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John

Dear Dr. Tamblyn

National Electricity Rule Proposal: Pricing for Prescribed Transmission Services

EnergyAustralia welcomes the opportunity to comment on the Australian Energy Market Commission's (the AEMC's) proposed Rule change for Prescribed Transmission Services.

EnergyAustralia owns both transmission and distribution assets and is well versed in the application of the existing transmission pricing arrangements. We employ the transmission pricing arrangements for the pricing of both transmission and distribution services to large customers, using a pricing model which is larger than that of any other TNSP. We are also uniquely placed to comment on the AEMC's proposals from an end use customer perspective, as for about 50 of our larger customers the transmission cost is very significant.

In part to support our seamless pricing arrangements, we are pursuing changes to the Rules which will achieve a single regulatory regime for both its transmission and distribution assets and a single determination. A more detailed description of this regulatory problem, and the proposed solution, is contained in separate submissions to the AEMC.

In our response to the proposed rule change, we have outlined the following concerns:

- In broad terms, we accept that the AEMC's approach to simplifying the Rules by removing the detail of the transmission pricing arrangements may be appropriate;
- We would prefer to see a high level of pricing prescription maintained by the Rules and any separate document;
- The current approach to pricing should remain unless modified by the Congestion Management Review or subsequent review;
- We are concerned that some of the AEMC's proposed changes to the cost allocation process, and in particular its 'causer pays' principle, have not been fully considered and will lead to changes in the pricing allocation which will significantly affect end use customer prices, rather than increased efficiency of pricing;

- The AEMC's proposal to provide greater discretion by TNSPs in the allocation of cost is contrary to attaining a single national transmission pricing regime; and
- We believe the AEMC's proposal to permit the Australian Energy Regulator (AER) to develop transmission pricing methodology guidelines confers undue discretion on that regulator to modify the current arrangements, notwithstanding that guidelines are proposed to be developed in accordance with pricing principles embodied in the Rules. The separation of roles of the AEMC as rule maker and the AER as rule enforcer is a fundamental principle of the National Electricity Market governance. EnergyAustralia has expressed this concern to the AEMC in other submissions.

EnergyAustralia has provided specific changes to the Proposed Rules to accompany this submission.

Please feel free to contact Mr. Harry Colebourn on (02) 9269 4171 if any clarification of this matter is required.

Yours sincerely

George Maltabarow

GEORGE MALTABAROW
Managing Director

Attachment: 1. Submission
2. Rule change

EnergyAustralia®

Submission to AEMC Transmission Pricing for Prescribed Transmission Services: Rule Proposal

September 2006

Proposed Transmission Pricing Rule

Executive Summary

EnergyAustralia welcomes the opportunity to respond to the Australian Energy Market Commission's (the AEMC's) proposed Rule change for Prescribed Transmission Services.

EnergyAustralia owns both transmission and distribution assets and is well versed in the application of the existing transmission pricing arrangements embodied in the National Electricity Rules (Rules). We employ the transmission pricing arrangements for the pricing of both transmission and distribution services to customers with loads of 10MW or greater, using a pricing model which is larger than that of any other TNSP. We are uniquely placed to comment on the AEMC's proposals from an end use customer perspective, as we have eight customer connections to our transmission network and over 40 other large customers with cost reflective prices, for whom the transmission cost is a major component of their network charge.

EnergyAustralia is also in a unique position in the NEM due to the appointment of TransGrid as the Co-ordinating Network Service Provider under the current Rules for the NSW region. As a result, the cost allocation methodologies employed by EnergyAustralia and TransGrid must be inextricably linked.

Consistent with our use of compatible distribution and transmission pricing arrangements for customers, EnergyAustralia is pursuing changes to the Rules which will achieve a single regulatory regime for both its transmission and distribution assets and a single determination. EnergyAustralia has provided a more detailed description of this regulatory problem, and the proposed solution, in separate submissions to the Commission.

The AEMC's approach to simplifying the Rules by removing the detail of the transmission pricing arrangements may be appropriate. However, EnergyAustralia believes that most transmission businesses have no real issue with maintaining a high level of prescription in the Rules. Although this level of detail may appear complex, it enables customers to understand the derivation of transmission pricing and should remain the basic approach until and unless modified by the Congestion Management Review (CMR) or subsequent review.

Having taken this path towards a "principles based" approach, the Commission has prepared a Draft Rule which is a solid representation of the Commission's intent. The Commission should be commended for a well structured Rule.

Nevertheless there are some issues surrounding the content of the Rule which should be revisited. EnergyAustralia is concerned that some of the changes the Commission proposes to the cost allocation process, in particular its 'attributable cost share' principle, have not been fully considered and will lead to changes in the pricing allocation which will significantly affect end use customer prices, rather than lead to the increased efficiency of pricing.

The background to the present transmission pricing arrangement is that it was developed over several years with extended consultation. It formed the basis of a national transmission pricing system which was intended to transcend jurisdictional and asset ownership boundaries. This, presumably, must remain an important feature which is entirely consistent with the NEM objective. The Commission's proposal to provide greater discretion by TNSPs in the allocation of cost is contrary to this objective.

Finally, we believe the Commission's proposal to permit the AER to develop transmission pricing methodology guidelines confers undue discretion on that regulator to modify the current arrangements. Notwithstanding that guidelines are proposed to be developed in accordance with pricing principles embodied in the Rules, the imposition of mandatory or binding guidelines by the AER violates a fundamental principle of the National Electricity Market (NEM) governance – the separation of roles of the rule maker (AEMC) and the rule enforcer (AER). Binding guidelines would effectively be extensions of the Rules made by the AER. EnergyAustralia has also expressed this concern to the AEMC in its other submissions.

EnergyAustralia has provided specific suggested changes to the Proposed Rules in Attachment 1 to this submission to implement policy changes set out in this submission.

1 Framework and Approach for the Proposed Pricing Rule

1.1 The importance of Transmission Pricing

EnergyAustralia agrees with the Commission's assessment that the Rules should be primarily concerned with efficiency and good regulatory practice and promote the outcomes of stability, predictability and transparency[1]. We believe the issues directly relating to transmission pricing should be addressed with these outcomes in mind. In this regard:

- The concept of a "causer pays" as a principle for transmission pricing provides a high level approach to how revenue should be allocated to service classes, but is insufficient as a concept to provide any stability or consistency of pricing across the NEM;
- We believe users are best served by a nationally consistent approach to transmission price regulation. This understandably requires a comprehensive response from policy makers and a sufficient level of detail;
- We do not believe the market is best served by high level pricing principles that can be subject to interpretation by TNSPs, regulators and users alike;
- The decision of who pays what (allocative decisions) needs to be separated from how they pay (price structures which influence consumption) and how much they pay (revenue considerations such as form of price control and type of regulatory approach);
- We support an approach which establishes the methodology and principles in the rules and leaves implementation issues to be developed by the TNSP (and overseen for compliance by the regulator). However conferring unlimited discretion on the AER to develop guidelines that are imposed on a business is both inappropriate and unnecessary.
- We support innovation in regulatory design and methodology. However, we are concerned that rather than encouraging innovation in pricing methodologies, the proposed Rule will serve to encourage inconsistent behaviour across the NEM with consequential distortionary distributional impacts; and
- Developing cost reflective network prices for Transmission pricing is a specialised and technical process. Indeed, the current process was established over an extended period of time, involving extensive consultation with industry participants. Therefore, EnergyAustralia believes that there is considerable risk in introducing a new methodology based on new definitions and pricing principles.

