



Australian Energy Market Commission

CONSULTATION PAPER

National Electricity Amendment (Inter-regional
Transmission Charging) Rule 2010

13 May 2010

**RULE
CHANGE**

Inquiries

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

E: aemc@aemc.gov.au

T: (02) 8296 7800

F: (02) 8296 7899

Reference: ERC0106

Citation

AEMC 2010, Inter-regional Transmission Charging, Consultation Paper, 13 May 2010 ,
Sydney

About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005 to be the rule maker for national energy markets. The AEMC is currently responsible for rules and providing advice to the MCE on matters relevant to the national energy markets. We are an independent, national body. Our key responsibilities are to consider rule change proposals, conduct energy market reviews and provide policy advice to the MCE, as requested, or on AEMC initiative.

This work is copyright. The Copyright Act 1968 permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

Contents

1	Introduction	1
2	Background	2
3	Details of the Rule Change Request	4
4	Assessment Framework	6
5	Issues for Consultation	8
5.1	Achieving more cost-reflective price signals.....	8
5.2	Procedural and implementation issues.....	12
6	Lodging a Submission	15
6.1	Lodging a submission electronically	15
6.2	Lodging a submission by mail	15
	Abbreviations.....	16
A	Proposed Rule.....	17

1 Introduction

On 15 February 2010, the Ministerial Council on Energy (MCE) (Proponent) submitted a Rule change request to the Australian Energy Market Commission (AEMC or Commission) seeking to implement an inter-regional electricity transmission charging mechanism.

The Rule change request proposes that new inter-regional transmission charging arrangements should be introduced such that transmission businesses in each region would levy a new charge - a load export charge - on transmission businesses in adjoining regions. This new charge would reflect the flow of electricity from one region to adjoining regions. The Rule change proposes that the level of the load export charge would reflect the costs incurred in the use of the transmission network in the region to conduct electricity to the adjoining network and therefore should be calculated as if the relevant interconnection with the adjoining network was a load on the boundary of the region.¹

This Consultation Paper has been prepared by the staff of the AEMC to facilitate public consultation on the Rule change request. This paper does not represent the views of the AEMC or any individual Commissioner of the AEMC.

This paper:

- sets out a summary of, and background to, the inter-regional charging mechanism proposed by the Proponent;
- identifies a number of questions and issues to facilitate the consultation on this Rule change request; and
- outlines the process for making submissions.

¹ The Rule Change Request is published on the AEMC website www.aemc.gov.au.

2 Background

Issue to be addressed by inter-regional transmission charging

Currently under Chapter 6A of the National Electricity Rules (Rules), a transmission network service provider (TNSP) recovers its costs in building and operating its transmission system from customers within its region.² The pricing provisions under the Rules, which set out how these costs are to be recovered, are based on a set of principles and require TNSPs to develop separate prices for each category of prescribed transmission service.³ Each TNSP must also publish a pricing methodology which, in part, sets out how the revenue to be recovered has been allocated to each category of prescribed transmission service.⁴

The National Electricity Market (NEM) consists of five interconnected regions where electricity may be exported and imported between regions. When electricity flows between regions, the provision of electricity to customers in the importing region will utilise the network in the exporting region. Under the Rules, however, the transmission system charges in the importing region are based on the costs of the TNSP in the importing region only. They do not reflect the costs of utilising the assets of the exporting region's network. By not paying charges that reflect the cost of the transmission network in the exporting region, customers in the importing region, in effect, could be paying a network price that is lower than otherwise should be. As a result, the charges for the imported energy may not reflect the long-run marginal cost of serving the loads in the importing region.

History of the development of inter-regional transmission charging mechanisms

The development of provisions for inter-regional transmission charging have been ongoing and were first considered by the Commission as a part of the Review of Electricity Transmission Revenue and Pricing Rules, which was initiated in 2005. Potential solutions were considered further in the National Transmission Planner (NTP) Review and one of the recommendations to the MCE from the Review was that the current lack of a systematic inter-regional transmission charging mechanism could impede the development of a more efficient national transmission network.⁵ In response, the MCE requested that the Commission consider the need to improve the existing inter-regional transmission pricing arrangements as a part of the Review of

² Clause 3.6.5(a)(5) of the Rules provides for jurisdictions to establish inter-regional charges through inter-governmental agreement. However, in practice, inter-regional transmission service payments have been negotiated only between South Australia and Victoria.

³ The categories of prescribed transmission services are set out in clause 6A.23.4 of the Rules and are prescribed entry services, prescribed exit services, prescribed common transmission services and prescribed transmission use of system services. The pricing principles generally are set out under clause 6A.23 of the Rules.

⁴ The pricing methodology is set out in clause 6A.24 of the Rules.

⁵ AEMC 2008, *National Transmission Planning Arrangements*, Final Report to MCE, 30 June 2008, pp. 68-72.

Energy Market Frameworks in light of Climate Change Policies (Climate Change Review).⁶

In the Final Report on the Climate Change Review, in relation to the issue on inter-regional transmission charging, the Commission recommended the introduction of an obligation on transmission businesses to levy a "load export charge" on the transmission business in each adjoining region.⁷ This charge would reflect the costs of providing transmission capacity to transport electricity to the adjoining regions. In its policy response to the Climate Change Review, the MCE supported, in principle, the introduction of the load export charge and has subsequently submitted this Rule change request.⁸

⁶ The Hon Martin Ferguson AM MP, Chair MCE, Letter to Dr Tamblyn, Chairman AEMC, 5 November 2008. See www.mce.gov.au.

⁷ AEMC 2009, *Review of Energy Market Frameworks in light of Climate Change Policies: Final Report*, September 2009, pp. 42-53.

⁸ MCE 2009, *Response to the AEMC's Final Report on the Review of Energy Market Frameworks in light of Climate Change Policies*, December 2009, pp. 7-8. See www.mce.gov.au.

3 Details of the Rule Change Request

The Rule change request seeks to introduce an inter-regional transmission charging mechanism that would require transmission businesses to levy a load export charge on transmission businesses in adjoining regions.

The Rule change request provides the following to address the problem identified:⁹

- proposes to introduce new inter-regional transmission charging arrangements which would oblige transmission businesses in each region to levy a new charge - a load export charge - on transmission businesses in adjoining regions;
- the charge would reflect the flow of electricity from one region to adjoining regions;
- the level of the load export charge would reflect the costs incurred in the use of the transmission network in the region to conduct electricity to the adjoining region and therefore the charge should be calculated as if the relevant interconnection with the adjoining region was a load on the boundary of the region;
- a Co-ordinating Network Service Provider (CNSP) would be appointed for each region and the CNSP would be responsible for calculating both the charges to be levied on CNSPs in adjoining regions and the amounts to be recovered from customers within the CNSP's own region;¹⁰
- CNSPs would calculate the prices to be applied in the upcoming financial year in accordance with a pricing methodology that has been approved by the Australian Energy Regulator (AER); and
- the total permitted revenue to be recovered by TNSPs would not change - the proposed Rule would change the way revenues are collected.

