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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Email: aemc@aemc.gov.au

Dear Dr Tamblyn

Proposed National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006

NRG Flinders is party to a separate submission to the above consultation by the National Generators Forum.

The following submission provides additional comment on specific elements of the proposal.

Connection Charges

Under the current framework for the regulation of transmission revenue, a serious anomaly exists in the calculation and apportionment of connection charges.

Connection charges are allocated to the user in proportion to the value of the network assets deemed to be providing connection services to that user. Connection charges are levied for:

- Entry services - assets fully dedicated to serving a generator or group of generators at a connection point; and
- Exit services - assets fully dedicated to serving a transmission customer or group of customers at a connection point.

The result of this cost allocation process is a fixed annual charge for each entry and exit point, typically recovered on the basis of a fixed \$/day price. Provision also exists for the negotiation of relevant charges for unregulated new connections and augmentation of existing connections.

In the absence of any major changes to the connection services provided, it might therefore be expected that allocated connection costs and corresponding charges would remain relatively stable over time.

However, it is clear that network projects can impact on the boundary between shared network assets and connection assets, and therefore on the level of connection charges.

An example would be a network refurbishment project that resulted in the relocation of shared network assets to a point on the network more distant from the connected party, thereby increasing the level of network assets deemed to be dedicated exclusively to providing connection services to the user. Despite there being no increase in the level of connection services provided, this would drive an increase in connection charges due to the cost allocation process.

NRG Flinders has encountered an example of this problem, details of which are provided in the attachment. This case study illustrates the significant impact this anomaly is currently having on individual transmission costs. NRG Flinders understands that this is not an isolated example, but is typical of an issue that applies generally across the NEM.

The specific Rule change proposals put forward by the AEMC appear, at least in part, to address this issue. Specifically, proposed clause 6.21(a)(7) would prevent a shared cost allocated to prescribed transmission services from being reallocated to negotiated transmission services (eg connection services). Thus, an asset deemed to be providing shared network services could not later be reclassified as an asset dedicated to the delivery of connection services. NRG Flinders supports the intent of this provision.

The AEMC may wish to review the application of the new Rules to confirm that the proposed clause adequately addresses specific anomalies of the type identified in the attached case study. For example, a refurbishment may give rise to new or replacement assets that have not previously been classified as shared assets, but which should nonetheless be captured by the same principle of non-conversion.

Clearly, a transmission network user should be entitled to expect some certainty and stability on the level of connection costs for the life of a connection point, and should not face a specific increase in connection charges unless the level of connection services has increased.



NRG Flinders would be pleased to discuss the issues raised in this submission with the Commission, or to provide any further information required. Please contact me on (08) 8372 8726 or Simon Appleby on (08) 8372 8706.

Yours sincerely

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ATTACHMENT

Case Study: Connection Charges

A TNSP (ElectraNet) proposes to undertake a major asset refurbishment and relocation project near Port Augusta in South Australia. The project involves replacing various ageing network assets and relocating these from a switchyard (Playford A 132kV) adjacent to an existing generator (Northern and Playford PS) to a more distant substation (Davenport). As a refurbishment, the project does not involve the Regulatory Test.

The existing Playford A switchyard contains a number of radial lines serving regional load areas. One effect of this project is to relocate these shared network assets to a more distant location from the generator, and to increase the level of dedicated assets deemed to be delivering connection services to the generator (ie house supplies). This increases allocated connection costs substantially.

In summary:

- Network assets will be refurbished and replaced with assets delivering the same functionality.
- The connection services provided to the generator will remain unchanged.
- The generator connection point will remain unchanged.
- The generator faces an estimated increase in connection charges in the order of 70-80%, as advised in discussions with the TNSP (representing a cost increase of up to \$700,000).

This highlights a clear anomaly under the current charging framework, whereby network projects can impact on the boundary between shared network assets and connection assets and increase individual costs substantially, despite there being no increase in the level of connection services provided.

In the interests of long-term certainty of connection charges, it is expected that the nature and costs of a generator connection should remain consistent for the life of the plant. However, the Rules are currently silent on this issue. To this end, there appears to be a strong case to prevent shared network assets being reclassified as connection assets, and to limit any increase in the level of connection charges at an existing connection point unless the user requests additional services.