1.2 Transmission Prices Should Provide Efficient Locational and Investment Signals to Participants

In summary:

- Long run marginal cost is appropriate;
- There is little benefit in introducing complex pricing arrangements at the transmission level that cannot be passed through to customers by DNSPs;
- The proposed new "attributable share" allocation method may not be consistent with long run marginal costs.

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[1] Pricing Rule Proposal p23

It is considered that TUoS pricing arrangements should focus on long run considerations, by passing on the costs of transmission network infrastructure through prices which, to the greatest extent possible, contain a price signal that aligns with the long run costs of the network.

TNSPs do not directly supply the great majority of customers, which are connected to distribution networks. The price signals imposed by TNSPs must be capable of being passed through (preferably preserving the price signal) to end use customers and this is largely influenced by existing metering arrangements. There is little benefit from implementing complex price signalling at the transmission level (especially short run cost signalling) that cannot be passed through to the load customers by the distributors. In this regard, it should be noted that EnergyAustralia is at the forefront in rolling out Time of Use (ToU) prices to its customers and directly passes on ToU transmission prices to those customers.

EnergyAustralia has long held the view that in the context of network infrastructure businesses, pricing needs to reflect the marginal costs of increasing output (ie. long run marginal costs). These long run costs, if reflected in network prices, provide signals as to the cost of usage, while at the same time provide the price stability necessary to enable the users of the network to make informed and appropriate choices concerning their investment and operational programs. The pricing arrangements for transmission should thus place priority on long run price signalling.

The existing transmission pricing arrangements embodied in the Rules, whilst admittedly imperfect in some respects, were intended to be a surrogate for the LRMC of network cost. Particularly when the “modified CRNP” approach is adopted, the pricing allocation results in higher costs on congested parts of the network and lower prices where greater spare capacity exists.

The AEMC has proposed a “causer pays” approach, with the network cost allocation based on “attributable cost share” rather than the Optimised Replacement Cost (ORC). This type of approach was considered at the time the existing transmission pricing regime was developed, but was eventually rejected. It does not attempt to mimic the network LRMC and would instead create the following significant issues:

- Prices in newer portions of the network would be higher than those in older parts for exactly the same level of service. Network assets generally have serviceable lives of 40 years or more and in EnergyAustralia’s case, a customer supplied via the older 33 kV network would enjoy a lower price than one connected via the generally younger 132 kV network for the same level of service.
- Customers would receive very substantial price increases with the provision of new shared network assets, or when assets were refurbished (whilst all the time enjoying identical levels of network service).
- It is not clear from the AEMC’s proposal whether it is intended that the “attributable cost share” would be recovered from the last customer to cause an augmentation (in which case it would simply become a “deep connection” charge), or whether all customers at a connection point to the network would receive the same charge.

In summary, the AEMC’s proposed approach appears to be still in its infancy and requires a lot more consideration of its impact on customers before it could be feasibly introduced. The present arrangements were the result of several years of investigation and development, involving extensive consultation with market participants. Such a radical change from the existing cost allocation approach after a few months’ consideration and very limited industry consultation suggests the potential customer impacts may have been underestimated.

The AEMC must adhere to the NEM objective, which states in the NEL that the electricity market objectives must consider both efficient investment in (ie. long run costs) and efficient use of (short run costs) electricity services. Recovering long run costs is essential to uphold the regulatory principle of financial capital maintenance, where a TNSP is able to recover the full costs of prudent investments in net present value terms.

The AEMC's approach may lead to prices which are higher at the start of an asset's life and would decline over the life of the asset. In most instances, this cost profile would directly oppose the profile that would arise from the situation of increasing load throughout an asset's life. Such an outcome would run contrary to the use of efficient prices to signal congestion on the network and the need for further system augmentation.

The electricity market is currently based on short run costs and its settlement includes the cost of losses, based on the product of long run percentage estimates, short run prices and quantities. To the extent that there are synergies between short run market price signals and short run network considerations (e.g. outage conditions), pricing which can induce customer behaviour in both a short and long run sense is appropriate. Achieving these objectives is one of the primary aims of EnergyAustralia's Strategic Pricing Study, which is currently trialling a series of Dynamic Peak Prices that increase in periods of network constraints and high wholesale energy prices.

1.3 The Need for Regulation and Form of Regulation

In summary:

- It is acknowledged that some form of regulation is required;
- The revenue cap is still the most appropriate form of pricing control for transmission businesses.

For prescribed transmission services, EnergyAustralia acknowledges the need for ongoing regulation due to the presence of monopoly characteristics. For transmission services where TNSPs posses less market power (eg. connection services), permitting contestable market forces to work or light-handed regulation is more appropriate. Light-handed regulation could take the form of transparency in the disclosure of negotiation and pricing principles, in a similar vein to the Independent Pricing and Regulatory Tribunal's (IPART's) current treatment of excluded distribution services in NSW.

2 Key Network Pricing Issues

2.1 Shallow versus Deep Connection Charges and TUoS Charges for Generators

In summary:

- Current arrangements for generator connection charges are appropriate.

EnergyAustralia supports the Commission's decision not to move away from the existing allocation of generator connection charges.

A deep connection policy is not advocated by EnergyAustralia, although there are some circumstances where the recovery of more than the shallow connection cost would be appropriate as the recovery of only direct connection costs would lead to inefficient and inequitable outcomes. IPART's capital contribution determination makes provision for the recovery of deep network costs in two circumstances - large load customers (greater than 50% of existing capacity) and rural extensions. The policy also caters for the partial refund of a capital contribution if a second customer was to make use of the deep contributed asset within a seven year time frame.

EnergyAustralia does not consider a deep connection approach to be compatible with the open access transmission regime of the NEM. Potential "free-rider" effects are considered to be best managed through an efficient TUoS pricing arrangement.

The Commission has asked for stakeholder views on the VenCorp guidelines and their consistency with the Commission's approach to the delineation between negotiated and prescribed transmission services.

EnergyAustralia notes the Commission's further consideration of the delineation between negotiated and prescribed services which is consistent with the reliability and market benefit limbs of the regulatory test. EnergyAustralia believes that this is a movement in the right direction. However, this issue is, and has been, discussed as part of the development of Rules regarding revenue regulation. In this regard, we note the comments in the pricing Rule proposal contrast to the transmission revenue draft determination in which the Commission states that this issue is best dealt with through cost allocation principles.