The Rule change request outlines the rationale for the proposed Rule. A number of key points are summarised as follows:¹¹

- under the current transmission charging arrangements, customers do not contribute to the costs of transmission assets in other regions that support electricity flows to their region, even if they benefit from those flows. Instead, transmission businesses recover their revenues solely from customers within their own region;
- the lack of a robust inter-regional transmission charging mechanism essentially prevents transmission network charges being seen across region boundaries. This

⁹ MCE 2010, *Rule change request - Inter-regional Transmission Charging*, February 2010, pp. 2-3.

¹⁰ There are existing provisions under the Rules in clause 6A.29.1 for the appointment of CNSPs.

¹¹ *ibid* p. 4.

leads to less cost-reflective transmission pricing where customers are not exposed to all the costs that they are imposing on the system;

- as a result of the current arrangements, positive net inter-regional flows will lead to implicit cross-subsidies between customers in different regions. This is likely to be an increasingly material issue given the greater inter-regional flows anticipated as result of climate change policies;
- the absence of a mechanism to resolve this cross-subsidisation could represent a potential barrier to the coordinated planning of transmission investment across different regions, which will become increasingly important as the dispersion of generation across the network changes and the requirement for investment in assets to provide inter-regional transfer capacity increases.

The MCE considers the proposed Rule will, or is likely to, contribute to the achievement of the National Electricity Objective (NEO) because:¹²

- the proposed Rule will have the effect that importing regions will contribute towards the costs of all existing and new assets used by adjoining regions to provide the inter-regional transfer capability required to facilitate the importing of electricity. The recovery of these costs through the transmission charges levied on load customers in importing regions will ensure that such charges are more cost-reflective;
- more cost-reflective transmission charges will contribute to the achievement of the NEO by leading to more efficient use of transmission systems by existing and future transmission customers. This will result in more efficient operation of, and investment in, the transmission system - promoting the long term interests of consumers of electricity with respect to the price of supplying electricity;
- in addition, the proposed Rule would provide for a more efficient cost-allocation mechanism, allowing for transfers between transmission operators and minimising the creation of "winners and losers". As a result, the timeliness and efficiency of network investments should be strengthened. This will contribute to the achievement of the NEO through more efficient investment in the transmission system, promoting the long term interests of consumers of electricity with respect to the price of supplying electricity.

The Rule change request includes a proposed Rule, which is provided as Appendix A to this Consultation Paper.

¹² ibid pp. 4-5.

4 Assessment Framework

The Commission's assessment of this Rule change request must include considering whether the proposed Rule promotes the NEO. The NEO is set out under section 7 of the National Electricity Law (NEL) as follows:

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to-

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”

The Commission's assessment of the Rule change request will also include other considerations such as taking into account the revenue and pricing principles and any relevant MCE Statements of Policy Principles.¹³

The assessment will take into consideration the following issues:

1. Achieving more cost-reflective price signals - whether the current arrangements under the Rules provide cost-reflective price signals and whether the proposed Rule would likely provide a better outcome;
2. Procedural and implementation issues - how the proposed Rule, if made, should be implemented. This may include considering:
 - (a) Administrative efficiency - how the proposed Rule would work efficiently with existing pricing and revenue provisions;
 - (b) Transparency - whether the proposed Rule provides an appropriate level of prescription and clarity; and
 - (c) Stability and regulatory certainty - whether the proposed Rule provides adequate regulatory certainty with respect to the long term predictability and certainty of charges. In addition, transitional provisions to minimise any impacts on TNSPs and adequately manage any potential price adjustments for customers will be relevant.

The proposed Rule will be assessed against the relevant counterfactual arrangements which, in this case, will be the current provisions under the Rules. That is, the assessment will assess the proposed load export charge mechanism against the current arrangements. The scope of the Rule change assessment will not include consideration of the relative merits of any alternative models of inter-regional transmission charging. Such analysis on alternative models was considered by the Commission under the NTP

¹³ The revenue and pricing principles are set out under section 7A of the NEL, and there is no relevant Statement of Policy Principles.

Review and Climate Change Review, which included undertaking extensive consultation with stakeholders during these reviews.

It is noted that, in the MCE's policy response to the Climate Change Review, the MCE considered the inter-regional transmission charging Rule change request should be "subject to a strong empirical analysis under the NEO".¹⁴ To meet this requirement, the Commission has requested TNSPs, including the Australian Energy Market Operator (AEMO) in its capacity as a TNSP in Victoria, to undertake modelling of the potential impacts of the proposed Rule, if made. The Commission considers the modelling outcomes will assist with understanding the potential materiality of the distribution of transmission system charges across regions.

¹⁴ MCE's Policy Response to the Climate Change Review, op cit, p. 8.

5 Issues for Consultation

Taking into consideration the assessment framework and potential requirements to implement the proposed Rule change, we have identified a number of issues for consultation that appear to be relevant to this Rule change request.

These issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the Rule change request or this paper including the proposed framework.

5.1 Achieving more cost-reflective price signals

One of the key issues in this Rule change request is considering whether transmission service charges provide cost-reflective price signals that reflect the costs incurred in the use of the transmission network. In assessing whether the proposed load export charge would reflect the costs incurred in the use of the transmission network to transport electricity to an interconnected region, a number of factors will be considered. These factors are outlined as follows.

5.1.1 Composition and definition of the load export charge

The proposed Rule is aimed at achieving a load export charge which reflects the costs of all (new and existing) assets that contribute to export flows to the adjoining regions as if an adjoining region was a load on the region boundary. That is, the export load would be treated in the same way as other loads in transmission network.¹⁵ Currently, transmission network connection points are subject to charges for prescribed entry and exit services, prescribed common transmission services and prescribed transmission use of system (TUOS) services (which comprise of a locational and a non-locational component).¹⁶ The composition of a load export charge would need to be considered during the Rule change process.

The proposed Rule provides that a load export charge should comprise both the locational and non-locational components of the prescribed TUOS charge, and the charge for prescribed common services and be charged to TNSPs in the relevant interconnected regions. The load export charge for a region is proposed to be calculated by the CNSP using the TNSPs' current approaches under the Rules to calculate charges.

¹⁵ The current pricing principles under the Rules are set out in clause 6A.23. Discussion on the principles of the current transmission price structures may be found in the Commission's Rule determination on Transmission Pricing: AEMC 2006, *National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22*, Rule Determination, 21 December 2006, pp. 29-46.

¹⁶ The principles for the allocation of charges to transmission connection points is set out in clause 6A.23.3 of the Rules.

Question 1 What should be the composition of a load export charge?

