



3 March 2006

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

By Email: john.tamblyn@aemc.gov.au
Cc: anthony.englund@aemc.gov.au

Dear Dr Tamblyn

TransGrid Participant Derogation - Treatment of Contingent Projects (Interim Arrangements) Rule 2005

AEMC's draft rule determination of 19 January 2006 proposes amendments to the National Electricity Rules to allow costs associated with approved contingent projects to be recovered by TransGrid within the current regulatory period.

The purpose of TransGrid's proposal is to remove uncertainty surrounding recovery of efficient investment in approved contingent projects and thereby remove a potential disincentive to undertake such investment.

The Commission's draft rule determination states that:

... the derogation would contribute to the NEM objective by removing barriers to necessary investment in the transmission network by TransGrid (p.3)

WPV supports in principle measures which increase certainty in relation to efficient investments, and agrees with the Commission that 'delayed recovery of contingent project expenditure (for TransGrid) ... produces a level of regulatory risk that may inhibit or delay investment decisions' (p9).

WPV therefore supports the draft decision to amend the Rules to allow TransGrid's revenue cap to be reopened to fund contingent projects that have been triggered within the current regulatory period but we suggest that it should be made clear that:

....the derogation should contribute to removing barriers to investment in non-network alternatives which can be demonstrated to be more economical than transmission solutions to necessary reinforcements of the electricity supply network.

It is not clear to WPV that the Commission's decision would give certainty to TransGrid in respect of the recovery of payments (ie. network support payments) for a non-network solution which was proved to be more economic than the approved contingent project.

The regulatory test and the ACCC's decision on TransGrid's revenue cap contemplate a range of non-network options for efficient investments in general and contingent projects in particular.

To the extent that the draft decision increases certainty and reduces risk for TransGrid in relation to network solutions, but may not do the same for non-network options, the draft decision may establish an artificial differential risk profile between network and non-network options for contingent projects. In short, it is not clear that the derogation removes barriers to more efficient costs incurred by TransGrid in non-network alternatives to approved contingent transmission projects.

It is arguable that such an outcome may not promote efficient investment in electricity services.

WPV is currently developing a proposal for a gas-fired base-load power station at Bega. This will delay the need for network reinforcements between Canberra and Cooma, which has been identified by TransGrid in the past two years as a required near-term reinforcement (within the next five years) and which WPV understands is a contingent project in the current regulatory period.

WPV considers that the Bega project offers significant efficiency benefits over network options. However, the proposal is being developed in an environment of considerable uncertainty in relation to how TransGrid can consider our proposals for network support payments to remedy the near-term supply deficiencies in the Cooma area of NSW.

WPV considers that by providing greater certainty to TransGrid, the Commission's draft determination may facilitate WPV's investments by enabling TransGrid to commit to network support payments for such approved contingent projects, and that those payments will be available within the current (TransGrid) regulatory period, and be treated as an existing project in the subsequent regulatory period, to enable TransGrid to contract for network support over a longer term.

The NEM objective of promoting efficient investment will only be satisfied if the Rules ensure that appropriate incentives and certainty flow through to all forms of transmission-equivalent investment.

In summary, the Rules should ensure that network support payments are able to be recovered within the current regulatory period by non-network projects demonstrated to be a lower cost alternative to approved contingent transmission projects.

Yours faithfully
Wambo Power Ventures Pty Ltd



Trevor St. Baker
Managing Director