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Dr John Tamblyn
Chairman
Australian Energy Market Commission
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Dear Dr Tamblyn

Review of the Electricity Transmission Revenue and Pricing Rules Transmission Pricing: Issues Paper

Ergon Energy Pty Ltd (Ergon Energy) appreciates the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on the *Transmission Pricing Issues Paper* (Issues Paper), as part of the overall *Review of the Electricity Transmission Revenue and Pricing Rules*. This submission is made by Ergon Energy in its capacity as an electricity retailer in the National Electricity Market (NEM).

Ergon Energy supports the development of a framework for the regulation of transmission pricing which ensures the reliable and secure delivery of lower cost energy to end-users. Currently, the principles applied in the pricing of network services within the NEM lack consistency and stability. To ensure the appropriate investment signals are being sent to market participants – network and generation businesses, customers and retailers - a consistent NEM wide approach to pricing network services should be established. By strengthening the pricing signal through consistent pricing principles more economically efficient network investment will result.

While increases in the revenue requirements of the network service providers are expected as a result of ensuring appropriate levels of transmission investment, consideration should also be given to the impact these increases will have on end-users. For customers in competitive markets, these price shocks can significantly diminish the benefits associated with contestability or can incorrectly be attributed to the introduction of competition, damaging its public perception. To ensure the impact of these increases on consumers are mitigated appropriately glide-paths should be established.

This submission focuses only on the major transmission pricing issues from Ergon Energy's perspective as a retailer. Our submission addresses those questions which Ergon Energy has a specific view, in number order as detailed in the Issues Paper. These are detailed below.

Chapter 2 – Requirement for Regulation

1. *Should transmission pieces be regulated and why?*

Due to the monopoly characteristics of the services provided by Transmission Network Service Providers (TNSPs), Ergon Energy believes both transmission revenue and prices should be regulated. Through regulation, TNSPs will be provided with clear incentives to improve performance, transparency and increase efficiency which is consistent with the NEM objective. Furthermore, price certainty along with a consistent pricing arrangement will minimise the impact of price shocks on end-users and concurrent market developments.

2. *If regulation is required what form should this take? For example, should it be less prescriptive and involve greater transparency or be more prescriptive?*

Price regulation is required to ensure TNSPs develop charges consistent with the Rules (and NEM objective) and that the pricing structure applied by the TNSP is consistently applied by the Distribution Network Service Provider (DNSP) to its own customers.

The principles currently applied in the pricing of network services by TNSPs within the NEM lack consistency and stability. To ensure the appropriate investment signals are sent to market participants, a consistent approach to pricing network services is essential.

This could be achieved by prescribing in the Rules the procedures to be followed by TNSPs, DNSPs and the Australian Energy Regulator (AER) in determining, allocating and approving transmission prices, respectively. This approach will ensure a transparent, consistent and efficient process is applied for determining transmission prices for all customer classes along with ensuring TNSP prices are passed through to customers as approved by the AER.

Chapter 4 – Current Transmission Pricing Regime

9. *If a modified CRNP usage charge is to remain an option*

- *Should the Rules prescribe the criteria for the AER to accept implementation of modified CRNP?; and*
- *Should any network customer (rather than just the TNSP) be able to request that the modified CRNP methodology be implemented?*

If TNSPs are permitted to continue implementing a modified Cost Reflective Network Pricing (CRNP) methodology, subject to AER approval, the evaluation process and criteria should be defined. By defining the evaluation process, for example prescribed in the Rules, it will ensure increased transparency, consistency and regulatory certainty.

12. *Is it appropriate to provide scope for TUoS discounting in the Rules?*

TNSPs should be provided with the flexibility to offer discount charges provided such discounts are only applied where a threat of bypass can be demonstrated. Such arrangements should be prescribed in the Rules to provide transparency and consistency to the regulatory process.

13. *If so, could the existing arrangements be refined and how?*

It is acknowledged TNSPs are currently provided with a number of options to recover from other transmission customers all or part of the amount of the reduction, provided the TNSP is satisfied it can demonstrate the discount complies with the *Guidelines for the Negotiation of Discounted Transmission Charges* (ACCC:2002).

Ergon Energy believes these current arrangements should be modified to be more transparent and streamlined. This could be achieved by adopting a similar regulatory arrangement to that applied to 'prudent discounts' under the Gas Code (s 8.43). Whereby, the TNSP is required to demonstrate to the AER at the time of the regulatory reset, that there is a threat of bypass, that the discount results in the retention of the end user and results in lower reference tariffs for remaining end users compared to the reference tariff that would need to be charged if the user left the network.

16. *Should TUoS rebates also apply to generators connected to the transmission network, DSM or other non-electricity options? Does this depend on whether generators generally pay shared transmission costs?*

TUoS rebates should apply in cases where it can be demonstrated there is avoided TUoS. That is, if it can be demonstrated that an embedded generator has assisted in the deferral or delay of transmission augmentation a rebate should be awarded.

Ergon Energy does not believe a rebate should apply to generators who currently pay shared transmission costs as this arrangement is already an acknowledgement of the network benefits attributed to the deferral of investment.

Chapter 6 – Relevant NEM Context

20. *Given current distribution network pricing arrangements, is it appropriate to prescribe transmission pricing structures in the Rules?*

Refer to Question 2.

Chapter 7 – Allocation of Regulated Revenue Across Transmission Users

30. *How much discretion should TNSPs have to discount charges?*

TNSPs should be provided with the flexibility to offer discount charges provided such discounts are only applied where a threat of bypass can be demonstrated. Ergon Energy believes a similar regulatory arrangement to that applied to *prudent discounts* under the Gas Code (s8.43) should be applied.

The Gas Code provides that a regulator may, with effect from the commencement of an access arrangement period, permit a gas network service provider to offer a 'prudent discount' to an end user of the network. A prudent discount arises where any shortfall in revenue that results from the end user not paying the full reference tariff is recovered from other end users of the reference service.

Under the Gas Code the criteria for assessing prudent discounts is that the discount results in the retention of the end user, who would otherwise leave the network, which results in a lower reference tariff being applied compared to the reference tariff that would need to be charged if the user left the network.

31. *Should TNSPs be entitled to recover the cost of discounts from other loads?*

Provided the regulatory conditions, as prescribed above, are met a TNSP should be entitled to recover the cost of discounts from other loads.

32. *Should any conditions for recovering the cost of discounts from other customers be prescribed in the Rules or left to the AER to determine? If so, what should be the general content of these Rules or AER discretions?*

Such arrangements should be prescribed in the Rules to provide transparency and consistency to the regulatory process.

Ergon Energy would welcome the opportunity to discuss this submission with the AEMC in greater detail.

If you have any queries, please feel free to contact me on (07) 3228 7536.

Yours sincerely

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