- 1.1 As a charge is proposed to be calculated for an export load in the same way as other loads, how should the export load be defined? That is, should an export load be defined as a notional interconnector that joins two regions or should individual connection points be recognised? How does the definition of the export load impact on the calculation of the load export charge and the redistribution of settlement residue amounts as discussed in the following sections of this paper?**
- 1.2 Do the existing provisions under the Rules provide for cost-reflective price signals in relation to the use of the transmission network by a region that imports electricity from an adjoining region? Do customers in an importing region use the exporting TNSP's services in a similar way to customers within the region?**
- 1.3 What should be the composition of the load export charge that would reflect the use of the transmission network by customers in the importing region? If the charge should include charges for prescribed TUOS services, should both the locational and non-locational component be included?**

5.1.2 Calculating the load export charge

Currently each TNSP develops its own pricing methodology to apply in setting its prices for transmission services.¹⁷ Each TNSP's pricing methodology must be consistent with the pricing principles for prescribed transmission services under clause 6A.23 of the Rules and comply with the requirements of the pricing methodology guidelines as published by the AER under clause 6A.25 of the Rules. Whether the existing provisions would need to be amended to accommodate the calculation of a load export charge would need to be considered giving consideration to the purpose and impacts of a load export charge.

Practical considerations related to the consistency of pricing methodologies across regions may need to be taken into consideration. For example, AEMO, as the Victorian CNSP, derives prices based on system conditions on the ten weekdays of highest system demand in Victoria. Whereas TNSPs in other regions use a full year of operating data to capture the single maximum loading condition for each network element at any time over the year (irrespective of whether this occurs at times of regional peak demand).¹⁸ In addition, as each interconnected region would likely be both an exporter and importer of energy at different times throughout any given

¹⁷ In accordance with clause 6A.24.1(a) of the Rules, a TNSP's pricing methodology must be approved by the AER as a part of its transmission determination for each regulatory control period.

¹⁸ AEMC 2009, *Review of Energy Market Frameworks in light of Climate Change Policies: Final Report*, September 2009, p. 47-48.

period, how the interconnector flows should be factored into the calculation of a load export charge would also need to be considered.

The proposed Rule sets out that the load export price should be calculated on the basis of proportionate use of the relevant transmission system assets. It also sets out the allowed adjustments to prices such as adjustments for over or under recovery from the previous years. The proposed Rule requires prices to be determined in accordance with a CNSP's pricing methodology, however it does not prescribe the pricing methodology that should be applied or make any amendments to the pricing principles.

Question 2 How should a load export charge be calculated?

- 2.1 Is the proposed load export charge consistent with the current pricing principles under the Rules?**
- 2.2 What are the differences in the current pricing methodologies adopted by TNSPs and how would any differences need to be addressed?¹⁹ Given that, under the proposed Rule, TNSPs would levy charges on each other, what would be the impact of differences in pricing methodologies of those charges?**
- 2.3 What level of discretion should be given to TNSPs in calculating charges? Should any specific provisions be made to account for potential differences in pricing methodologies?**
- 2.4 How prescriptive should the pricing requirements for a load export charge be? For example, should the Rules specify the types of assets to be included? Should the calculations for the load export charge be based on gross or net interconnector flows?**

5.1.3 Recovery of the load export charge

Should a load export charge be introduced, a TNSP in an importing region must determine how to recover the charges levied on it by its adjoining TNSPs. That is, the TNSP would need to determine how to allocate the costs among its customers. Currently under the Rules, the price structure principles set out the principles that TNSPs are to apply in determining prices to recover their revenue.²⁰ The principles include setting out the relevant categories of prescribed transmission services and how prices should be structured - for example whether a price should be on a postage-stamp basis.

The proposed Rule provides that inter-regional charges should be recovered from customers through locational TUOS charges on the basis of the customers' proportionate use of network assets in adjoining regions. The proposed Rule

¹⁹ As discussed in section 5.2.3, it is noted that the proposed Rule requires AEMO to make an amendment to its pricing methodology in order to implement the load export charge.

²⁰ Clause 6A.23.4 of the Rules

recognises that this would require TNSPs to change their pricing methodologies and, hence, transitional provisions are proposed to allow inter-regional charges to be recovered from non-locational TUOS charges. (Additional transitional provisions are also discussed below in section 5.2.3).

Treatment of settlement residue and settlement residue auction proceeds

Inter-regional settlement residues accrue when interconnectors are constrained and price separation occurs between regions. The difference between the price paid by customers in the higher priced region and the price received by generators in the lower priced region (multiplied by the flow on the interconnector) forms the settlement residue. The rights to future residues are auctioned by AEMO. The proceeds from the auction process and any settlement residue for which the rights were not auctioned (together referred to as 'auction proceeds' in this paper) are distributed back to customers in the higher priced region through the locational TUOS charges by the relevant TNSP.²¹ Whether the introduction of a load export charge impacts the way in which auction proceeds are currently distributed would need to be considered.

The proposed Rule also provides that settlement residue and settlement residue auction proceeds to be returned to customers through the non-locational TUOS charge (which differs from the current arrangements where the amounts are returned to customers through the locational TUOS charge component).

Question 3 How should a load export charge be recovered by the importing TNSP?

3.1 On the basis that the load export charge should promote more cost-reflective price signals, what should be taken into consideration in determining how the load export charge should be recovered?

3.2 How should any auction proceeds be distributed to customers in an importing region?

5.1.4 Treatment and impact of Market Network Service Providers

The pricing provisions under Chapter 6A of the Rules are put in place to promote the efficiency in the provision of electricity services by regulated transmission businesses. As Market Network Service Providers (MNSPs) are not regulated businesses, they are excluded from the pricing provisions under Chapter 6A.

The proposed Rule also excludes MNSPs from the proposed load export charge.

²¹ Clauses 3.6.5 and 3.18.4 of the Rules.

Question 4 Would introducing a load export charge impact MNSPs?

4.1 How does the proposed load export charge impact on customers in regions that import electricity from a region interconnected by an unregulated interconnector? What, if any, specific provisions should be considered as a part of this Rule change process?

5.2 Procedural and implementation issues

Should a load export charge be introduced, a number of procedural and implementation issues would need to be addressed. These issues are discussed as follows.

5.2.1 Administrative efficiency

The revenue and pricing requirements under Chapter 6A of the Rule set out specific obligations that must be met by TNSPs as well as the AER. These obligations impose administrative requirements on these parties and any new provisions should not unnecessarily increase the administrative burden. How introducing changes to the pricing provisions and the requirement for CNSPs to levy charges on other CNSPs impacts the administrative requirements would need to be considered.

Factors affecting administrative efficiency in the proposed Rule include processes affecting interactions between CNSPs. CNSPs would be required to publish applicable transmission service prices for each upcoming financial year by 15 May. In order for a CNSP to calculate these prices, the CNSP would need to factor in the recovery of any load export charges to be paid to the CNSPs in adjoining regions. For this reason, the proposed Rule requires CNSPs to provide estimates of the load export charge to be levied to other CNSPs before 15 May each year. The proposed Rule also sets out the minimum information that should be included in bills and clarifies the obligation on CNSPs to pay any charges that are billed. There are no provisions in the proposed Rule to address any potential credit risks that may be faced by TNSPs.

Question 5 What factors would need to be considered to provide for administrative efficiency?