EnergyAustralia's submission to the transmission revenue draft determination was that the delineation offered by the Commission was an improvement on the existing Rule. However, there was concern that it was capable of different interpretation. EnergyAustralia welcomes further consideration on the issue and hopes that it will be resolved prior to the release of the final determination for transmission revenue regulation.

2.2 Prescribed Generator TUOS Charges

EnergyAustralia notes the Commission's preliminary decision to remove the scope for prescribed Generator TUoS charges in the Rules.

EnergyAustralia has previously argued that the introduction of a locational use of system charging regime similar to that in operation in the United Kingdom may introduce greater economic efficiency into the pricing regime.

Existing software and processes could readily be modified to identify assets principally constructed for, and still principally enabling, generator connection. These reallocated costs would be minimal in comparison to other generator input costs, so price shocks to generators are not expected to be substantial. The reallocation would, however, improve allocative efficiency through more cost reflective pricing for users of the transmission network. Furthermore, it would remove the need for the existing flawed TUoS pass through regime.

In the long term, the development of arrangements like those put in place by Ofgem would be more appropriate and could lead to generators receiving payment where they were connected in constrained areas of the network.

Even if the Commission does not believe that the additional complexity, customer impacts and cost of introducing such a system is warranted at this time, EnergyAustralia maintains that this option should not be precluded in the future.

2.3 Transmission Pricing between Different Network User Locations

In summary:

- CRNP should continue as the default pricing methodology;
- CRNP should be specified in the Rules;
- It is inappropriate for the AER to issues guidelines on CRNP Pricing.

EnergyAustralia strongly supports the Commission's finding that the CRNP framework should not be removed. Although it may appear complex to outsiders, the CRNP approach has strong synergies with existing techniques used by TNSPs for planning purposes (ie. load flow analysis) and TNSPs have already invested in systems and processes to administer it. While it is not put forward as a panacea, the CRNP approach was considered superior to even less transparent alternatives at the time of its original development and has been the subject of an extended review by NECA. The approach has been developed with extensive consultation of industry participants.

The Commission appears inclined to address concerns raised by some that the Rules contain excessive detail on the mechanics of CRNP. EnergyAustralia acknowledges that there may be scope for streamlining the Rules by removing the fine detail of CRNP. However, the Rules should unequivocally preserve CRNP as the default pricing mechanism and not permit it to be modified without modifying the Rule.

Under the current regulatory regime, there is a legitimate role for the AER to ensure that a pricing methodology proposed by a TNSP (such as CRNP or modified CRNP) accords with the Rules.

However, EnergyAustralia opposes plans to permit the AER to develop transmission pricing methodology guidelines. This proposed new arrangement confers undue discretion on the AER to set policy and modify the current arrangements. Notwithstanding that guidelines are proposed to be developed in accordance with pricing principles embodied in the Rules, the imposition of mandatory or binding guidelines by the AER violates a fundamental principle of the National Electricity Market (NEM) governance – the separation of roles of the rule maker (AEMC) and the rule enforcer (AER).

Binding guidelines introduce a second layer of regulation into the price setting process which, given the trade-offs that often exist in pricing principles (equity versus efficiency, price stability and efficiency), could potentially be in conflict with the Rules. We are not opposed to guidelines which provide "guidance" to a TNSP in how the AER will administer a process or make a decision. However, in order to establish appropriate governance arrangements, all substantive requirements should be set out in the Rules, so the AER guidelines are not binding. EnergyAustralia has also expressed this concern to the AEMC in its other submissions.

EnergyAustralia proposes that the pricing methodology guidelines be amended to be guidelines for approval of a pricing methodology. CRNP and Modified CRNP would already form part of these guidelines. Guidance for how alternate pricing methodologies are approved serves four purposes:

- It retains the existing framework for well accepted pricing methodologies – CRNP and modified CRNP;
- It establishes distinct frameworks for pricing methodologies rather than forcing the AER to assess unique approaches at every reset;
- It allows for innovation by giving the TNSP the opportunity to consult with the market on new pricing approaches; and
- It does not mandate an obligation on a TNSP, but provides procedural guidance on how the AER will assess whether a pricing methodology will be approved.

Leaving the issue of governance principles aside, the development of the CRNP methodology is inherently complex and relies heavily on TNSP's operational-based practices. There is a real risk that guidelines developed by those without the sufficient technical expertise in these areas would not yield a satisfactory outcome. It is difficult to see how the AER would be in a position to improve on the current process, especially given the tight timeframes.

There is a potential risk that opening up revenue allocation to different user classes to "innovative" pricing methodologies will result in diverse pricing structures applying across the NEM and considerable uncertainty for TNSPs, the AER and customers. An important principle of the NEM is the development of a national, consistent framework. This is an argument for setting out an established system such as CRNP as the default arrangement in the NEM.

EnergyAustralia believes that no major changes to transmission pricing principles or the Rules that relate to the fine detail of the price-setting process should occur without adequate involvement from TNSP pricing practitioners, in order to compare and contrast their practices and identify those areas where clearer description in the Rules would assist in providing uniformity.

The Commission's paper has introduced terms such as causer pays which will also need to be adequately defined in the context of transmission pricing arrangements.

2.4 Transmission Pricing for Different Consumption and Production Patterns

In summary:

- **The current absence of prescription on transmission pricing structures is appropriate and enables prices to reflect individual circumstances.**

EnergyAustralia believes that the current emphasis of "who pays what" over "how they pay" in the current rules is appropriate. The lack of prescription of transmission pricing structures in the Rules has enabled TNSPs to set prices for their network which reflect their individual circumstances. The capex drivers of each TNSP, along with the specific mix of customers (eg. whether end use or distributor, type of metering, or ability to respond or pass on the signal) need to be considered in framing an appropriate price structure. These factors have led to the TNSPs adopting a diverse range of pricing structures – any moves to unify price structures will cause reduced flexibility and price shocks to some customers, with no material benefit.

It is considered that the price structure is best left to the individual businesses concerned and that greater prescription in the Rules would stifle more innovative arrangements that might be appropriate. An important factor in setting the structure of TNSP's prices should be the ability of distributors to pass these on to end use customers.

3 Principles for Cost Allocation and Price Structure

3.1 Principles for Allocation of the AARR to Prescribed Transmission Service Categories

In summary:

- Changes to cost allocation process, such as "causer pays" principle may not have been duly considered;
- There is the potential for significant customer impacts and a shift away from a unified national approach.

EnergyAustralia is concerned that some of the changes the Commission proposes to the cost allocation process, in particular its 'causer pays' principle, may not have been fully considered and will lead to changes in pricing allocation that will significantly affect end use customer prices, rather than improving pricing efficiency. This may result in undesirable price shocks for customers and a further shift away from a consistent national approach to transmission pricing.

It is noted that the Commission's approach has been developed in order to preserve the existing allocation arrangements. However, EnergyAustralia has concerns that this may not be the outcome in practice under the proposed Rule changes.

