NATIONAL GENERATORS FORUM

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Ms Anita Lai
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Lai

ERC0106: National Electricity Amendment (Inter-regional Transmission Charging) Rule 2010

The National Generators Forum (NGF) welcomes the opportunity to provide a response to this Rule change.

As the NGF understands it, the Rule change request proposes that new inter regional transmission charging arrangements. Transmission businesses in each region would levy a new charge – a load export charge – on transmission businesses in adjoining areas. The charge reflects the flow of electricity from one region to adjoining regions. The Rule change proposes that the load export charge reflect the costs incurred in the use of the transmission network in the region to conduct electricity to the adjoining network. Therefore, it will be calculated as if the relevant interconnection with the adjoining network was a load on the region boundary.

On balance, we support the proposed improvements to the transmission charging arrangements. This response focuses on the positive elements of the propose change.

However, one concern we do have is the potential difficulty to develop and set the charge with a degree of certainty. Energy movement from one region's transmission network to an adjoining region's network is likely to be volatile. We expect the energy forecasts used to work out a load export charge to be similarly variable. This could create problems around certainty. We do note, however, that that forecasting energy flows for customer loads at existing connection points on the transmission system are relatively stable.

Key issues

A: Composition of a load export charge

The NGF supports a load export charge that reflects the costs of all assets which contribute to export flows to the adjoining regions as if an adjoining region was a load on the region boundary.

In addition, we submit:

- The Australian Energy Market Commission's (AEMC) proposed methodology of implementing a load export charge is consistent with the current methodology in the Australian Energy Regulator's (AER) Electricity transmission network service providers – Pricing methodology guidelines (PMG). This methodology provides for transmission cost recovery from customers based on their proportionate use of network assets.

- A load export charge that comprises both a locational and non locational component of prescribed transmission use of system (TUOS) charges and the charge of prescribed common services which would be charged to Transmission Network Service Providers (TNSPs) in the relevant interconnected regions is appropriate.

- A load export charge that includes both a locational and non locational component of prescribed TUOS implemented in a way that minimises price volatility is suitable. We expect that the AEMC will engage with TNSPs to facilitate this outcome.

B: Calculation of the load export charge

The NGF supports the introduction of a load export charge by changing the pricing methodology of all TNSPs to allow them to apply a load export charge.

To achieve this, we propose that:

- The AER reviews the pricing methodology of all TNSPs to ensure they comply with their PMG following the implementation of a load export charge.

- The AER formulates any required changes to its PMG to accommodate a load export charge.

- TNSPs apply a load export charge which could be implemented on a gross or net basis, but should be levied on the same basis throughout the NEM. They would set the charge based on the use of each individual TNSP's assets on either side of a region and ensure it was developed in accordance with their own pricing methodology.

- TNSPs develop a load export charge in accordance with their pricing methodology in a transparent and predictable manner.

- TNSPs develop a load export charge in accordance with their pricing methodology in a manner that reduces price volatility.

C: Recovery of a load export charge

The NGF supports a load export charge with a locational and non locational component of prescribed TUOS, and the charge from prescribed common services to be charged to TNSPs in the relevant interconnected areas.

In addition, we support:

- Settlement Residue Auction (SRA) revenues, which are currently offset against a common service charge. Under this proposal, all customers receive a more even spread of revenue from SRA auctions.

D: Impact of a load export charge on MNSPs

The NGF supports the exclusion of Market Network Service Provider (MNSPs) from the proposed load export charge.

As MNSPs are unregulated in the NEM, they are excluded form the Pricing provisions of chapter 6A of the Rules. Furthermore, MNSPs recover their revenues from the market and are not relevant to developing a load export charge.

However, this need not limit charging of inter-regional TUOS charges between regulated Network Service Providers (NSPs) on either side of a MNSP.

E: Procedural and implementation issues associated with implementing a load export charge

The NGF supports the current proposal for Coordinating Network Service Providers (CNSPs) to publish inter-regional TUOS charges by 15 May each year.

In short, we believe:

- CNSPs should provide estimates of the load export charge to be levied to other CNSPs before 15 May each year.

- Credit issues between CNSPs regarding the billing of inter regional TUOS can be resolved between TNSPs without guidance from the AEMC.

F: Prescription and transparency of any new pricing provisions to accommodate a load export charge

The NGF supports the introduction of a load export charge by changing the pricing methodology of all TNSPs to allow them to apply a load export charge.

To achieve this, we submit the AER:

- Review the pricing methodology of all TNSPs to ensure they comply with its PMG following the implementation of a load export charge.

- Refrain from adopting a new set of guidelines, independent of the PMG, to develop a load export charge.

- Develop consistent and transparent guidelines in gross or net payment procedures with TNSPs for the billing of inter regional TUOS.

G: Stability and regulatory certainty for market participants following the introduction of a load export charge

The NGF understands the proposed Rule changes the way in which revenue is recovered by allowing TNSPs to recover part of their revenue from customers in adjoining regions through the load export charge. The charge could potentially impact customers in each region differently as charges in one region increase and charges in another region decrease.

Therefore, to deal with any unfortunate impacts associated with this change, we support transitional provisions that can be implemented on the basis that they:

- Allow the TNSPs to recover the load export charge through the non locational component of TUOS because it is easier to implement.

- Permit 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 a load export charge. Having argued this, we expect AEMO's revised pricing methodology will comply with the AER's PMG.

If you have any queries regarding this matter, please do not hesitate to contact Con Noutso – Regulatory Manager at TRUenergy on Tel: (03) 8628-1240 or via email on (con.noutso@truenergy.com.au).

Yours sincerely

M. Roberts

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