5.1 What are the administrative impacts on CNSPs by introducing new type of payments between CNSPs? For example, how often should payments be made? Should the payments be made on a gross or net basis? Would TNSPs be exposed to a new credit risk and, if so, how should the risk be managed?

5.2.2 Transparency

Section 5.1.2 of this paper notes that TNSPs are currently able to develop their own pricing methodologies provided they comply with the pricing principles and the AER

pricing methodology guidelines. Question 2 above also queries the level of prescription that should be provided for the way in which any load export charge should be calculated. A broader question is the overall level of prescription and transparency of any new provisions.

Factors affecting transparency in the proposed Rule include whether transparency would be required in the processes undertaken by CNSPs (particularly in regions where there are more than one TNSP). The proposed Rule also includes transitional provisions (as discussed further in section 5.2.3 below), however it does not contemplate the requirement for the AER to issue a revised pricing methodology guideline.

- Question 6 What would be the appropriate level of prescription and transparency for any new pricing provisions?**
- 6.1 Are there other factors relating to the level of prescription and transparency that have not already been considered under the other questions raised? For example, should payment terms and the billing period be specified for payments between CNSPs?**
- 6.2 In regions where there are multiple TNSPs, does the way in which a CNSP bill and receive payments from TNSPs within that region need clarification and/or prescription?**
- 6.3 Should a load export charge be able to be implemented without the requirement for the AER to produce new pricing methodology guidelines? If so, would any clarifications need to be included in the new Rules?**

5.2.3 Stability and regulatory certainty

A stable environment that provides regulatory certainty is generally desirable to ensure participants, including TNSPs and customers, can make efficient decisions and minimise potential risks. Where new provisions are being considered, such as the introduction of a new load export charge, whether the new provisions would provide predictability and certainty of how prices would be calculated would need to be considered. In addition, requirements to manage the transition to new pricing arrangements would need to be assessed. This would include considering an appropriate implementation date for any Rule to be made. In its final report on the Climate Change Review, the Commission proposed a possible date of 1 July 2011 to implement the new load export charge. This Rule change process will assess whether this date would be feasible and what provisions, if any, would need to be included in the transitional provisions to facilitate the implementation of the new Rule.

The proposed Rule, if made, would not change the total amount of revenue to be recovered by TNSPs. However, it would change the way in which the revenue would be recovered where TNSPs would, in effect, recover part of their revenue from customers in adjoining regions through the new load export charge. This change could

potentially impact customers in different regions differently as charges in one region may increase and charges in another region may decrease.

The proposed Rule includes transitional provisions to allow the new provisions to be introduced part-way through a financial year and regulatory control period. The proposed transitional provisions also allow AEMO to revise its pricing methodology for Victoria during the current regulatory control period to enable AEMO to implement a revised pricing methodology that would be more consistent with achieving the objectives of an load export charge. In addition, the proposed Rule requires that CNSPs should use the system-normal interconnector capacities as a measure of capacity when levying charges (as opposed to determining the relevant load at each interconnector connection point) as an interim measure as they make changes to their pricing models to accommodate the new charging mechanism. The proposed Rule also provides that charges should be recovered from the non-locational component of TUOS charges (as opposed to both the locational and non-locational TUOS charges). These transitional provisions allow an inter-regional transmission charge to be implemented without the requirement for TNSPs to make changes to their pricing methodology (with the exception of AEMO).

Question 7 What transitional provisions should be considered to ensure stability and regulatory certainty?

- 7.1 Implementing a load export charge would likely result in the one-off redistribution of transmission service charges. This redistribution may impact some customers more than others. Should any specific provisions be put in place to manage the potential change in charges?**
- 7.2 Would it be feasible to implement the proposed load export charge by 1 July 2011? What factors should be taken into consideration to determine the implementation date? What transitional provisions would need to be in place to allow any new provisions to be implemented as soon as practicable while ensuring that regulatory certainty is maintained?**

6 Lodging a Submission

The Commission has published a notice under section 95 of the NEL for this Rule change request inviting written submissions. Submissions are to be lodged online or by mail by 24 June 2010 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change proposals.²² The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Anita Lai on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code "ERC0106". The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: ERC0106.

Except in circumstances where the submission has been received electronically, upon receipt of the hard copy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

²² This guideline is available on the Commission's website.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CNSP	Co-ordinating Network Service Provider
Commission	See AEMC
MCE	Ministerial Council on Energy
MNSP	Market Network Service Provider
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NTP	National Transmission Planner
Rules	National Electricity Rules
TNSP	transmission network service provider
TUOS	transmission use of system

A Proposed Rule

Part 1: Chapter 3, Part J of Chapter 6A and definitions

[1] Clause 3.6.5 Settlements residue to network losses and constraints

Omit clause 3.6.5(a)(5)(iv) and clause 3.6.5(a)(6) and substitute:

- (iv) the expiry date referred to in subparagraph (ii) means [*insert date*].

[2] Clause 6A.23.3 Principles for the allocation of the ASRR to transmission network connection points

In clause 6A.23.3, omit “to each *transmission network connection point*”.

[3] Clause 6A.23.3 Principles for the allocation of the ASRR to transmission network connection points

Omit clause 6A.23.3(c) and insert:

(c) The ASRR for *prescribed TUOS services* is to be allocated to:

(1) *transmission network connection points of Transmission Customers; and*

(2) *Transmission Network Service Providers (other than Market Network Service Providers) in interconnected regions.*

in the following manner:

(3) a share of the ASRR (the **pre-adjusted locational component**) is to be allocated as between such *connection points* and *Transmission Network Service Providers* on the basis of the estimated proportionate use of the relevant *transmission system* assets:

(i) by each of those customers; and

(ii) for the conveyance of electricity to the *transmission network* of those *Transmission Network Service Providers*,

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

(4) such of the pre-adjusted locational component of the ASRR as is allocated to *transmission network connection points* of *Transmission Customers* must be:

- (i) increased by the aggregate of the charges for the pre-adjusted locational component of *prescribed TUOS services* that are estimated to be payable by the *Transmission Network Service Provider* for the relevant *financial year* in accordance with clause 6A.29A.4;
- (ii) decreased by the amount (if any) by which the estimate referred to in paragraph (i) for the previous *financial year* is greater than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose); and
- (iii) increased by the amount (if any) by which the estimate referred to in paragraph (i) for the previous *financial year* is less than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose),

such adjusted locational component being referred to as the **adjusted locational component**;

Paragraph (4) permits locational TUoS charges paid to adjacent regions to be recovered through an adjustment to locational TUoS charges paid by customers within regions. Note that a transitional provision has been included as clause 11.XX.7 to require that locational TUoS charges paid to adjacent regions are to be recovered through an adjustment to non-locational TUoS charges paid by customers within regions, until revised pricing methodologies have been introduced in subsequent regulatory control periods.

