



Hydro Tasmania
the renewable energy business

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Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Emailed: submissions@aemc.gov.au

Review of the Electricity Transmission Revenue and Pricing Rules

Hydro Tasmania would like to thank the AEMC for the opportunity to assist the Commission in its development of the scope of work for the proposed review of Chapter 6 of the NER, as required by Section 35 of the NEL.

Hydro Tasmania strongly supports the proposed two-stage process, since this allows limited resources to be focussed on the area where the need is most pressing, namely the absence of clear Rules associated with transmission revenue determinations. This uncertainty derives from the fact that the Statement of Regulatory Principles, (SRP) forms the basis for decisions by Market Participants but this document does not form part of the NER.

At a time when there is a focus on whether the market will deliver sufficient generation investment, the AEMC should be cognisant of the increased regulatory risk and consequent deterioration in investment climate that would result from either too long a period of uncertainty or too wide-ranging a review. Hydro Tasmania consequently supports limiting the review to those areas of Chapter 6 where there are demonstrated material inefficiencies in the market and an expectation that a significantly better solution can be implemented.

TRANSMISSION REVENUE

Inclusions

Hydro Tasmania recognises that the effective operation of the National Electricity Market requires regulatory certainty, both for TNSPs and the market as a whole. Therefore we propose that this review be very focussed and consequently be limited to the matters covered in the SRP and any other specific areas where identified problems exist.

In our view, there are three matters which relate closely to TNSP revenue and should be considered. These are:

- An appropriate incentive regime is needed to ensure that TNSPs make efficient operating decisions. The incentive regime should be targeted at ensuring that

TNSPs are incentivised to optimise the **transfer capacity** of the transmission network, not just maximise network availability.

- The Rules for transmission revenue determination and the Rules for regional boundary adjustment must be developed in a consistent manner. That is, the economic benefits of transmission investment to remove network congestion should be considered on the same basis as the alternative of a regional boundary adjustment.
- In order that the Market continue to develop as a National market, the option for TNSPs to justify upgrades to inter-regional interconnectors and/or remote 'feeder' transmission infrastructure, on a market benefits basis, must remain within the regulatory test.

Exclusions

In addition to responding to the requirement for this review as specified in the NEL, The AEMC has also sought comments on:

- The relative merits of ex ante and ex post approaches to revenue determination
- A wider debate regarding the role of transmission that may lead to the requirement for TNSPs to provide some form of firm access
- The role of the Regulatory Test
- Valuation of network assets

Hydro Tasmania would prefer that consideration of these matters be given a much lower priority in the present review, in the interests of timely provision of market certainty.

TRANSMISSION PRICES

Hydro Tasmania notes that there is an NEL requirement to review the economic regulation of electricity transmission revenue.

However, with regard to pricing, we do not believe that the current rules in relation to the allocation of TNSP costs amongst market participants lead to economic inefficiencies or that these inefficiencies are of a magnitude significant enough to warrant the substantial disruption to the market that any change will create.

We do not see any clear empirical evidence, which demonstrates that a change to the pricing rules would result in a net benefit to customers. Consequently, we see no reason for a review in relation to pricing.

If you wish to discuss any aspect of this submission, please feel free to contact John Arneaud on 03 6230 5190 or by email on john.arneaud@hydro.com.au.

Yours sincerely

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