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Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

By email submissions@aemc.gov.au

Review of the Electricity Transmission Revenue and Pricing Rules

ETSA Utilities wishes to respond to this review in a couple of areas. We are part of the Energy Networks Association (ENA) who have responded in greater breadth on the Issues Paper.

Structure of Prices

The AEMC Paper recognises the discretion and latitude that TNSP's have in determining customer usage charges for transmission. As a distributor, we are required to use our best endeavours to pass-through this pricing structure to our customers when recovering the transmission charges. We are also involved in negotiations with embedded generators with avoided TUoS payments.

In South Australia, ElectraNet's principal unit for customer charging is agreed demand (kW). ETSA Utilities and ElectraNet agree each year a level of demand for each transmission exit point, and much of our annual charge is levied on a per kW agreed capacity basis, irrespective of actual usage. ETSA Utilities has utilized this method as well for our larger customer demand tariff charging, and it has worked well. We have also been able (with some effort) to pass-through the ElectraNet pricing to our larger customers.

The area where we have had difficulty is with embedded generators. Using a with/without test, a payment to the embedded generator is only possible if the agreed demand would have been exceeded in that summer but for the operation of the generator. As South Australia has a high air-conditioning load with extreme weather occuring perhaps one in five years, and as the level of transmission exit capacity agreed by ETSA Utilities and ElectraNet is unlikely to be exceeded even in an extreme year (as that is the level of capacity required), the ability for us to make a payment to an embedded generator for avoided TUoS is low. Such a payment could be made under the agreed capacity pricing model if the embedded generator contracted to guarantee the capacity.

For a 1MW generator located in Adelaide, the potential annual benefit of avoided TUoS is $13,500 per annum. However, in the event that ElectraNet's agreed demand is exceeded, a penalty is applied by ElectraNet. If the capacity was exceeded due to non-performance by the embedded generator then that penalty would fall on the generator. ETSA Utilities have found that these pricing arrangements and the contractual issues covering the three parties (ElectraNet, the embedded generator and ETSA Utilities) have been too complex and costly to be completed.

ETSA Utilities considers that ElectraNet's agreed capacity pricing practices are sound for the fundamental objective of pricing customer access to the transmission network. However, the National Rules requirement that the transmission prices be used on a with/without basis to determine avoided TUoS has not worked as well in financially distinguishing between generation connected to the transmission system and generation embedded within the distribution system. The matter of embedded generation and avoided TUoS should be considered further in the Review.

Prescribed and Non-Prescribed Services

ETSA Utilities has had experience with two regulatory regimes when seeking new and/or increased transmission exit capacity. From 2000 through 2002, such work on transmission exits (and entries) was excluded from the prescribed revenues. The transmission provider was able to recover additional revenue from the applicants (eg ETSA Utilities, or generators, or large customers). Since 2003, ElectraNet have operated under their 2003 Price Reset. Since that time, our additional capacity for transmission exits has been part of the prescribed revenue allowance.

The inclusion within the prescribed service of expected upgrades for existing customer growth has worked reasonably well. It is the area of more volatile demand that is more difficult to determine the appropriate approach. It may be that there are several new generation connections (perhaps through wind farms, perhaps from new entrants installing new peaking plants). It could also be that a large spot load for a major customer eventuates, possibly remote from the existing transmission network. Such works are more volatile, and the ability to finance the cash and revenue requirements of these works is more difficult.

ETSA Utilities asks that the definition of capital works within the prescribed service is considered and defined carefully, with the alternatives of excluded service with guidelines considered.

If you wish to discuss this submission, please contact James Bennett on (08) 8404 5261.

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