- (5) the remainder of the *ASRR* for *prescribed TUOS services* (the **pre-adjusted non-locational component**) is to be adjusted:
 - (i) by adding the aggregate of the charges for the pre-adjusted non-locational component of *prescribed TUOS services* that are estimated to be payable by the *Transmission Network Service Provider* for the relevant *financial year* in accordance with clause 6A.29A.4;
 - (ii) by subtracting the amount (if any) by which the estimate referred to in paragraph (i) for the previous *financial year* is greater than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose);
 - (iii) by adding the amount (if any) by which the estimate referred to in paragraph (i) for the previous *financial year* is less than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose);
 - (iv) by subtracting the *settlements residue* (including *auction amounts*) expected to be distributed to the *Transmission Network Service Provider* in accordance with clauses 3.6.5(c) and 3.18.4;
 - (v) by subtracting the amount (if any) by which the estimate referred to in paragraph (iv) for the previous *financial year* is less than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose);

- (vi) by adding the amount (if any) by which the estimate referred to in paragraph (iv) for the previous *financial year* is greater than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose);
 - (vii) by adding the *settlements residue* expected to be recovered from the *Transmission Network Service Provider* in accordance with clause 3.6.5(a);
 - (viii) by subtracting the amount (if any) by which the estimate referred to in paragraph (vii) for the previous *financial year* is greater than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose);
 - (ix) by adding the amount (if any) by which the estimate referred to in paragraph (vii) for the previous *financial year* is less than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose);
 - (x) for any *over-recovery amount* or *under-recovery amount*, but only to the extent that amount does not include an amount referred to in paragraphs (4) or (5)(i) to (vii);
 - (xi) for any amount arising as a result of the application of clause 6A.23.4(h) and (i); and
 - (xii) for any amount arising as a result of the application of prudent discounts in clause 6A.26.1(d)-(g),
- (the **adjusted non-locational component**) and the pre-adjusted non-locational component is to be recovered from:
- (xiii) *Transmission Customers* whose allocation of the pre-adjusted non-locational component is adjusted in accordance with subparagraphs (i)-(xii); and
 - (xiv) *Transmission Network Service Providers (other than Market Network Service Providers)* in *interconnected regions*,

with such amounts being recovered in accordance with clause 6A.23.4.

Paragraph (5) permits non-locational TUoS charges paid to adjacent regions to be recovered through an adjustment to non-locational TUoS charges paid by customers within regions. This adjustment also includes the distribution of all settlement residues (including auction proceeds) to customers within the region.

[4] Clause 6A.23.3 Principles for the allocation of the ASRR to transmission network connection points

Omit clause 6A.23.3(d)(1) and substitute:

- (1) a 50% share allocated to the pre-adjusted locational component referred to in subparagraph (c)(3) and a 50% share allocated to the pre-adjusted non-locational component referred to in subparagraph (c)(5); or

[5] Clause 6A.23.3 Principles for the allocation of the ASRR to transmission network connection points

Omit clauses 6A.23.3(e) and 6A.23.3(f) and substitute:

- (e) The *ASRR* for *prescribed common transmission services* and the operating and maintenance costs incurred in the provision of those services (**the pre-adjusted common ASRR component**) is to be adjusted:

- (1) by adding the aggregate of the charges for the pre-adjusted common ASRR component of *prescribed common transmission services* that are estimated to be payable by the *Transmission Network Service Provider* for the relevant *financial year* in accordance with clause 6A.29A.4;

- (2) by subtracting the amount (if any) by which the estimate referred to in paragraph (1) for the previous *financial year* is greater than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose); and

- (3) by adding the amount (if any) by which the estimate referred to in paragraph (1) for the previous *financial year* is less than the actual amount (grossed up by the application of an annual interest rate approved by the *AER* for this purpose).

(the adjusted common ASRR component) and the pre-adjusted common *ASRR* component is to be recovered from:

- (4) *Transmission Customers*, whose allocation of the pre-adjusted common ASRR component is to be adjusted in accordance with subparagraphs (1)-(3); and

- (5) *Transmission Network Service Providers (other than Market Network Service Providers) in interconnected regions*.

with such amounts being recovered in accordance with clause 6A.23.4.

This clause allows for common services charges paid to adjacent regions to be recovered through an adjustment to common services charges paid by customers within regions.

[6] 6A.23.4 Price structure principles

In clause 6A.23.4(a), omit “paragraphs (b)-(i)” and substitute “paragraphs (b)-(k)”.

[7] 6A.23.4 Price structure principles

Omit clauses 6A.23.4(b)-(j) and substitute:

- (b) Separate prices are to be developed for each *category of prescribed transmission service as follows*:
 - (1) *prescribed entry services*;
 - (2) *prescribed exit services*;
 - (3) *prescribed common transmission services – adjusted common ASRR component: *Transmission Customers**;
 - (4) *prescribed common transmission services – pre-adjusted common ASRR component: *Transmission Network Service Providers in interconnected regions**;
 - (5) *prescribed TUOS services – adjusted locational component: *Transmission Customers**;
 - (6) *prescribed TUOS services – pre-adjusted locational component: *Transmission Network Service Providers in interconnected regions**;
 - (7) *prescribed TUOS services – adjusted non-locational component: *Transmission Customers**; and
 - (8) *prescribed TUOS services – pre-adjusted non-locational component: *Transmission Network Service Providers in interconnected regions**.
- (c) Prices for *prescribed entry services, prescribed exit service* must be a fixed annual amount.
- (d) Prices for *prescribed common transmission services* must be on a *postage stamp basis*.
- (e) Prices for recovering the locational component of providing *prescribed TUOS services* must be based on demand at times of greatest utilisation of the *transmission network* and for which *network* investment is most likely to be contemplated.
- (f) Subject to paragraphs (g), (h), and (i), prices for recovering the adjusted locational component of the *ASRR* for the provision of *prescribed TUOS services to Transmission Customers* must not change by more than 2 per cent per annum compared with the *load* weighted average price for this component for the relevant *region*.

- (g) The change in price referred to in paragraph (f) may exceed 2 per cent per annum if, since the last time prices were set:
- (1) the *load* at the *connection point* has materially changed;
 - (2) in connection with that change, the *Transmission Customer* requested a renegotiation of its *connection agreement* with the *Transmission Network Service Provider*; and
 - (3) the *AER* has approved the change of more than 2 per cent per annum.
- (h) If, in the case of an increase in price, the application of paragraph (f) would result in the under-recovery of part of the adjusted locational component of the *ASRR* for the provision of prescribed TUOS services to Transmission Customers, any shortfall may be recovered by adjusting upward the charges that would otherwise apply to *Transmission Customers* in respect of the adjusted non-locational component of *prescribed TUOS services*.
- (i) If, in the case of a decrease in price, the application of paragraph (f) would result in over-recovery of the adjusted locational component of the *ASRR* for the provision of prescribed TUOS services to Transmission Customers, any over-recovery must be offset by adjusting downward the charges that would otherwise apply to *Transmission Customers* in respect of the adjusted non-locational component of *prescribed TUOS services*.
- (j) Prices for recovering the adjusted non-locational component of *prescribed TUOS services* must be on a *postage stamp basis*.
- (k) Prices for the services referred to in paragraphs (b)(4), (6) and (8) must not be applied to Market Network Service Providers.

