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The Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

25 September 2006

Dear Dr Tamblyn

**Transmission Pricing for Prescribed Transmission Services:
Rule Proposal Report**

I write in response to the Commission's Rule Proposal Report of August 2006 on transmission pricing. InterGen congratulates the Commission on its comprehensive approach to the issue and the clarity of the Report.

The Commission has determined that generators should see no change in transmission pricing signals.

InterGen agrees with the conclusion that there are no efficiency benefits to be gained by requiring generators to pay charges to recover the costs of sunk assets through Prescribed TUoS services. Given Australia's market arrangements it is efficient to assign these costs directly to customers. InterGen is more concerned about the Commission's conclusion that requiring new generators to pay deep connection charges (that is, charges covering the costs of investments in assets shared by more than one network user) will not materially improve the efficiency of new entrants' locational decisions. However, I welcome the Commission's decision to consider the issue under the congestion management review. It is important that decisions and Rule changes on transmission pricing do not hinder reforms which may emerge through the congestion management review.

InterGen recognises that congestion is not presently a material issue anywhere other than in relation to the Snowy region. This means it is now a very good time to consider the development of network pricing arrangements targeted at long run investment - rather than short run consumption - horizons to drive better network locational decisions by new entrants. As additional generation is built across the market, under-signalling the costs of emerging congestion to new entrants will create the potential for new plant to be located such that the future benefits obtained from incumbent plant will be diminished inefficiently. The same risk will apply in the future to those new entrants. Requiring new entrants to

contribute to the long run costs of providing them with some specified level of access to the market will be much less complex and disruptive than measures which affect the short run, such as some form of nodal pricing without allocated property rights for incumbents, for example. InterGen understands concerns that the introduction of deep connection charges could form a barrier to new entrants; however a deep connection regime should be framed such that the costs of providing the access are less than the benefits.

InterGen looks forward to elaborating on this issue in the context of the congestion management review.

Yours sincerely

[By email]

Don Woodrow
Manager, Public Policy & Regulation