

22 August 2008

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Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
SYDNEY NSW 2000

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Dear John

Submission to Rule Change Proposal – Variation of Date of Publication of Transmission Network Prices

VENCorp welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) in relation to EnergyAustralia's Rule change proposal to amend the annual publication date for electricity Transmission Use of System (TUoS) prices from 15 May to 15 March.

In summary, VENCorp is unable to support the Rule change proposal for the following reasons:

- An earlier publication date of 15 March will set an unrealistic timeframe in which Transmission Network Service Providers (TNSPs) must prepare and have budgets approved;
- The accuracy of transmission pricing forecasts that are incorporated into TUoS prices will be reduced by an earlier publication date, and there will be greater uncertainty for co-ordinating TNSPs in each region who are reliant on the delivery of transmission pricing forecasts from other TNSPs;
- The benefits of an earlier publication date for TUoS prices may be offset by greater variances in over/under recoveries. As a result, Transmission Customers may be exposed to price shocks and more volatile transmission pricing signals; and

VENCorp's responsibilities under the Victorian arrangements

Under the Victorian jurisdictional derogation in Chapter 9 of the National Electricity Rules (NER), the Electricity Industry Act 2000 (Vic), and VENCorp's transmission licence, VENCorp's responsibilities under the Victorian arrangements are as follows:



- The Victorian Transmission Network is owned and operated by SP AusNet and SP AusNet is responsible for providing VENCORP with the Prescribed TUOS Services and Prescribed Common Transmission Services supplied by means of that Network; and
- VENCORP is responsible for providing those Prescribed TUOS Services and Prescribed Common Transmission Services to Transmission Customers for the provision of the shared transmission network in Victoria.

In accordance with Rule 9.8.4F(f), VENCORP is taken to be:

- The co-ordinating TNSP responsible for the allocation of all relevant Aggregate Annual Revenue Requirement (AARR) relating to the provision of Prescribed TUOS Services or Prescribed Common Transmission Services; and
- The TNSP which must liaise with TNSPs in other interconnected regions which are similarly responsible for the allocation of relevant AARR relating to the provision of Prescribed TUOS Services or Prescribed Common Transmission Services.

Timeframe constraints

Currently, VENCORP finalises its electricity revenue budget by early March. The budget incorporates forecasts for over/under recovery and Inter Regional Settlement Residue proceeds for the forthcoming financial year.

VENCORP calculates its draft TUoS charges by early April (which incorporates the budget figures) and once approved, circulates the draft TUoS prices to Transmission Customers for their information. The final TUoS prices must then be calculated and approved prior to their publication on 15 May.

VENCORP considers that the proposed Rule change would create an unrealistic timeframe for TNSPs to calculate and approve TUoS prices.

Furthermore, VENCORP's electricity revenue budget is dependent on forecast prescribed transmission service charges from SP AusNet, APA Group, TransGrid and Rowville Transmission Facility. To accommodate the proposed Rule change, SP AusNet and APA Group would be required to notify VENCORP of their forecasts at a much earlier date, potentially leading to significant variances between forecast and actual prescribed transmission service charges. If the proposed Rule change is adopted then the NER must also be amended to include an obligation on parties that provide information to co-ordinating TNSPs.



Accuracy of pricing forecasts

As well as creating timeframe constraints, the proposed Rule change may also reduce the accuracy of pricing forecasts that TNSPs incorporate into their TUoS prices. For example, Inter Regional Settlement Residue forecasts would need to be finalised prior to the commencement of peak summer periods where the majority of settlement residue auction proceeds are recovered. As such, VENCORP considers it is imprudent to incorporate unreliable transmission pricing forecasts into its calculation of TUoS prices.

VENCORP also disagrees with EnergyAustralia's assertion that transmission prices can be calculated on the basis of CPI escalation from the January quarter result, rather than the March quarter. If CPI escalation were calculated on this basis, then VENCORP may consequently breach its pricing arrangements under the Network Service Agreements with its transmission service providers. Therefore, in order to facilitate the Rule change, VENCORP would need to amend its Network Service Agreements with both SP AusNet (amongst others), incurring considerable legal and administrative costs.

Variances in over/under recoveries

EnergyAustralia considers that one of the main benefits of the Rule change is that it will permit transmission prices to be properly incorporated into distribution prices to apply in the following financial year.

VENCORP considers that the benefits of an earlier publication date may be offset by increases in over/under recoveries for transmission charges from the previous financial year. Variances in over/under recoveries can lead to potential price shocks for Transmission Customers via adjusted non-locational transmission charges and more volatile transmission pricing signals in the subsequent year.

Should you have any questions please do not hesitate to contact Louis Tirpcou on (03) 8664 6615 or Tim Sheridan on (03) 8664 6617.

Yours sincerely

A handwritten signature in blue ink that reads "M. Zema".

Matt Zema
Chief Executive Officer