[8] Clause 6A.24.1 Pricing methodologies generally

Omit clause 6A.24.1(b)(1) and substitute:

- (1) allocates the *aggregate annual revenue requirement* for *prescribed transmission services* provided by that provider:
 - (i) to the categories of prescribed transmission services for that provider; and
 - (ii) to transmission network connection points of Transmission Customers and to Transmission Network Service Providers in interconnected regions; and

[9] Clause 6A.24.1 Pricing methodologies generally

After clause 6A.24.1(b), insert:

(ba) In addition to complying with any other requirements under this Chapter 6A, the pricing methodology of a Transmission Network Service Provider that is the Co-ordinating Network Service Provider for a region must provide for:

(i) the allocation of the aggregate annual revenue requirement and of the annual service revenue requirement, for prescribed transmission services provided by Transmission Network Service Providers whose transmission networks are located in that region;

(ii) the setting of the prices for the services referred to in clause 6A.23.4(b)(4), (6) and (8); and

(iii) such other matters as are required for the purposes of clause 6A.23.3;

[10] Clause 6A.24.1 Pricing methodologies generally

After clause 6A.24.1(d), insert:

(da) Where this Chapter 6A requires or provides for a matter to be determined in accordance with the pricing methodology of a Transmission Network Service Provider that is the Co-ordinating Network Service Provider for a region, that pricing methodology applies in relation to that matter to the exclusion of the pricing methodology of any other Transmission Network Service Provider whose transmission network is located in that region.

[11] Clause 6A.25.2 Contents of pricing methodology guidelines

In clause 6A.25.2(c), omit “adjusted”.

[11] Clause 6A.25.2 Contents of pricing methodology guidelines

At the end of clause 6A.25.2(d), omit “and”.

[13] Clause 6A.25.2 Contents of pricing methodology guidelines

Omit clauses 6A.25.2(e) and substitute:

(e) those parts (if any) of a proposed *pricing methodology* or the information accompanying it, that will not be publicly disclosed without the consent of the *Transmission Network Service Provider*; and

(f) in the case of pricing methodologies for Transmission Network Service Providers that are Co-ordinating Network Service Providers, the requirements those pricing methodologies must include in relation to the adjustment of components of the annual service revenue requirement as contemplated by clause 6A.23.3 and the setting of the prices referred to in 6A.23.4(b)(4), (6) and (8).

[14] Clause 6A.26.1 Agreements for prudent discounts for prescribed transmission services

Omit clause 6A.26.1(d) and substitute:

(d) Subject to this clause 6A.26.1, a *Transmission Network Service Provider* that agrees to charge a beneficiary reduced charges may recover the difference between the revenue that would be recovered by the application of the maximum prices referred to in paragraph (a) and the reduced charges (the **discount amount**) from *Transmission Customers* through charges for either or both:

(1) the adjusted non-locational component of *prescribed TUOS services*; and

(2) the adjusted common ASRR component of *prescribed common transmission services*,

in accordance with the provider's *pricing methodology*.

[15] Clause 6A.26.1 Agreements for prudent discounts for prescribed transmission services

In clause 6A.26.1(f), after “the discount amount” where first occurring, insert “through the charges referred to in subparagraphs (d)(1) and (2)”.

[16] Clause 6A.26.1 Agreements for prudent discounts for prescribed transmission services

In clause 6A.26.1(g), omit “through the charges for” and substitute “through charges to *Transmission Customers* for”.

[17] Rule 6A.27 Billing process

At the end of rule 6A.27, insert “It does not apply in respect of amounts that are payable by *Transmission Network Service Providers in interconnected regions.*”

[18] Clause 6A.27.1 Billing for prescribed transmission services

Omit clause 6A.27.1(a) and substitute:

- (a) *A Transmission Network Service Provider must calculate the transmission service charges payable by Transmission Network Users for each connection point on its transmission network in accordance with the transmission service prices published under clause 6A.24.2.*

[19] Clause 6A.27.2 Minimum information to be provided in network service bills

Omit clauses 6A.27.2(b)(1) and 6A.27.2(b)(2) and substitute:

- (1) charges for the adjusted locational and the adjusted non-locational component of *prescribed TUOS services*;
- (2) charges for the adjusted common ASRR component of prescribed common transmission services.

[20] Clause 6A.27.4 Payments between Transmission Network Service Providers

At the end of the heading for clause 6A.27.4, insert “in the same region”.

[21] Clause 6A.27.4 Payments between Transmission Network Service Providers

Omit clause 6A.27.4(a) and substitute:

- (a) *A Transmission Network Service Provider must pay other Transmission Network Service Providers within the same region the **revenue** which is estimated to be collected during the following year by the first provider as charges for *prescribed transmission services* for the use of *transmission systems* owned by those other Transmission Network Service Providers.*

[22] Clause 6A.27.5 Calculation of financial transfers between Transmission Network Service Providers

At the end of the heading for clause 6A.27.5, insert “in the same region”.

[23] Clause 6A.27.5 Calculation of financial transfers between Transmission Network Service Providers

In clause 6A.27.5(a), after “another *Network Service Provider*”, insert “in the same region”.

[24] Clause 6A.27.5 Calculation of financial transfers between Transmission Network Service Providers

In clause 6A.27.5(b), after “by the *Co-ordinating Network Service Provider*”, insert “for the relevant *region*”.

Further consideration of clauses 6A.27.4 and 6A.27.5 may be required under the Rule change process to ensure that these sufficiently provide for revenue transfers between CNSPs and other TNSPs in the same region under the revised arrangements.

[25] Clause 6A.29.1 Multiple Transmission Network Service Providers within a region

In clause 6A.29.1(a), after “AARR within that region”, insert “and of the annual service revenue requirement for each Transmission Network Service Provider in that region,”.

[26] Clause 6A.29.1 Multiple Transmission Network Service Providers within a region

In clause 6A.29.1(e), omit “coordination function” and substitute “*Co-ordinating Network Service Provider's* functions under this Part J.”

[27] Clause 6A.29.2 Single Transmission Network Service Provider within a region

Omit clause 6A.29.2 and substitute:

If *prescribed transmission services* within a *region* are provided by only one *Transmission Network Service Provider*, that provider is the *Co-ordinating Network Service Provider* for that *region* and is responsible for allocation of the AARR within that *region*, and its *annual service revenue requirement*, in accordance with this Part J.

[28] Clause 6A.29.3 Allocation over several regions

Omit clause 6A.29.3 in its entirety and substitute “[Deleted]”.

