

The Chairman  
Australian Energy Market Commission  
PO Box H166  
AUSTRALIA SQUARE NSW 1215

30 November 2006

Dear Dr Tamblyn

### **Transmission Pricing for Prescribed Transmission Services: Draft Rule**

Integral Energy welcomes the opportunity to comment on the Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 (Draft Rules) and Draft Rule Determination prepared by the Australian Energy Market Commission (AEMC).

Integral Energy supports the Draft Rules, however, considers that they would benefit from further drafting to clarify the intent of the AEMC with respect to common transmission services and pricing methodologies to promote the efficiency and transparency of transmission pricing.

### **Aggregate Annual Revenue Requirement (AARR)**

#### ***Common Transmission Services***

Integral Energy notes the statement of the AEMC that the Draft Rules may require some clarification with respect to the definition of the Aggregate Annual Revenue Requirement (AARR) and the recovery of operating and maintenance costs relating to common services<sup>1</sup>. (p40)

Under clause 6A.22.2 of the Draft Rules, the *AARR* excludes operating and maintenance costs incurred in the provision of *common transmission services*. However, the AEMC has clearly expressed its intention to ensure that operating and maintenance common service costs are recoverable through the Common Service charge<sup>2</sup>. (p40)

The Draft Rules seek to address this intention and the recovery of these costs through clause 6A.24.3 (e) which states:

*“The ASRR for prescribed common transmission services and the operating and maintenance costs*

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<sup>1</sup> AEMC 2006, Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006, Draft Determination, 19 October 2006, Sydney, p40.

<sup>2</sup> AEMC 2006, Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006, Draft Determination, 19 October 2006, Sydney, p40.

*incurred in the provision of those services, must be allocated to Transmission Customer and Network Service Provider transmission network connection points on a postage-stamped basis”.*

In order to ensure clarity that a TNSP can recover the operating and maintenance costs of providing prescribed common services (which do not form a part of the AARR or the ASRR) Integral Energy submits that clause 6A.24.3 (e) be amended to read:

*“The ASRR for prescribed common transmission services must be allocated to Transmission Customer and Network Service Provider transmission network connection points on a postage-stamped basis”.*

and a new clause be inserted under the heading “Principles for the allocation of operating and maintenance costs of prescribed common services” as follows:

*“The operating and maintenance costs incurred in the provision of prescribed common transmission services must be allocated to Transmission Customer and Network Service Provider transmission network connection points on a postage-stamped basis.”*

### **Proposed Pricing Methodology**

Where the AER determines that the propose pricing methodology submitted by a TNSP or the information contained in or accompanying the proposed pricing methodology does not comply with requirements of clause 6A.26.2(b) of the Draft Rules, the AER must notify the TNSP as soon as practicable. That notification must also include the written reasons for the determination of the AER.

Clause 6A.26.4 of the Draft Rules sets out the resubmission of pricing methodologies by TNSPs as follows:

*“If the AER notifies a Transmission Network Service Provider of a determination under clause 6A.26.3, the provider must, within one month of that notice, resubmit its proposed pricing methodology or the required information in a form that complies with the relevant requirements referred to in clause 6A.26.3.”*

Following the initial round of consultations, this draft clause was amended by including the words “referred to in clause 6A.26.3.” The purpose for amending this clause was to address concerns expressed by the AER that *“an open-ended right of TNSPs to revise pricing methodology ... may render the AER’s analysis and consultation on the initial proposal redundant and not allow the AER sufficient time to properly assess the revised proposal”*<sup>3</sup>.

The AEMC recognised the validity of the AER’s concerns regarding the scope of resubmitted proposals and sought to restrict revisions by TNSPs *“to those necessary to substantially incorporate the changes required or address matters identified as being of concern to the regulator in its draft determination.”*<sup>4</sup>(p63)

As currently drafted, clause 6A.26.4 effectively requires a TNSP to comply with all and any requirements of the AER stated in its notification rather than the requirements of clause 6A.26.2(b). Whilst this certainly restricts the scope of revisions by TNSPs, it also provides

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<sup>3</sup> AEMC 2006, Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006, Draft Determination, 19 October 2006, Sydney, p62

<sup>4</sup> AEMC 2006, Draft National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006, Draft Determination, 19 October 2006, Sydney, p63

for an outcome contrary to the intention of having a pricing methodology developed by TNSPs.

Under clause 6A.26.4, the AER has the ability to cherry pick specific issues or items in the proposed pricing methodology and accompanying information and insist upon amendments which may be inconsistent or contrary with other parts of the proposed pricing methodology in its determination.

To ensure that both the AER's concerns regarding the scope of resubmitted proposals are addressed and provide for the original intention of the clause to allow TNSPs to properly develop pricing methodologies, Integral Energy submits that clause 6A.26.4 be amended to read:

*“If the AER notifies a Transmission Network Service Provider of a determination under clause 6A.26.3, the provider must, within one month of that notice, resubmit its proposed pricing methodology or the required information in a form that complies with the relevant requirements referred to in clause 6A.26.2(b) or a which adequately addresses the written reasons raised by the AER in its determination referred to in clause 6A.26.3.”*

Consistent with this proposed amendment to clause 6A.26.4, Integral Energy submits that clause 6A.26.8(c) of the Draft Rules relating to the submission of a revised proposed pricing methodology be amended to read:

*“A Transmission Network Service Provider may only make the revisions referred to in paragraph (a) to incorporate the substance of any changes or to address matters raised in, the draft decision.”*

Should you wish to discuss the issues raised in this letter, would you please contact Erik Beerden, Regulatory Affairs Manager, on telephone number (02) 9853 6904.

Yours faithfully

Richard Powis  
**Chief Executive Officer**