

30 September 2010

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: aemc.gov.au

Dear Sir/Madam

Proposed National Electricity Amendment (DNSP Recovery of Transmission-related Charges) Rule 2010

Integral Energy appreciates the opportunity to comment on the proposed National Electricity Amendment (DNSP Recovery of Transmission-related Charges) Rule 2010 as part of the consultation conducted by the Australian Energy Market Commission.

Integral Energy notes that the proposed Rule changes submitted by United Energy Distribution Pty Limited (UED) on behalf of all the Victorian electricity distribution businesses is made in response to the Australian Energy Regulator (AER) Draft Victorian Distribution Determination, published on 4 June 2010.

Integral Energy considers that the position adopted by the AER has not been sufficiently addressed and prima facie appears contrary to the Rules and previous regulatory practice.

The Consultation Paper states that the *"Rule change request raises the issue that there appears to be a lack of specificity under the pricing provisions in Chapter 6 of the NER, where the pricing provisions only refer to the pass through of 'transmission use of system' charges."*

The Consultation Paper elaborates on this statement on the context of the AER Victorian Distribution determination 2011-15, Draft Decision dated June 2010 stating:

"In its draft decision, the AER did not consider that transmission connection charges, inter-DNSP charges and avoided TUOS charges should be recovered under clause 6.18.7 of the pricing process, as this clause specifically refers to 'recovery of charges for transmission use of system services'. The AER considered that these charges did not fall within the definition of TUOS services under the NER as they are not related to the use of the transmission network.¹⁵ The AER noted Victorian DNSPs intend to submit a Rule change request to the

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Commission to address this issue. The AER also indicated that it would consider the matter in its final decision, subject to the outcome of the Rule change process."

Clause 6.18.7(a) of the Rules provides that *"a pricing proposal must provide for tariffs designed to pass on to customers the charges to be incurred by the Distribution Network Service Provider for transmission use of system services."*

Transmission use of system services is defined in the Rules as *"A Generator transmission use of system service or a Customer transmission use of system service."*

In the case of a DNSP, a transmission use of system service would be a *Customer transmission use of system service*.

A *Customer transmission use of system service* is defined as:

"A service provided to a Transmission Network User for use of the transmission network for the conveyance of electricity (including where it has been negotiated in accordance with clause 5.4A(f)(3)) that can be reasonably allocated to a Transmission Network User on a locational basis, but does not include Generator transmission use of system services."

Under this definition, a service provided to a Transmission Network User for the use of the transmission network for the conveyance of electricity relates to both *prescribed transmission services* and *use of system services* negotiated in accordance with clause 5.4A(f)(3), being augmentations or extensions required to be undertaken on all affected transmission networks and distribution networks.

Prescribed transmission services include connection services (both entry and exit services) provided on the transmission network for the conveyance of electricity. In the absence of an entry or an exit service there would be no conveyance of electricity across a transmission network.

The transmission system (being the transmission network and associated connection assets) is used to provide connection services. As the entry and exit services provided by the TNSP are delivered at the connection point on the TNSP's network to serve Registered Participants (including other Network Service Providers) and its customers, the connection assets associated with the TNSP's transmission network are used (by/for) the customers to (access/obtain) the service at the connection point.

As such, Chapter 6A of the Rules expressly provides for connection services for transmission to be at a connection point on the transmission network and that charges for *prescribed entry services* and *prescribed exit services* must be applied at that connection point on the transmission network.

Further, the express inclusion of use of system services negotiated in accordance with clause 5.4A(f)(3), provides for augmentations and extensions to ensure the integrity of the affected transmission networks and distribution networks (including through the maintenance of *power system security* and assisting in the planning of the *power system*).

As such, in accordance with the definition of a *Customer transmission use of system service*, it is clear that clause 6.18.7 captures, and is intended to capture, the full costs of providing a transmission service to convey electricity to a distributor.

As the Consultation Paper indicates¹, the AER appears to have confused *prescribed transmission services* with *prescribed TUoS services* (being merely a component of prescribed transmission services).

The effect of this confusion is to exclude connection services between a transmission network and a distribution network and to ignore the express reference to clause 5.4A(f)(3) related to augmentations and extensions required to be undertaken on all affected transmission networks and distribution networks.

This new approach adopted by the AER is contrary to both the national electricity objective and the revenue and pricing principles stated in the NEL, incorrectly interprets clause 6.18.7 of the Rules, and departs from its previous regulatory practice.

A failure to recognise charges for the provision of connection services is contrary to both the national electricity objective and the economic efficiency principle underpinning the national electricity objective, and effectively undermines efficient investment in, and efficient use of electricity services.

Any interpretation of existing clause 6.18.7 and any proposed amendments to clause 6.18.7 of the Rules, would need to be consistent with the national electricity objective. The inclusion of connection services in the recovery of transmission use of system services costs incurred by DNSPs is consistent with the national electricity objective and the revenue and pricing principles.

In its determinations for distributors in NSW, Queensland and South Australia the AER has recognised the recovery costs for connections services, Inter-DNSP charges and avoided TUoS.

For distributors in NSW, the Transitional Chapter 6 of the Rules recognises the treatment by IPART of Inter-DNSP payments and avoided TUoS for the regulatory control period 2009-2014.

Under the IPART and AER determinations, NSW distributors would set transmission cost recovery tariffs each year to recover:

- Transmission charges to be paid to TNSPs for use of the transmission system (use of system and connection charges, net of settlement residue payments);
- Avoided TUoS to be paid to embedded generators; and
- Payments made to other DNSPs for use of their network (inter distributor transfer payments)².

¹ Pp3&4

These costs incurred by distributors are beyond their control. To provide investment certainty and ensure efficient investment in, and efficient use of, electricity services, the Rules must clearly provide for these costs to be passed through by distributors.

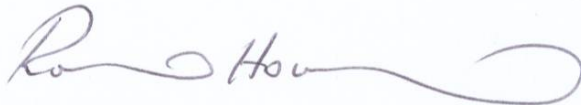
In its next regulatory control period 2014-2019, the Transitional Chapter 6 of the Rules would no longer apply to Integral Energy and it would be subject to the provisions in General Chapter 6 of the Rules.

To the extent that the Rules require clarification in order for these costs to continue to be able to be passed through, Integral Energy would support that clarification.

Integral Energy is concerned that in parts the Consultation Paper appears to confuse the Rule change proposal relating to pricing principles with a revenue determination. The Rule change proponent is seeking clarification on the way in which the pass through of these costs occurs in a pricing proposal approved by the AER, rather than whether they are included in an AER determination on revenue.

If you have any questions with respect to this matter, please contact Mr Erik Beerden, Regulatory Affairs Manager, on telephone number (02) 9853 6904 in the first instance.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Rod Howard', with a stylized flourish at the end.

Rod Howard

Group General Manager Network

² NSW Electricity Distribution Pricing 2004/05 to 2008/09 Final Report, IPART, p141