[29] New Rule 6A.29A Inter-regional transmission network charges

After rule 6A.29, insert:

6A.29A Inter-regional transmission network charges

This rule sets out the arrangements under which a *Co-ordinating Network Service Provider* for a *region* must calculate the amounts that are payable by *Transmission Network Service Providers* in an *interconnected region* for *prescribed TUOS services* and *prescribed common services* that are provided by *Transmission Network Service Providers* in the *Co-ordinating Network Service Provider's region*. It also sets out the arrangements under which that *Co-ordinating Network Service Provider* must bill those amounts to the *Co-ordinating Network Service Provider* for the *interconnected region*.

6A.29A.1 Calculation and billing of inter-regional transmission network charges

- (a) A *Co-ordinating Network Service Provider* for a *region* must calculate the amounts that are payable by *Transmission Network Service Providers* in an *interconnected region* for *prescribed TUOS services* and *prescribed common transmission services* that are provided by *Transmission Network Service Providers* in the *Co-ordinating Network Service Provider's region* in accordance with the *transmission service prices* published under clause 6A.24.2.
- (b) The *Co-ordinating Network Service Provider* referred to in paragraph (a) must issue a bill to the *Co-ordinating Network Service Provider* for the *interconnected region* for the services referred to in that paragraph.
- (c) Each *Transmission Network Service Provider* whose *transmission network* is located in the *region* of the *Co-ordinating Network Service Provider* referred to in paragraph (a) must provide that *Co-ordinating Network Service Provider* with such information as it reasonably requires to calculate the amounts referred to in paragraph (a) and to issue the bills referred to in paragraph (b) with the information referred to in clause 6A.29A.2.

6A.29A.2 Minimum information to be provided in bills

The following is the minimum information that must be provided with a bill issued by a *Co-ordinating Network Service Provider* for a *region* to the *Co-ordinating Network Service Provider* for an *interconnected region* under clause 6A.29A.1:

- (a) the period to which the bill relates;
- (b) the total charge for the pre-adjusted locational component of *prescribed TUOS services*;
- (c) the total charge for the pre-adjusted non-locational component of *prescribed TUOS services*;
- (d) the total charge for the pre-adjusted common *ASRR* component of *prescribed common transmission services*; and
- (e) reasonable details of the calculation of the charges referred to in paragraphs (b), (c) and (d).

6A.29A.3 Obligation to pay charges

A Co-ordinating Network Service Provider must pay charges for prescribed transmission services properly charged to it and billed in accordance with this clause 6A.29A by the date specified in the bill.

6A.29A.4 Provision of estimated inter-regional transmission network charges

- (a) The Co-ordinating Network Service Provider for a region must provide to the Co-ordinating Network Service Provider for an interconnected region its best estimate of the amounts that will be payable for the following financial year by Transmission Network Service Providers in that interconnected region for prescribed TUOS services and prescribed common transmission services that are provided by Transmission Network Service Providers in the first-mentioned Co-ordinating Network Service Provider's region.
- (b) The estimate referred to in paragraph (a) must be provided prior to 15 May each year, on a date to be agreed by the relevant Co-ordinating Network Service Providers, and must include separate estimates of:
- (1) the total charge for the pre-adjusted locational component of prescribed TUOS services;
 - (2) the total charge for the pre-adjusted non-locational component prescribed TUOS services; and
 - (3) the total charge for the pre-adjusted common ASRR component of prescribed common transmission services.

This clause 6A.29A.4 obliges CNSPs to provide estimates before 15 May each year of inter-regional charges to be levied in the following financial year, in order to allow for the incorporation of the recovery of such charges in prices to customers published on 15 May.

[30] Chapter 10 Substituted Definitions

In Chapter 10, substitute the following definitions in alphabetical order:

Prescribed common transmission services

Prescribed transmission services that provide equivalent benefits to:

- (a) all *Transmission Customers* who have a *connection point* with the relevant *transmission network* without any differentiation based on their location within the *transmission system*; and
- (b) *Transmission Network Service Providers in interconnected regions, without any differentiation based on the location of their direct or indirect connection or interconnection with the relevant transmission system.*

Prescribed TUOS services or prescribed transmission use of system services

Prescribed transmission services that:

- (a) provide different benefits to *Transmission Customers* who have a *connection point* with the relevant *transmission network* depending on their location within the *transmission system*;
- (b) provide different benefits to *Transmission Network Service Providers* which have an *interconnection* with the relevant *transmission network* depending on the location of their direct or indirect *connection* or *interconnection* with the relevant *transmission system*; and
- (c) are not *prescribed common transmission services*, *prescribed entry services* or *prescribed exit services*.

Part 2: Chapter 11 Savings and Transitional Rules

In chapter 11, after Part XX, insert:

Part XX Inter-regional transmission network services

11.XX Rules consequent on the making of the National Electricity Amendment (Inter-regional Transmission Network Services) Rule 2009

11.XX.1 Definitions

For the purposes of this rule 11.XX:

adjusted non-locational component of the ASRR for prescribed TUOS services has the meaning set out in clause 6A.23.3.

AEMO means the *Australian Energy Market Operator* which assumed the functions of VENCORP, the Victorian Energy Networks Corporation which had been established under Division 2A of Part 2 of the *Gas Industry Act 1994 (Vic)* and continued under Part 8 of the *Gas Industry Act 2001 (Vic)* until AEMO was established.

Amending Rule means the National Electricity Amendment (Inter-regional Transmission Network Services) Rule 20XX

commencement date means the date on which the Amending Rule 20XX commenced operation.

current regulatory control period means the *regulatory control period* commencing on 1 July 2007 in relation to Powerlink, 1 July 2008 in relation to AEMO and ElectraNet, 1 July 2009 in relation to Transend, TransGrid and EnergyAustralia.

ElectraNet means ElectraNet Pty Limited (ACN 094 482 416).

EnergyAustralia means the energy distributor known as EnergyAustralia (ABN 67 505 337 385) and established under the *Energy Services Corporation Act 1995 (NSW)*.

Powerlink means the Queensland Electricity Transmission Corporation Limited (ACN 078 849 233) trading as Powerlink Queensland.

Powerlink's pricing arrangements means the pricing, charging and billing arrangements which Powerlink makes during its current *regulatory control period* in accordance with the AER's decision on Powerlink Queensland transmission network revenue cap 2007-08 and 2011-12 dated 14 June 2007 and Chapter 6 of the *Rules* as existing on 3 April 2006 and clause 11.6.12 of the *Rules*.

pre-adjusted common ASRR component of the ASRR for prescribed common transmission services has the meaning set out in clause 6A.23.3.

pre-adjusted locational component of the ASRR for prescribed TUOS services has the meaning set out in clause 6A.23.3.

pre-adjusted non-locational component of the ASRR for prescribed TUOS services has the meaning set out in clause 6A.23.3.

relevant Transmission Network Service Providers means AEMO, ElectraNet, EnergyAustralia, TransEnd, TransGrid and Powerlink.

system normal interconnector capacity means the maximum capacity of a relevant *interconnector*, in the absence of *outages* on the relevant *interconnector* only and based on relevant data from the previous four quarters *published* by *AEMO* in accordance with clause 3.13.3(p).

