? If this were the best outcome, what should happen to the negotiated transmission charges contemplated by the rule?

Should you have any questions please do not hesitate to contact Franc Cavoli on (03) 8664 6616 or Louis Tirpcou on (03) 8664 6615.

Yours sincerely

A handwritten signature in blue ink, appearing to read "M. Zema".

Matt Zema
Chief Executive Officer