For instance, the Commission has suggested that the AER will be drafting guidelines to clarify the meaning of terms such as "attributable cost share", with a view to providing greater certainty to TNSPs and stakeholders that a proposed pricing methodology will be approved. However, without knowing the content of such guidelines, TNSPs will not be able to take complete comfort that existing methods will be sanctioned.

The background to the present transmission pricing arrangement is that it was developed over several years with extended consultation as the basis of a national transmission pricing system which would transcend jurisdictional and asset ownership boundaries. This, presumably, must remain an important feature which is entirely consistent with the NEM objective. The Commission's proposal to provide greater discretion by TNSPs in the allocation of cost is contrary to this objective.

Subject to the findings of the pending CMR review, the Commission has found that there is no need for substantive change to the general means by which TNSPs set prices for prescribed transmission services. However, the proposed new pricing principles and proposed changes to the allocation process could result in a substantial variation in target cost reflective prices for larger customers. This may be contrary to the Commission's intention of not imposing significant changes to the status quo, reducing price stability for customers.

Specifically, EnergyAustralia has concerns regarding the adoption of an either/or allocation of revenues based on either regulatory asset base (RAB) values or operational and maintenance expenditure (opex). The proportion of opex to RAB is almost immaterial so allocating revenues based on opex can lead to very different and inappropriate results. Referring to the Commission's example on page 52:

> *"Extending the above example by way of illustration, assume that a TNSP incurred $30 million in operations and maintenance costs in providing Common Transmission Services and had total operations and maintenance costs of $90 million. This implies that one-third of operations and maintenance costs were attributable to Common Transmission Services. The TNSP could then allocate between one-tenth ($20m) and one-third ($67m) of its AARR to Common Transmission Services, depending on how its methodology took account of both of its asset and operations and maintenance cost ratios."*

This provides a significant amount of latitude to TNSPs, especially where opex costs are allocated according to a different driver than asset values. As a result, TNSPs have the potential to apply a litany of inconsistent accounting treatments.

The Commission also notes on page 53:

> *"That is, the Commission does not wish to require TNSPs to maintain ORC asset accounts purely for the sake of developing transmission prices, so long as they maintain databases of other suitable measures of asset cost."*

EnergyAustralia does not believe that this is an issue, as TNSPs maintain asset registers on an ORC value basis in order to comply with accounting standards – or at least a common convention for value prior to impairment based on RAB. The need to maintain ORC accounts should not be a reason to seek alternative allocation methods.

Further, the Commission states on page 53 that:

> *"As the Proposed Rule emphasises attribution to the service that causes the development of the relevant asset or the incurring of the relevant O&M expenditure, it should also avoid the issue raised by Stanwell of common service assets being reclassified as entry assets at a later point in time. Attribution based on causation implies that attribution does not change if and when the use of the asset (or subject of the expenditure) changes."*

Therefore, if a line is originally built for an entry service and later it is used for load, this could be interpreted as meaning that that the attribution does not change just because the use of the asset changes.

In a similar vein, the issue of priority of ordering of services is a concept subject to interpretation. For example, what happens if an asset built primarily for load eventually supports an entry service because of its location?

3.2 Principles for Allocation of the AARR for each Prescribed Transmission Service to Connection Points

A notable change from the status quo is the proposal for all adjustments to prescribed transmission revenue to be made directly from the AARR, as opposed to the current practice of removing them from the TUoS General Charge. The Commission states on pages 55-56 that:

> *"Under the present Rules, adjustments to the amount of revenue that TNSPs are entitled to recover in a particular year through charges for Prescribed Transmission Services are reflected only in the magnitude of the Customer TUoS General Charge.*
>
> *The Commission considers that it is more appropriate for all adjustments to the amount of revenue that may be recovered from Prescribed Transmission Service charges are made at the outset, directly to the AARR, rather than through the Customer TUoS General Charge."*

The Commission does not appear to provide adequate justification as to why adjustments such as IRSRs represent adjustments to the AARR, rather than to the TUoS general charge.

The likely impact of this change is that adjustments to the overs and unders account, settlement residue auction proceeds and various other cost pass-through items will be made to the general allocation, as opposed to a particular service class. This will obviously increase the amount of revenue to be collected from the customer TUOS General charge. The Commission has asked for specific comment on this issue.

In EnergyAustralia's view, this proposed change will result in a significant reallocation of costs. For instance, TransGrid's settlement surpluses are in the order of $60M, representing about 15% of the total pool of $430M. This would result in a material year on year variation in the locational portion of the price signal, which is intended to convey a long run price signal. This change in price setting will impact those customers who have high off peak energy use with a good load factor, while benefiting customers with poor load factor with peaky profiles. The proposed change will therefore run counter to the goal of efficient signalling.

3.3 Principles for Allocation of the ASRR for each Prescribed Transmission Service to Connection Points

In summary:

- EnergyAustralia supports the Proposed Rule changes to allow greater flexibility in allocating the ASRR to connection points, as this facilitates modified CRNP and leads to more efficient outcomes;
- There may be some distributional consequences and reduced national consistency of pricing outcomes.

EnergyAustralia has no major objection to the Commission’s proposed Rule changes for allocating the ASRR amongst connection points. This Rule change preserves the current arrangement, but also allows for greater flexibility in pricing designs.

By allowing scope for the share of locational and non-locational components to be allocated on the basis of a reasonable estimate of future network utilisation and the likely need for further network augmentation (ie. not necessary the default 50/50 split), the Commission is effectively removing some of the existing bias against the use of modified CRNP pricing. This will allow the pricing methodology to be more tailored to the specific needs of the network at a given point in time – either increasing the share of locational component to provide congestion pricing signals on a constrained network, or increasing the share of non-locational component where the system is experiencing minimal load growth.

In this way, prices rise as utilisation increases, signalling the need for augmentation, and then fall once augmentation is complete and spare capacity exists. This provides the marginal cost “saw tooth” that can promote greater economic efficiency where prices would vary over a time frame compatible with customers’ investment decision making. Standard CRNP provides TNSPs with a blunter tool to send the appropriate price signals.

The Commission’s approach is likely to lead to more efficient pricing outcomes. However, it is noted that a side effect of this outcome may be the potential distributional impacts which may affect certain users. In addition, the flexible arrangements may reduce the consistency of network pricing regimes across the NEM.

Given the potential for new options to be developed, it is hoped that these proposed new flexible arrangements do not lend themselves towards more intrusive regulation in the form of guidelines on the most appropriate methodology to use. As an alternative to additional guidelines, EnergyAustralia has suggested that the Rules could map out a scale of capacity utilisation levels and the corresponding proportion of the usage charge component applied by TNSPs under a modified CRNP regime. This would minimise potential disputes by providing guidance to market participants. This proposal could effectively represent a “tiered system” of locational pricing signal in response to various utilisation levels, which may provide more consistency among TNSPs.

