



Hon John Mickel MP
Member for Logan



**Queensland
Government**

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- 5 MAY 2006

**Minister for Energy and
Minister for Aboriginal and
Torres Strait Islander Policy**

Your Ref: 7314_1
Our Ref: E/06/00211

02 MAY 2006

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Dear Dr Tamblyn

I refer to your letter of 16 February 2006 advising of the publication of the Electricity Transmission Revenue Rule and Rule Proposal.

I am pleased to note that the proposed Rule generally improves investment certainty for transmission entities by locking in many components of the Statement of Regulatory Principles and by specifying a process and parameters for calculating the cost of capital.

However, Queensland believes that the regulatory arrangements for transmission (and distribution) networks also need to ensure that:

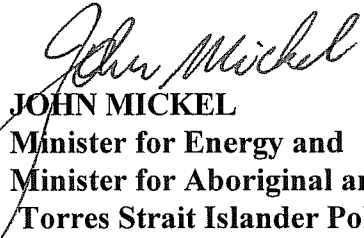
- the networks receive adequate revenues to meet their mandated reliability obligations; and
- there is adequate flexibility in the regulatory framework to handle significant changes that arise within the regulatory period in a manner which facilitates a timely response by the network to those changes in circumstances.

In that regard, the Queensland Government supports enshrining in the Rule that the Australian Energy Regulator must give Transmission Network Service Providers adequate revenues to meet their regulatory obligations and must accommodate timely upgrades to the shared transmission grid in response to contingent industrial developments.

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Further comment on the proposed Rule is attached. I trust this information will be of assistance in further development of the Rule. Should you wish to discuss this matter further, please contact Mr Brook Hastie Department of Energy on telephone (07) 3224 8611.

Yours sincerely



JOHN MICKEL
Minister for Energy and
Minister for Aboriginal and
Torres Strait Islander Policy

Att

Queensland Government Response to the Australian Energy Market Commission (AEMC) Electricity Transmission Revenue Rule Proposal

Contingent Projects

- Queensland is experiencing a period of sustained economic growth, and associated high load growth, which is driving the need for record levels of investment in network augmentations. Whilst much of this load growth can be included in load forecasts, there are also a range of contingent major industrial developments which may be confirmed over the period of the next revenue determination. These projects, if confirmed, may trigger a need for upgrades to the shared transmission grid.
- It is of critical importance to Queensland that necessary network upgrades can be undertaken immediately once proponents commit to proceed with these projects. Any delays to development due to regulatory requirements impeding network infrastructure upgrades is unacceptable.
- With this in mind, Queensland considers the proposed regulatory framework must provide both sufficient revenue to enable the network to fund necessary upgrade works and ‘fast track’ regulatory processes which enable the network to commence the upgrade immediately after projects are confirmed.
- In that regard, Queensland supports the concept of ‘contingent projects’ which are identified in advance by the network, at the time of its revenue determination and, where appropriate, conditionally approved by the regulator at that time. When these contingent network upgrades are subsequently triggered by the developer’s decision to proceed with the industrial development, the ensuing regulatory processes need to be ‘fast tracked’.
- In line with the findings of the Somerville Report, Queensland also supports a regulatory framework which includes the flexibility for ‘re-opening’ within the regulatory period if there are major, unforeseen events which could seriously hinder the network in meeting its mandated reliability obligations.
- Queensland also notes that the mooted upgrade to the QLD – NSW Interconnector (QNI) (a joint TransGrid / Powerlink project) has been deemed a ‘contingent project’ by the former Regulator, the Australian Competition and Consumer Commission (ACCC) in its revenue determination for TransGrid, and that the Australian Energy Regulator (AER) has proposed a revenue-adjustment arrangement which enables TransGrid to fund its share of the project. Clearly, the same arrangement should apply to Powerlink to enable the project to proceed as soon as it has passed the Regulatory Test.
- Queensland believes that the regulatory processes subsequent to the QNI upgrade passing the Test must be ‘fast-tracked’, to ensure that the net benefits from the upgrade can be delivered without avoidable delays.

Prudency Review of Past Capital Expenditure (Capex)

- The Draft Rules provide the AER with the option of conducting an ex-post prudency review of capex, even if the network had an actual capex which was less than the ex-ante capex cap allowed by the AER. When the ACCC formulated the ex-ante capex cap model in its Statement of Regulatory Principles (SRP) in 2004, it stated that the Regulator would not conduct ex-post prudency reviews. Queensland trusts this commitment will be honoured and seeks confirmation that the AER will not conduct ex-post prudency reviews in its ex-ante capex cap model.

Classes of Transmission Services

- The Draft Rules propose a definition for ‘negotiated’ services which may capture services which are currently unregulated, contestable or excluded (such as the connection assets for new generators). This is undesirable and is not supported by Queensland.

Powerlink Transitional Arrangements

- The Queensland Government is advised that Powerlink has reached agreement with the AER that its reset should be based on the AER’s existing SRP, with a small number of variations. The Queensland Government recommends the AEMC accept the Powerlink/AER agreed position and reflect these in specific transitional arrangements for Powerlink in its ‘final draft’ Rules to be published in late April.