

15 September 2008

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

By email: submissions@aemc.gov.au

Dear John,

**Regulatory Test Thresholds and Information Disclosure on Network Replacements –
Submission in Response to Draft Rule Determination**

Grid Australia welcomes the opportunity to make this submission in respect of the Commission's Draft Rule Determination on Regulatory Test Thresholds and Information Disclosure on Network Replacements.

Grid Australia agrees with the Commission's decision to increase the thresholds for triggering the Regulatory Test consultation process. The increase in the small transmission network asset threshold from \$1 million to \$5 million is especially important as many routine small network investments, such as capacitor banks, now cost well in excess of \$1 million. Grid Australia is strongly of the view that seeking market feedback on such investments needlessly diverts scarce resources from other more critical tasks.

New Large Transmission Network Asset Threshold

Grid Australia's Rule change proposal, submitted to the Commission on 21 November 2007, proposed increasing the threshold for new large transmission network assets to \$35 million. This proposal was based on the objective experience of TNSPs over six years of conducting Regulatory Test consultations and the submissions received in response to those consultations.

The proposed threshold was put forward as representing an appropriate balance between the regulatory burden of conducting the Rules consultation process and the benefit to be derived from that consultation. On the basis of responses actually received through the consultation processes over the previous six year period, Grid Australia concluded that \$35 million was an appropriate threshold.

In its Draft Determination the Commission concluded that \$20 million was the appropriate threshold, primarily based on the increases in input costs that have occurred since the threshold was first established.

While it is the responsibility of the Commission to strike the appropriate balance on this matter, Grid Australia nevertheless considers that a higher threshold of \$35 million as originally proposed is also consistent with other recent regulatory developments.

Grid Australia notes that the Commission has recently published its Final Report on National Transmission Planning Arrangements. This report recommends a new Regulatory Investment Test for Transmission (RIT-T) and a new consultation process that reflects the requirements of the new RIT-T. The consultation process proposed in the Final Report includes an expedited process when the proposed investment costs less than \$35 million and does not provide any material market benefits.

The Commission has also recommended that the existing Regulatory Test continue to apply to transmission investments that are designed to address limitations in an underlying distribution network. Grid Australia submits that these investments, almost by definition, will not provide any material market benefits. Consistent with the proposed framework for the RIT-T, Grid Australia considers that an expedited consultation process should also apply under the current Regulatory Test for investments costing less than \$35 million.

Grid Australia would be pleased to discuss any aspects of this submission with the Commission or its staff.

Yours sincerely,



Rainer Korte
Chairman
Regulatory Managers Group