3.4 Principles for Pricing Structures

In summary:

- EnergyAustralia supports the proposed pricing principles in the Rules.

EnergyAustralia has no objection to the proposed principles for pricing structures used to recover the proportions of the ASRRs. Where possible, TNSPs should have flexibility to determine the most appropriate pricing structure, taking account of the particular circumstances of the individual customers and network.

4 Procedural Framework

4.1 Procedural Framework

In summary:

- AER should not be able to develop binding guidelines;
- Information requirements should be set out in the Rules;
- Consultation should only be required for new pricing methodologies;
- Further clarification is sought where a region has a co-ordinating TNSP.

The key features of the Commission's proposed procedural framework are:

- an obligation on the AER to develop Pricing Methodology Guidelines in a number of specified areas;
- aligning the obligations and timeframes for approval of a proposed pricing methodology with the process proposed in the Draft Revenue Rule for approval of a Revenue Proposal and proposed negotiating framework.

EnergyAustralia has strong concerns with the Commission's proposal to bestow open-ended powers on the AER to develop guidelines, particularly when the Rules already provide sufficient guidance for the TNSP in a policy and procedural sense.

The guidelines in this case will only augment the existing requirements, and may in fact lead to contradictions, misinterpretations and inconsistencies between the Rules and the guidelines. EnergyAustralia's preference is for a Rule that provides sufficient guidance for the TNSP to propose or develop pricing proposals and sufficient guidance for the AER to assess for compliance. Our preference is for guidelines to be developed as a safe harbour, so that if a process or application is in line with the guidelines it immediately complies with the Rules.

Under the proposed arrangements, the AER is charged with the responsibility to ensure TNSPs' prices are consistent with the approved pricing methodology, relying on its general monitoring and enforcement powers under the NEL. The Commission has sought comment on whether this regime is likely to provide a sufficiently robust framework to deal with the issues of concern to both TNSPs and network users.

EnergyAustralia has no objection to this proposed arrangement in principle, provided the AER has no involvement in developing the pricing methodology itself. EnergyAustralia is not suggesting that the AER should have no role for developing guidelines at all, but this role must be restricted to procedural issues associated with the implementation of a particular Rule. Under this principle, the AER would be precluded from developing guidelines that relate to policy issues or any form of mandatory guidelines – these are clearly the domain of the AEMC.

The Commission notes on page 68 that:

> *"The Proposed Rule provides transmission users with two key opportunities to become familiar with, and contribute to, the development of the pricing methodology through the:*
>
> - *Consultation and approval process for the TNSPs' pricing methodologies – TNSPs' proposed methodologies must be reviewed by the AER and are subject to several rounds of public consultation. The AER will be required to set information requirements (as it must under the Draft Revenue Rule) to ensure both it, and the market, are fully informed about the TNSP's proposed methodology; and*
> - *Establishment of the AER's guidelines in areas where more detail is required for the application of the principles."*

Clause 6A.31 of the proposed Rule provides for the information guidelines to be prepared by the AER under proposed clause 6A.17.2 of the draft Revenue Rule. This clause includes requirements in relation to the information to be exchanged by TNSPs to permit cost allocation and calculation of prices for the interconnected transmission systems or where there is a coordinating TNSP.

Again, consistent with EnergyAustralia's position outlined previously in this and other submissions, the information requirements should be set out in the Rules, as it is inappropriate for the AER to develop binding guidelines. Therefore, it would be appropriate for the information exchange requirements to remain substantive obligations - they are currently contained in clause 6.9.1 of the Rules.

In addition, Clause 6A.32 proposes to carry over the existing clause 6.9.2 in relation to the confidentiality of pricing information. This clause applies to "all information used by a TNSP for the purposes of transmission service pricing" and requires that pricing information be treated as confidential in the same way as other confidential information under the rules. The Commission has specifically sought comment on this provision.

EnergyAustralia believes that description of the information is cast very wide and may capture information that is not by its nature confidential. Although the provision allows disclosure and use as contemplated by the Rules, EnergyAustralia suggests that there should be some process for information which is not of its nature confidential to be disclosed by TNSP where no breach of confidentiality will occur.

In general, EnergyAustralia is supportive of consultation and transparency in the regulatory process. However, if a DNSP is using an established method such as CRNP, provided it satisfies the Rules, the AER should automatically approve the pricing methodology. The consultation process should therefore only be triggered in the event that a TNSP proposes a new pricing methodology.

There are also several aspects of the procedural framework which might benefit from some clarification. As currently drafted the proposed pricing Rule contemplates that a TNSP's pricing methodology will be submitted to the AER for approval at the same time as its Revenue Proposal and Negotiating Framework. This implies that the methodology will operate for the same period as the regulatory control period but this is not clear, nor is it clear whether an approved methodology can be revisited or modified during a regulatory control period if necessary to reflect a change in circumstances.

Clause 6A.30 of the proposed Rule contains a modified version of the current provisions in clause 6.3.2 regarding the appointment of a Co-ordinating Network Service Provider to allocate all of the AARR within a region. EnergyAustralia supports the general intent of this clause as it enables the continuation of current arrangements between EnergyAustralia and TransGrid. EnergyAustralia is however concerned whether the clause 6A.30(d) is correct in requiring the co-ordinating network service provider to allocate the AARRs in accordance with the pricing principles. Under proposed clause 6A.24(1)(b) the pricing principles are to be given effect to by pricing methodologies.

Presumably then, the co-ordinating TNSP should carry out the allocation in accordance with the relevant pricing methodology. Where a co-ordinating TNSP is appointed it would only be feasible for one pricing methodology to be utilised. This will obviously have implications for the requirements for all TNSPs to have and apply an approved methodology. The Rule will therefore need to provide for the circumstance where a co-ordinating network service provider is appointed and the approved methodology of the co-ordinating TNSP will effectively need to be the approved methodology of the appointing TNSPs. In such circumstances it would not be necessary or appropriate for the appointing TNSPs to have a separate approved methodology.

4.2 Date for publication of transmission prices

The current date of publication of transmission prices by the 15th May each year is too late to be implemented into distribution prices for the coming financial year. In NSW, the jurisdictional regulator IPART requires pries to be submitted by the first Monday in April for approval. To achieve this timeframe, DNSPs must allow for sufficient time for prices to be approved internally, which usually requires that prices must be completed four weeks before this date, around late February.

To deal with this, EnergyAustralia uses the prior year's prices to set rates for large customers, and relies on estimates from TransGrid as to the level of revenues likely to be retrieved from prices for the following year. Estimated prices versus actual prices can and do vary enough to create revenue impacts on EnergyAustralia. Prices and their associated revenues are in effect implemented one year later, resulting in unnecessary revenue risk for the DNSP.

