

## **B Summary of Related Reforms**

This Appendix presents the key policy reforms and Reviews that relate to the National Transmission Planner Review. The key reforms since October 2005 which set the context for the National Transmission Planner Review are:

### **B.1 Rule changes in respect of the Economic Regulation of Transmission Services**

In November 2006, following a process of consultation and review, the Commission made a set of changes to the Rules to put in place a new regime of economic regulation for transmission.<sup>58</sup> The purpose of these changes was to improve the incentive regime under which transmission service providers operate and to clarify how different services are to be classified and priced. In particular the new Rules required the AER to develop and implement a regime of financial incentives and penalties to encourage TNSPs to make available transmission capacity and services at time of most value to users and consumers. The new Rules permit up to 5% of revenue to be subject to the TNSPs performance under the incentive regime. The AER published its service incentive scheme for TNSPs in March 2008.<sup>59</sup>

The Commission also made a final rule determination on pricing reforms for transmission services<sup>60</sup>. In its determination, the Commission largely confirmed the operation of current pricing methodologies while allowing scope for future innovation. The following design features were codified in the Rules: the principles for prescribed transmission service pricing methodologies; the option or requirement for the Australian Energy Regulator (AER) to make guidelines in specific areas of pricing implementation and administration; and clear procedural requirements for the development, implementation and administration of pricing methodologies.

### **B.2 Last Resort Planning Power (LRPP)**

In March 2007, the Commission made a Rule determination to establish the LRPP. The LRPP enables the Commission to direct a party to undertake a Regulatory Test assessment in respect of an identified new network investment or to identify a potential transmission project for the purpose of later conducting the Regulatory Test. The purpose of the LRPP is to ensure timely and efficient interregional transmission investment.<sup>61</sup>

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<sup>58</sup> AEMC 2006, National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006, Rule Determination, 16 November 2006, Sydney, and AEMC 2006, National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006, 21 December 2006, Sydney.

<sup>59</sup> AER 2008, Electricity Transmission Network Service Provider Service Target Performance Incentive Scheme, March 2008

<sup>60</sup> AEMC 2006, National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006

No. 22, Rule Determination, 21 December 2006, Sydney.

<sup>61</sup> AEMC 2007, National Electricity Amendment (Transmission Last Resort Planning) Rule 2007, Rule Determination 8 March 2007, Sydney and AEMC 2007, Last Resort Planning Guidelines, 10 July 2007.

In its Rule determination, the Commission also articulated the matters that the Commission must consider when determining whether to exercise the LRPP. The Rule determination further requires that the Commission develop guidelines on the Commission's proposed approach to exercise the LRPP. The Commission is required to exercise the LRPP in accordance with these guidelines. Additionally, the Rule determination requires the Commission to seek advice from the Inter-Regional Planning Committee when identifying a transmission project and to have regard to the Annual National Transmission Statement (ANTS) produced by NEMMCO.

### **B.3 Review of Regulatory Test Principles**

The Commission made a Final Rule Determination on the Rule change for the Reform of Regulatory Test Principles on 30 November 2006. The Rule change will allow the Regulatory Test to operate more effectively, providing greater policy guidance for the promulgation of the Test and increasing the certainty and transparency of the application of the Test. The Rule makes the market benefits limb of the Test simpler, through the provision of an information mechanism for alternative projects and requiring that the comparison of the proposed investment be made only against identified alternatives rather than all possible alternatives. The Commission considers that this will lead to greater incentives for TNSPs to utilise the market benefits limb of the Regulatory Test and this will facilitate investments to relieve congestion.<sup>62</sup>

### **B.4 Comprehensive Reliability Review**

The Commission has requested the Reliability Panel (panel) to undertake a comprehensive and integrated review of the effectiveness of National Electricity Market (NEM) reliability settings, including whether there may be a need to improve or change them. The panel focused on whether an adequate level of generation and bulk transmission was being made available. In June 2007, an additional request was made by the MCE to provide advice on strengthening the market's ability to manage generator inputs. The panel has released a second interim report in August 2007, and published its final decision in December 2007<sup>63</sup>.

### **B.5 Congestion Management Review (CMR)**

The MCE directed the Commission to review and make recommendations on improved arrangements for managing physical and financial trading risks associated with material network congestion. The Commission published a Draft Report on 27 September 2007. The three key areas of change recommended in this Draft Report were: measures to improve the predictability of pricing and dispatch outcomes; measures to improve existing risk management instruments; and measures to support transparent disclosure of transmission capability. A Final Report on this Review will be published in May 2008.

### **B.6 Demand Side Participation Review**

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<sup>62</sup> AEMC 2006, Reform of Regulatory Test Principles, Rule Determination, 30 November 2006, Sydney.

<sup>63</sup> AEMC Reliability Panel 2007, Comprehensive Reliability Review, Final Report, December 2007, Sydney

On 3 March 2008, the Commission released a Statement of Approach on its Review of demand side participation in the NEM. The objective of this Review is to determine whether there are barriers or disincentives within the Rules for the efficient uptake of demand side participation in the NEM. This Review will follow a three stage process: a review of current work program insofar as it may affect demand side participation; a review of the Rules to ascertain any barriers to demand side participation; and a broader analysis of any other barriers that may inhibit the uptake of demand side participation in the NEM more generally.

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