Transend means Transend Networks Pty Limited (ACN 082 586 892)

TransGrid means the energy services corporation (ABN 19 622 755 774) constituted under section 6A of the *Energy Services Corporation Act 1995 (NSW)*

11.XX.2 Purpose

The purpose of this rule 11.XX is to provide transitional arrangements to enable the Amending Rule's new *inter-regional transmission network services' pricing, charging and billing arrangements* to apply to relevant *Transmission Network Service Providers* during their current *regulatory control period*. These arrangements will enable a relevant *Transmission Network Service Provider* to charge other *Transmission Network Service Providers* in *interconnected regions* on a similar basis as it charges *Transmission Customers* within its *region* for certain *prescribed transmission services* during its current *regulatory control period*.

This Rule provides transitional arrangements to enable TNSPs in adjacent regions to be charged on a similar basis to customers within regions in the period before revised pricing methodologies are introduced.

11.XX.3 Scope and application of this rule

(a) Subject to paragraph (b), the Amending Rule applies from the commencement date, despite any other provision of the Rules applicable to the pricing, charging and billing arrangements of relevant *Transmission Network Service Providers* during their current *regulatory control period*.

(b) Rule 11.XX does not apply to anything done in accordance with:

(i) Part J of Chapter 6A; or

(ii) Chapter 6 of the Rules as in force on 3 April 2006; and

prior to the commencement date and applicable to the financial year in which the Amending Rule commences operation.

(c) For the avoidance of doubt, the Amending Rule does not affect the pricing, charging and billing arrangements of Transmission Network Service Providers for the financial year in which it commences operation.

This clause 11.XX.3 allows for the provisions of the amending Rule to be introduced mid-way through a financial year, without affecting the prices applying and charges paid in that financial year. This is necessary to allow for prices incorporating inter-regional transmission charges to be derived for the following financial year, in advance of the start of that financial year.

11.XX.4 Amendments to AEMO's pricing methodology

(a) AEMO must prepare amendments to paragraph 3.14.4 of its pricing methodology in relation to its current regulatory control period in respect of the allocation of ASRR for prescribed TUOS services to connection points in accordance with paragraph (b).

(b) The amendments to AEMO's pricing methodology must revise the allocation of the pre-adjusted locational component of the ASRR for prescribed TUOS services between connection points of Transmission Customers and Transmission Network Service Providers in interconnected regions with the objective of providing more cost reflective prices than under AEMO's existing pricing methodology.

(c) AEMO must submit proposed amendments to its pricing methodology prepared under this clause and all relevant information to the AER.

(d) Upon receiving AEMO's proposed amendments submitted in accordance with paragraph (c), the AER must make a determination within 20 business days on whether or not the proposed amendments to AEMO's pricing methodology reasonably satisfy paragraph (b).

(e) If the AER makes a determination under paragraph (d) approving the proposed amendments to AEMO's pricing methodology, then the amendments have effect until the end of AEMO's current regulatory control period.

(f) If the AER makes a determination under paragraph (d) that the proposed amendments do not reasonably satisfy paragraph (b), then the AER must determine, within 30 business days from the date of receiving AEMO's proposed amendments, and notify AEMO in writing of, a substitute pricing methodology which will have effect until the end of the AEMO's current regulatory control period.

This clause 11.XX.4 provides for AEMO to revise its pricing methodology for Victoria during its current regulatory control period in order to amend its process for allocating costs associated with locational TUoS services, with the aim of deriving more cost-reflective charges to apply following the introduction of the inter-regional transmission charging arrangements.

11.XX.5 Amendments to Powerlink’s pricing and charging methodology

- (a) Despite clause 11.6.12 and subject to clause 11.XX.3(b), the Amending Rule applies to Powerlink’s pricing arrangements as from the commencement date until the end of its current *regulatory control period*.
- (b) Powerlink must prepare amendments to its pricing arrangements to the extent needed to give effect to paragraph (a) and submit the proposed amendments and all relevant information to the AER.
- (c) Upon receiving Powerlink’s proposed amendments submitted in accordance with paragraph (b), the AER must make a determination within 20 *business days* on whether or not the proposed amendments to Powerlink’s pricing arrangements reasonably satisfy paragraph (a).
- (d) If the AER makes a determination under paragraph (c) approving the proposed amendments to Powerlink’s pricing arrangements, then the amendments have effect until the end of Powerlink’s current *regulatory control period*.
- (e) If the AER makes a determination under paragraph (c) that Powerlink’s revised proposed amendments to its pricing arrangements do not reasonably satisfy paragraph (a), then the AER must determine within 30 *business days* from the date of receiving Powerlink’s proposed pricing arrangements, and notify Powerlink in writing of, substitute pricing arrangements which will have effect until the end of the Powerlink’s current *regulatory control period*.

This clause 11.XX.5 requires Powerlink to levy inter-regional transmission charges on adjacent regions until it is bound by Chapter 6A from the commencement of its next regulatory control period, on 1 July 2012. It proposes that the AER’s approval of the necessary changes to its pricing arrangements would be required.

11.XX.6 Method for calculating inter-regional transmission network charges in relation to capacity

During the current *regulatory control period*, each relevant *Transmission Network Service Provider* except EnergyAustralia must use system normal *interconnector capacity* as the relevant measure of capacity when calculating the pre-adjusted locational component of the ASRR for *prescribed TUOS services*, the pre-adjusted non-locational component of the ASRR for *prescribed TUOS services* and the pre-adjusted common ASRR component of the ASRR for *prescribed common transmission services* provided by it to an *interconnected Transmission Network*

Service Provider in accordance with Part J of Chapter 6A or this rule 11.XX in the case of Powerlink.

This clause 11.XX.6 provides for CNSPs to use System Normal Interconnector Capacity as a measure of capacity when levying TUoS and common services charges on CNSPs in adjacent regions.

11.XX.7 Cost recovery of inter-regional transmission network charges from within region

During the current regulatory control period, costs for the pre-adjusted locational component of the ASRR for prescribed TUoS services provided to Transmission Network Service Providers in a region by Transmission Network Service Providers in an interconnected region must be recovered by the first-mentioned Transmission Network Service Providers through the adjusted non-locational component of the ASRR for prescribed TUoS services that those Transmission Network Service Providers provide to their Transmission Customers.

This clause 11.XX.7 requires that inter-regional locational TUoS charges levied on a region should be recovered from customers within that region through non-locational TUoS charges, until the relevant CNSP introduces a revised pricing methodology in its next regulatory control period.

11.XX.8 Basis for calculating change in adjusted locational prices

Clause 6A.23.4(f) must be applied for the first financial year after the commencement date as if the prices referred to in that clause for the previous financial year were calculated in accordance with the requirements of the Amending Rule.

This clause 11.XX.8 requires CNSPs to use the revised arrangements to calculate the locational TUoS prices that would have applied in the year of the commencement of the Rule. This calculation will be used, and will only be used, to enable the CNSP to determine whether the adjusted locational TUoS prices that will apply in the following financial year are within two per cent of the change in the load weighted average of these prices.