To align with the DNSP price-setting timetable, it is therefore proposed that TNSPs be required to publish prices by 15th March each year. This will allow enough time for DNSPs to include these prices in distribution tariffs for submission to the regulator. To allow TNSPs to publish by 15 March, it is proposed that the December quarter CPI be used in price setting rather than March CPI, which is not available until late April. The use of the December CPI will align with most DNSPs CPI definitions. EnergyAustralia recognises that Victorian DNSPs price change takes place on a calendar year basis, but EnergyAustralia is not aware of any impacts on the Victorian arrangements.

5 Prudent Discounts

5.1 Prudent Discounts

In summary:

- Support the elevation of the existing AER Guidelines into the Rules;
- The equivalent of Guidelines 1, 2, and 3 should be maintained in the Proposed Rule;
- TNSPs should be entitled to recover the cost of prudent discounts from other customers.

Under a mechanical price setting process such as the CRNP allocation set out in the Rules, situations will inevitably arise where a discount on TUoS is required to avoid uneconomic bypass to the network caused by the pricing allocation. There will also be situations where other customers would still be better off with a customer paying reduced TUoS rather than not contributing at all. Therefore, it is appropriate that the Rules provide a framework for granting prudent discounts in such instances.

The Commission's decision to elevate the AER's existing negotiation guidelines into the Rules is in line with EnergyAustralia's position on guidelines in general. The circumstances pertaining to a discounted charge can vary greatly and it is appropriate that the general principles should be incorporated within the Rules.

EnergyAustralia also supports the AER providing supplementary guidelines, containing illustrative examples, to cover residual issues not dealt with by the elevation of the current Guidelines into the Rules. Consistent with its general view on guidelines, EnergyAustralia would not object to this provided that the guidelines only dealt with procedural issues. The AER should not be able to introduce "binding guidelines' or wider policy decisions on any issue – particularly when the lion's share of guidance will be covered by the Rules themselves.

A preliminary decision has been taken to retain the equivalent of Guideline 3 in the proposed Rules. This is the "safe harbour" provision whereby 70% of a discount can be recovered from other Transmission Customers without having to demonstrate that the discount is the minimum necessary to avoid inefficient bypass. The Commission has sought stakeholder views on whether this safe harbour provision can continue to be justified and on what basis.

EnergyAustralia believes that the equivalent of Guidelines 3 should be maintained in the proposed Rules. TNSPs should be entitled to recover the cost of discounts (provided in accordance with the Guidelines) from other load customers. EnergyAustralia has had experience with the IPART discount guidelines where it has been unable to recover the discount costs from other customers and believes the AEMC's approach is much sounder.

The Commission also proposed an alternative approach to granting discounts, which would effective replace the current Guidelines 1 and 2. Under this approach, if the customer still pays incremental costs, it is purported that cross subsidies to customers will be reduced. Although the Commission's eventually decided maintaining the equivalent of Guidelines 1 and 2 in the Proposed Rules, it has sought stakeholder comments on whether a more relaxed set of criteria would be appropriate.

We believe that the current Guidelines 1 and 2 provide a sound basis for granting prudent discounts and are supported by the majority of market participants. There would appear to be little benefit in moving away from the current system.

6 TUoS Rebates to Embedded Generators

6.1 TUoS Rebates to Embedded Generators

In summary:

- TUoS rebates should only apply to generators up to 10MW in capacity
- Large generators qualify for payments if network service provider found option to be most net beneficial.

The Commission's Proposed Pricing Rule does not contain any amendments to the TUoS rebates. However, the Commission has sought feedback on the three options that arose out of the feedback process to the Pricing Issues Paper.

- Option 1: our suggestion that TUoS rebates applied to generators up to 10MW in capacity, while proponents of larger generators would only qualify for network support payments if their proposal was found by the network service to be the least-cost, or most beneficial, alternative to network augmentation.
- Option 2: Citipower/Powercor's and Energex's proposal to define a minimum threshold with regard to the reasonable cost of administering the TUoS rebate.
- Option 3: maintain the existing arrangements, but require any network support payments to an embedded generator to be reflected in the expected TUoS they receive.

The Commission is not proposing a more comprehensive scheme of generator TUoS charges, such as that which exists in the United Kingdom, which would have implicitly provided TUoS rebates through negative prices and location signals. Still, the existing avoided TUoS regime for embedded generators could be improved by the introduction of the two tier regime advocated by EnergyAustralia under option 1, where the avoided TUoS payment methodology varies with generator size.

The current avoided TUoS regime passes on the usage based charge at a connection point to an embedded generator. This may be a reasonable compromise for smaller generators. However, the mechanical calculation of avoided TUoS has considerable potential to influence the choice of connection to the transmission or distribution networks, which could lead to an unintended uneconomic outcome.

EnergyAustralia reiterates its previously cited example of how this can occur. There is a particular generator located within EnergyAustralia's Network (further details could be provided if requested) that is close to the magnitude of the connected load in this area. Avoided TUoS payments are based upon the locational TUoS charge at the transmission connection point. This charge is calculated as an annual cost from the allocation process (which is demand based and so picks up the loading at periods when the generator is not operating) divided by the net energy flow at that location. It should be noted that the structure of the TUoS usage component imposed by the TNSP has an influence on this outcome.

If the generation in an area were to progressively approach the magnitude of the load, the allocated cost at that location would be divided by a progressively smaller net energy flow and the usage rate would increase asymptotically. Avoided TUoS payments to the generators in the area would be based on the net rate and increase in this asymptotic fashion. The higher rate applied for the purpose of avoided TUoS provides the generator with a payment which has been artificially increased.

Moreover, as the particular generator referred to is in a generation-rich location, its output adds to the flows that are transported southwards to major load centres by the main transmission network. Rather than qualifying for an artificially inflated avoided TUoS payment based on the net usage rate, the generator should be contributing to the need for TransGrid's planned 500kV upgrade of its transmission network at a substantial cost, which would be passed on to customers.

It is therefore proposed that for embedded generators above a certain size, the actual avoided TUoS should be used. The local TNSP would need to provide details of planned network augmentation in the area and any associated deferral caused by the presence of the generator, to determine this payment. An appropriate threshold for the larger generators is considered to be 10MW or more. This would align with the Rules requirements in relation to individual loss factor calculation for generators and reflects the level where embedded generation can have a significant effect on future network augmentation.

In terms of the other two options sketched out in the Commission's paper, they are not mutually exclusive, but rather complementary to EnergyAustralia's proposed option 1. A two-tiered avoided TUoS regime can still be subject to a minimum threshold on the basis of relative costs and benefits. Likewise, the value of the avoided TUoS payments could be readily augmented to include network support payments.

7 Inter-regional TUoS

7.1 Settlements, Allocations and other arrangements between TSNPs.

It is recognised that inter regional settlements would be required between TNSPs with a national transmission pricing regime and this was and should remain an objective of transmission pricing. EnergyAustralia's main concern with such an arrangement (which currently exists in the microcosm of the four TNSPs in NSW) is that appropriate transitional arrangements be established to cater for the inevitable changes in customer's prices.

