Macquarie Generation

Corporate Office

34 Griffiths Road
LAMBTON NSW 2299

PO Box 3416
HAMILTON DELIVERY CENTRE
NSW 2303 AUSTRALIA

Telephone 61 2 4968 7499
Facsimile 61 2 4968 7433
Website www.macgen.com.au
ABN 18 402 904 344

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Email: submissions@aemc.gov.au

Dear Dr Tamblyn

ELECTRICITY TRANSMISSION PRICING RULES

Macquarie Generation appreciates the opportunity to comment on some of the key regulatory matters outlined in the Commission's Issues Paper, *Transmission Pricing, November 2005.*

Recovery of network charges

Macquarie Generation does not consider that there is a compelling case to move away from the current arrangement for recovering transmission costs whereby generators pay shallow connection charges and customers pay shared network costs.

In particular, Macquarie Generation does not support a regime of deep connection charges for new generation projects even if such charges create some form of physical or financial property right during periods of transmission congestion. Such a regime would introduce an unnecessary level of complexity to the current market arrangements, for example if it entailed a system of rebates from new generation investors to those generators that had previously funded transmission upgrades.

Deep connection charges and transmission property rights are not consistent with the principles of an open access transmission regime. The introduction of a new system of charges under which new generation investors would pay for any consequent transmission upgrades would effectively create a new category of participant. It presumes that incumbent generators have some form of implicit right of access to the existing system while only paying shallow connection costs.

It is worth noting that incumbent generators are presently exposed to the risk of competition by new entrant generators regardless of the presence of network congestion.

Macquarie Generation believes there are sufficient locational signals currently in place to drive efficient generation investment decisions. For example, a proponent of a new generation project must take account of the following key factors when selecting a project site, namely:

– *Availability of fuel:* the main locational driver for any new generation project is access to a competitively-priced fuel source;

– *Network losses:* generators bear the cost of network losses and must factor such costs into any project assessment;

– *Air shed constraints:* increasingly strict emissions limits will reduce the number of available generation sites adjacent to major metropolitan areas;

– *Adequate water supplies.*

Proponents of any new power station project must also take account of the likely level and frequency of network congestion before committing any project finance. If there were limited capacity in the transmission network, the proponents would need to be confident that the plant had lower fuel costs than its competitors or, alternatively, that there was a realistic prospect of transmission upgrades in that part of the network.

Macquarie Generation agrees with the Commission's analysis of the problems associated with implementing a beneficiary pays regime for the recovery of shared network charges. Not only would it be difficult to calculate relative benefits between generators and customers in practice, such a regime does not deliver any signal for the more efficient use of sunk transmission infrastructure, it merely reallocates the incidence of the charge.

Prudent discounting of shared transmission costs

Macquarie Generation believes that the Rules should allow TNSPs some scope to negotiate discounts in the transmission charges recovered from major loads in the following circumstances:

1. Where there is a credible option for a major load to by-pass the transmission system because duplicating the transmission infrastructure is less expensive than paying full transmission charges;

2. For major new loads where the financial viability of a project is dependent on some reduction in transmission charges to ensure that the project proceeds.

In both cases, the loads would still pay a proportion of the shared network charges for access to the transmission system. Such charges would contribute to the TNSP's fixed and common service charges and offset the charges paid by other users of that transmission infrastructure.

The prudent discounting arrangement should not be viewed as a subsidy from existing customers. In the absence of such an arrangement, common service charges would be recovered from a smaller pool of customers and individual charges would be higher.

Macquarie Generation considers that the existing ACCC *Guidelines for the Negotiation of Discounted Transmission Charges, 3 May 2002*, provide a reasonable framework for negotiating TUOS discounts and the AEMC should recognise those guidelines in the development of revised Rules for transmission charges.

Congestion management

The upcoming AEMC review of congestion management in the NEM will provide an opportunity for all interested parties to comment on constraint management issues, regional boundary criteria and the regulatory test. That review is the appropriate forum to examine alternative mechanisms for managing transmission congestion. As such, Macquarie Generation considers that the current review of transmission pricing should not canvass the introduction of arrangements that provide generators with property rights to access the transmission system.

Yours faithfully

RUSSELL SKELTON
MANAGER MARKETING & TRADING

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