

Victorian Energy Networks Corporation

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Dr John Tamblyn
Chairman
Australian Energy Market Commission
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By Email: submissions@aemc.gov.au

24 February 2006

Dear John

Submission on Reform of Regulatory Test Principles

VENCorp welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Rule change consultation on Reform of the Regulatory Test Principles.

VENCorp supports these changes to the National Electricity Rules (Rules) and the principle of codifying the policy requirements underpinning the *Regulatory Test*, but has two concerns regarding the proposed Rules.

Firstly, VENCorp notes that the drafting of the new Rules has led to a potential inconsistency with other definitions within the Rules. Secondly, VENCorp believes that the process for amending the *Regulatory Test* should provide for greater consultation with the market.

In relation to the potential inconsistency, one of the purposes for undertaking a *Regulatory Test* is specified in the proposed principles - clause 5.6.5A(a)(1)(ii):

- (ii) in the event the option is necessitated to meet the service standards linked to the technical requirements of schedule 5.1 or in applicable regulatory instruments, minimise the present value of the costs of meeting those requirements;

While similar, this proposed requirement is different to the definition of a *reliability augmentation* contained within chapter 10 of the Rules, which is:

A transmission network augmentation that is necessitated **solely** by inability to meet the minimum network performance requirements set out in schedule 5.1 or in relevant legislation, regulations or any statutory instrument of a participating jurisdiction.

The difference between the two criteria is that a *reliability augmentation* is undertaken '**solely**' for network performance requirements set out in schedule 5.1. The Inter-Regional Planning Committee (IRPC) raised this issue to a proposed rule change regarding the Regulatory Test in its response to the AEMC on February 20th, 2006.

VENCorp supports the position laid out by the IRPC, which recommended that the Rules be amended by removing the words '**solely**' from the definition of a *reliability augmentation*.

VENCorp seeks clarity from the AEMC as to how this difference between the proposed Rules establishing the principles for the *Regulatory Test* and the definition of a *reliability augmentation* is to be managed.

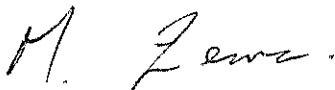
Clearly, the efficacy of the *Regulatory Test* is important to the long-term effective operation and efficiency of the National Electricity Market. In regard to consultation with the market, clause 5.6.5A(b) establishes the process that the Australian Energy Regulator (AER) must follow when amending the Test.

The proposed Rules do not specify any requirement to ensure all parties receive adequate time to give due consideration to the proposal as part of the change process, nor is there a requirement for the AER to appropriately consult on the proposed changes. For example, following the consultation process, clause 5.6.5A(b)(3) requires the AER to publish the Draft Decision, which is then followed by a requirement for the AER to publish the Final Decision. There is no requirement for the AER to consult on the Draft Decision prior to the publication of the Final Decision.

VENCorp believes that the process the AER should follow for amending the *Regulatory Test* should be consistent with the process the AEMC must follow in undertaking a Rule change, particularly in respect to the time frames and degree of consultation.

Should you have any questions please do not hesitate to contact Mr Mark Riley on ☎(03) 8664 6602.

Yours sincerely



Matt Zema
Chief Executive Officer