8 Pricing for Negotiated Transmission Services

8.1 Pricing for Negotiated Services

In summary:

- Negotiation is only appropriate for the largest customers;
- Support the Commissions proposal that commercial arbitration and dispute resolution provisions under Chapter 6 encompass aspects other than just price, with necessary changes to be made.

In general, EnergyAustralia believes that negotiation should only be appropriate for the larger customers.

Chapter 9 of the Commission's Rule Proposal Report sought comment on whether the model for commercial dispute resolution for price for Negotiated Transmission Services should be extended to apply to the terms and conditions of connection agreements under which those prices are charged. On page 96 of the Rule Proposal, the Commission states that:

"Another issue on which the Commission seeks comment, that arises from the further review of the pricing-related rules in existing Part C of Chapter 6, is the question as to whether the model for commercial dispute resolution for price for Negotiated Transmission Services should be extended to permit consideration of the terms and conditions of the connection agreements under which those prices are charged, and to which the price is inextricably linked. Some comment has been noted that a single dispute resolution regime, ie. a commercial arbitration regime, should apply not only in relation to the price and charges under negotiation, but to be meaningful and efficient, should also apply to the terms and conditions under negotiation that drive those prices.

In effect, this would mean a consequential amendment to clause 8.2 of the Rules to exclude disputes under clause 5.3 from referral to the Chapter 8 dispute resolution regime. The Commission seeks comment from interested parties in relation to the issues relating to the adoption of this approach."

EnergyAustralia noted in its submission on the revenue draft determination that as negotiated services arrangements will predominantly relate to the "last pole" connection to the shared network, TNSPs will be required to meet quite onerous regulatory obligations at each reset for what may form a small part of the TNSP's asset base and potentially a small aspect of the total connection.

EnergyAustralia agrees that there is merit in expanding the existing approach to a single dispute resolution scheme applying to terms and conditions as well as pricing.

As the Commission has acknowledged, the terms and conditions upon which services are provided are usually inextricably linked to the price for such services. EnergyAustralia is however concerned that the proposed Schedule 6.3A would not adequately provide for the resolution of such disputes. These issues could however be addressed with appropriate modifications.

Appointment of persons with appropriate qualifications and skills

Draft Schedule 6.3A provides for the appointment of a single person with appropriate qualifications in dispute resolution to determine disputes regarding price. This is appropriate for disputes regarding pricing for negotiated services. However disputes regarding the terms and conditions of connection and other agreements under Chapter 5 could give rise to a much broader range of issues which would require a mix of skills to properly determine. By their very nature such disputes would generally require a person with legal skills and training as well as a detailed knowledge of the operation of the network and national market systems as well as qualifications or experience in dispute resolution. It is unlikely that there would be very many people who would possess all of the necessary skills.

Chapter 8 recognises this and provides for the appointment of a panel of three persons which ensures that the appropriate mix of skills are present to enable an appropriate resolution of the technical, operational and legal issues. It is submitted that a similar process be adopted in Schedule 6.3A where the dispute involves the terms and conditions of connection. The process should also ensure that any terms and conditions dispute which also involves an interpretation of the rules should be determined through the same dispute resolution process.

Criteria for Determining Dispute

Schedule 6A.3.5 requires the commercial arbitrator to apply the Negotiated Transmission Service Pricing Criteria applicable to the dispute in accordance with the relevant transmission determination. This provides appropriate criteria and context for the arbitrator to determine the pricing dispute.

Similar criteria and context must also be provided in relation to disputes and terms and conditions. Whilst Chapter 5 makes provision for many of the technical matters to be included and addressed in a connection agreement, it does not provide criteria to assist in the determination of disputes beyond the requirement for offers to connect to be fair and reasonable (see 5.3.6 regarding offers to connect). Such criteria are particularly needed for the non-technical aspects of connection including duration and termination of the agreement, rights of disconnection and liability between the parties.

The importance of such criteria necessitates that they be developed in consultation with registered participants. EnergyAustralia therefore submits that the AEMC should conduct further consultation on this part of its proposal prior to the release of a draft Rule.

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PROPOSED RULE

Proposed National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006

Schedule 1 New Part J of Chapter 6A of the National Electricity Rules

6A.22.2 Definitions

Optimised replacement cost the replacement cost determined by reference to the cost of replacing the gross service potential embodied in the existing asset with a technologically modern equivalent asset, allowing for any differences in the quantity and quality of output and operating costs, and adjusting for overdesign, overcapacity and redundant components

6A.22.3 Aggregate annual revenue requirement (AARR)

For the purposes of this Part J, the *aggregate annual revenue requirement (AARR)* for *prescribed transmission services* provided by a *Transmission Network ServiceProvider*, is the *maximum allowed revenue* for that provider for a *regulatory year* of a *regulatory control period*, adjusted in accordance with the adjustments referred to in [draft] clause 6A.3.2

(b) ~~for any prudent discount under rule 6A.27~~;

for any *over-recovery amount* or *under-recovery amount.*

(d) ~~by subtracting the following amounts~~:

(1) ~~estimated revenues from *auction proceeds* distributed to the *Transmiss*~~

(2) ~~operating and maintenance costs incurred in the provision of *common transmission services*~~.

6A.22.5 Meaning of attributable cost share

For a *Transmission Network Service Provider* for a *category of prescribed transmission services*, the *attributable cost share* for that provider for that category of services must, subject to any adjustment required under the principles in clause 6A.24.3, include or reflect ~~either or both of~~:

(a) a ratio of the costs of the transmission system assets directly attributable ~~(on a causation basis)~~ to the provision of a category of prescribed transmission services, as a proportion of the total costs of all the Transmission Network Service Provider's transmission system assets directly attributable ~~(on a causation basis)~~ to the provision of prescribed transmission services; and

~~(b) a ratio of operating and maintenance costs directly attributable (on a causation basis) to the provision of a *category of prescribed transmission services*, as a proportion of all of the *Transmission Network Service Provider's* operating and maintenance costs directly attributable (on a causation basis) to the provision of *prescribed transmission services;*~~

where "costs of the *transmission system* asset" is referable to optimised replacement cost values contained in the accounts of the *Transmission Network Service Provider*.

6A.22.6 Meaning of attributable connection point cost share

For a *Transmission Network Service Provider* for a *category of prescribed transmission services*, the *attributable connection point cost share* for that provider for that category of services must include or reflect ~~either or both of~~:

(a) a ratio of the costs of the *transmission system* assets directly attributable ~~(on a causation basis)~~ to the provision of *prescribed entry services* or *prescribed exit services* at a *transmission network connection point*, as a proportion of the costs of all the *Transmission Network Service Provider's transmission system* assets directly attributable ~~(on a causation basis)~~ to the provision of *prescribed entry services* or *prescribed exit services*; and

~~(b) a ratio of operating and maintenance costs directly attributable (on a causation basis) to the provision of *prescribed entry services* or *prescribed exit services* at a *transmission network connection point*, as a proportion of all the *Transmission Network Service Provider's* operating and maintenance costs directly attributable (on a causation basis) to the provision of *prescribed entry services* or *prescribed exit services*,~~

where "costs of the *transmission system* asset" is referable to the optimised replacement cost values contained in the accounts of the *Transmission Network Service Provider*.

