



**Victorian Energy Networks Corporation**

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Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box H166  
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By Email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear John

**Submission on Scoping Paper – Review of  
Electricity Transmission Revenue and Pricing Rules**

VENCorp welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) scoping paper on the Review of Electricity Transmission Revenue and Pricing Rules. VENCorp believes that the resolution of these issues will improve the overall efficiency of the National Electricity Market (NEM) by providing more appropriate timing signals for investments by Transmission Network Service Providers (TNSPs) and locational signals to entrepreneurial investments.

VENCorp provides the following comments for the consideration of the AEMC.

**Role of independent transmission planner**

As you are aware VENCorp is a statutory body whose role as a TNSP in Victoria is to plan and direct augmentations to the Victorian electricity transmission network. It does not own any transmission assets, operating on a not for profit basis, and sources network services from the TNSPs that own and operate the Victorian transmission system.

As the TNSP responsible for augmentations VENCorp's planning decisions are made based on an objective, probabilistic assessment using the regulatory test where both the costs and benefits of options are considered. It procures all major transmission augmentations via an open competitive tender process whether it be network or non-network services.

This model provides an effective means of introducing competition and innovative solutions into the design, construction, maintenance, financing and long term ownership of those solutions.

VENCorp is also responsible for transmission pricing in Victoria.



## **Transmission revenue**

The AEMC has identified issues regarding the form and mechanisms of the regulatory arrangements that are to apply to TNSPs in the NEM. The AEMC has noted that the following issues concerning the mechanisms of establishing the revenue requirement need to be considered:

- Asset base and capex;
- Depreciation, opex and return on investment;
- Incentive mechanisms; and
- Non-network alternatives.

The AEMC has not addressed issues relating to the unique arrangements that apply in Victoria and VENCORP's planning functions in particular. The issues identified by the AEMC are more relevant to the operation and investment decisions of the asset owning TNSPs. The Victorian arrangements were explicitly recognised by the Australian Competition and Consumer Commission (ACCC) in statement 5.5 of the Statement of Principles for the Regulation of Electricity Transmission Revenues (SRP):

VENCorp's revenue cap will continue to be set by the ACCC with reference to its operating budget and the likely augmentations required for the efficient operation of the Victorian network.

VENCorp recommends that the AEMC's review preserve the ACCC's approach to the regulation of VENCORP.

## **Transmission pricing**

VENCorp considers that the review has appropriately identified most issues relevant to the debate on transmission pricing. However, VENCORP believes that the AEMC should adopt a pragmatic approach to dealing with transmission pricing issues by clearly defining critical issues that affect entrepreneurial investment decisions and those which are classified as methodological issues. Among the issues that VENCORP considers to be critical are:

- Allocation of new (not existing) transmission investments; and
- Inter-regional TUoS transfers.

VENCorp believes that the AEMC should set out a detailed process on how it proposes to address these issues.

## **Timetable for consultation**

Given the complexity of the issues facing the AEMC VENCORP is supportive of the proposed extension to the timeframe. History suggests that the proposed timeframe may prove challenging. Given that VENCORP would like to see a considered approach to addressing these issues it endorses any further extensions to the review's timeframe as the need arises subject to appropriate consultation.

While the AEMC is proposing to extend the timeframe for consideration of the transmission pricing issues it proposes to retain the statutory timeframe for the review of transmission revenues. VENCORP cautions





against the AEMC completely separating issues arising from the setting of transmission revenue and the allocation of that revenue under the pricing regime. There are many elements which are inherently linked. One example of the link between transmission pricing and revenue setting, that of a new network connection, is discussed further below.

## **Chapter 5 Issues**

The AEMC has identified a number of regulatory obligations in Chapter 5 (Network Connection) of the NER which influence the TNSPs expenditure including:

- The regulatory test;
- Reliability criteria and technical standards;
- System Standards;
- Network Performance Requirements; and
- Network Planning and performance.

### *New network connections*

The links between many of the provisions contained in Chapter 5 and its affect on revenue in Chapter 6 are currently tenuous. To an extent the ACCC has addressed some of these issues through its SRP. However, an important issue not listed by the AEMC, which can drive significant network investments, is the connection of a new generator or load.

The NER sets out the processes and procedures that TNSPs and connection applicants must follow when a new connection to the transmission network is sought. Depending on the size, scope, timing and location of a new connection, network augmentations may be required to facilitate connection to the network. These augmentations are generally required to either ensure that the connection meets the NER's Chapter 5 access standards or to provide for power transfer.

While the NER sets out the processes for the consideration of technical matters during a connection process, it does not expressly address the issues of:

- who should pay for augmentations to facilitate the network connection; and
- how these costs are to be allocated between network users and the connection applicant.

This issue therefore has the potential to affect both the AER's revenue setting process and the transmission pricing regime that is to be applied by TNSPs.

In Victoria, these issues are becoming more problematic with the increasing number of large-scale wind farm development proposals and the utilisation of existing spare capacity in the system. To assist intending connection applicants understand these issues, VENCORP has prepared Victorian Electricity Transmission Network Connection Augmentation Guidelines (Guidelines) which were recently subject to a public consultation process. A copy of the Guidelines is attached.



There has been support from industry on VENCORP's development of these Guidelines. VENCORP believes that these issues need to be addressed at a national level and should, therefore, be considered by the AEMC in its review.

#### *Firm Access*

One issue that VENCORP did not address in its Guidelines is the issue of firm access. As noted by the AEMC in its scoping paper, the NER provides generators the ability to negotiate commercial access with Network Service Providers. This issue was the single biggest issue raised by parties in response to VENCORP's Guidelines. VENCORP believes that the AEMC should seek to develop detailed procedures for the negotiation of generator access as part of its review.

Further, VENCORP believes that the negotiation of commercial access should also be provided to large loads and not just limited to generators.

Should you have any questions about these matters please do not hesitate to contact Louis Tirpcou on (03) 8664 6615.

Yours sincerely

A handwritten signature in black ink, appearing to read "M. Zema".

Matt Zema  
**Chief Executive Officer**