6A.23 Pricing for prescribed transmission services – pricing methodologies

(d) The *pricing methodology* proposed by a *Transmission Network Service Provider* and approved by the *AER* in accordance with rule 6A.26, must give effect to and be consistent with:

(1) the *Pricing Principles*; and

(2) a *Pricing Methodology* ~~an~~ approved under ~~the~~ *Pricing Methodology Approval* Guidelines.

6A.24.3 Principles for the allocation of the ASRR to transmission network connection points

(c) ~~Subject to paragraph (d),~~ the *ASRR* for *prescribed transmission use of system services* is to be allocated to *transmission connection points* of *Transmission Customer* using a methodology consistent with the *Pricing Methodology Approval Guidelines* ~~in the following manner:~~

~~(1) a portion of the *ASRR* (the **locational component**) is to be allocated as between such *Transmission Customer connection points* on the basis of the estimated proportionate use of the relevant *transmission system* assets by each of those customers and providers, and~~

~~the *CRNP methodology* and *modified CRNP methodology* represents two permitted means of estimating proportionate use; and~~

~~(2) the remainder of the *ASRR* (the **non-locational component**) is to be allocated as between such *Transmission Customer connection points* by the application of a *postage-stamped* price.~~

(d) ~~In the case of~~ the *ASRR* for *prescribed transmission use of system services* will be adjusted, ~~the shares of the locational and non-locational components are to be either~~:

(1) for any prudent discount under rule 6A.27a ~~50% share allocated to each component~~; or

(2) by subtracting estimated revenues from auction proceeds distributed to the Transmission Network Service Provider under clause 3.18.4 and from settlements residue

~~(2) an alternative allocation to each component, that is based on a reasonable estimate of future network utilisation and the likely need for future transmission investment, and that has the objective of providing more efficient locational signals to *Market Participants, Intending Participants* and end-users.~~

(e) The *ASRR* for *common services* must be allocated to *Transmission Customer* and *Network Service Provider connection points* by the application of a *postage-stamped* price, after deducting:

(1) estimated revenues from *auction proceeds* distributed to the *Transmission Network Service Provider* under clause 3.18.4 and from *settlements* residue;

6A.25 Pricing Methodology Guidelines for Prescribed Transmission Services

6A.25.1 Making and amendment of Pricing Methodology Approval Guidelines

(a) The *AER* must, in accordance with the *transmission consultation procedures*, make guidelines (the *Pricing Methodology Approval Guidelines*) relating to the approval of a ~~preparation by a *Transmission Network Service Provider* of its~~ *Pricing Methodology*.

(b) The *Pricing Methodology Approval Guidelines*:

(1) must give effect to, and be consistent with, the *Pricing Principles*;

(2) may be amended or replaced by the *AER* from time to time in accordance with the *transmission consultation procedures*; and

(3) must be *published* by the *AER*.

(c) The *AER* must develop and publish the first *Pricing Methodology Approval Guidelines* by [1 July 2007] and there must be *Pricing Methodology Approval Guidelines* in force at all times after that date.

(d) In the event of an inconsistency between the *Rules* and the *Pricing Methodology Approval Guidelines* the *Rules* prevail to the extent of that inconsistency.

6A.25.2 Contents of Pricing Methodology Approval Guidelines

The *Pricing Methodology Approval Guidelines* may specify or clarify:

(a) the form which a TNSP must propos~~ed~~ a *pricing methodology* ~~is to take~~;

(e) the operation and application of previously approved pricing methodologies including the *CRNP methodology* and *modified CRNP methodology* as described in schedule 6A.4 (which will be deemed to be already approved methodologies); and

6A.26.2 Submission of proposed methodology and information

(b) A proposed *pricing methodology* must:

(1) give effect to and be consistent with the *Pricing Principles*; and

(2) ~~comply with the~~ be consistent with the requirements of, and contain or be accompanied by such information as is required by, the *Pricing Methodology Approval Guidelines* made for that purpose under rule 6A.25.

6A.26.5 Consultation

(a) Except to the extent that the *Pricing Methodology Approval Guidelines* provide it will not be publicly disclosed (and, in that case, the relevant *Transmission Network Service Provider* has not otherwise consented), the *AER* must *publish*:

(1) the proposed *pricing methodology*; and

(2) the accompanying information,

submitted or resubmitted to it by the provider under this rule 6A.26.

(b) The *AER* must publish the documents referred to in paragraph (a) as soon as practicable after the *AER* determines that the proposed *pricing methodology* and accompanying information comply with the requirements of clause 6A.26.2(b), ~~together with an invitation for written submissions.~~

~~(c) Any person may make a written submission to the *AER* on the proposed *pricing methodology* within the time specified in the invitation referred to in paragraph (b), which must be not be earlier than 30 *business days* after the invitation for submissions is *published* under that paragraph.~~

6A.26.8 Submission of revised methodology

(b) A revised proposed *pricing methodology* must:

(1) give effect to and be consistent with the *Pricing Principles*;

(2) comply with the requirements of, and must contain or be accompanied by such information as is required by, the *Pricing Methodology Approval Guidelines*.

6A.26.12 Circumstances in which pricing methodology must be

approved

(b) The *AER* must approve a *Transmission Network Service Provider*'s current proposed *pricing methodology* if the *AER* is satisfied that the methodology:

(1) gives effect to and is consistent with the *Pricing Principles;* and

(2) complies with the requirements of the *Pricing Methodology Approval Guidelines*.

6A.26.14 Publication of pricing methodology and transmission network prices

A *Transmission Network Service Provider* must *publish*:

(a) a current copy of its *pricing methodology* on its website; and

(b) the prices for each of the *categories of prescribed transmission services* to apply for the following *financial year*, by 15 Ma~~y~~rch each year for the purposes of determining *distribution service* prices as outlined in Part C of Chapter 6.

6A.30 Multiple Transmission Network Service Providers within a region

***[Drafting Note:** EnergyAustralia would like further guidance on the operation of this clause particularly the allocation of responsibilities under para (d).Is the co-ordinating TNSP responsible for all allocations across the transmission networks and if so what is the purpose of other TNSPs submitting a pricing methodology?]*

(d) The *Co-ordinating Network Service Provider* is responsible for the allocation in accordance with the *Pricing Methodology* ~~*Principles*~~, in relation to *Transmission Network Users'* and *Transmission Network Service Providers' connection points* to *transmission networks* located within the *region*.

Schedule 6A.4 – Pricing Methodology Guidelines

S6A.4.1 CRNP methodology and modified CRNP methodology

The *Pricing Methodology Approval Guidelines* may clarify and explain the *CRNP methodology* and the *modified CRNP methodology* in accordance with the following descriptions: