

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

Dear Dr Tamblyn

e-mail: submissions@aemc.gov.au

TransGrid Submission to AEMC on Review of the Role of Demand Side Participation in the National Electricity Market (NEM)

TransGrid would like to thank the Australian Energy Market Commission (AEMC) for the opportunity to comment on this important consultation.

The Electricity Transmission Network Owners Forum (ETNOF) has made a separate, detailed submission on this consultation, and TransGrid as a member of ETNOF, fully endorses that submission.

The purpose of this submission is to ask for the AEMC's Demand Side Participation Review (DSP Review) to expressly include consideration of the undesirable short term price impacts that can arise for some customers under the current regime for regulating transmission network support payments. This issue has recently come to fore during TransGrid's recent implementation of network support arrangements.

The Problem with Current Arrangements

TransGrid is currently involved in funding two major network support arrangements.

The first of these, involving payments to Macquarie Generation to reconnect generators from 330kV to 500kV, has been approved as a 'pass through' under TransGrid's current revenue cap decision.

The second of these arrangements involves the procurement of around 350MW of network support to enable deferral of major capital expenditure associated with upgrading the Bayswater – Mt Piper – Marulan double circuit transmission line from 330kV operation to 500kV operation. The proposed revenue cap 'pass through' to fund this arrangement is currently being considered by the AER.

In each case the regulatory treatment effectively results in the substitution of operating expenditure for capital expenditure. As a consequence, the full recovery of costs takes place in the year in which they occur in lieu of capital returns over 40 to 50 years. This, in turn, produces a short term transmission price spike. Taken together the current TransGrid network support arrangements will result in a 'one off' annual increase in transmission revenue of more than \$50 million and transmission price increases of around 10% in 2008-09 compared with 2007-08.

While transmission charges are relatively insignificant for most customers, these increases can create issues for very large energy users operating in competitive markets for their product. For example, a 10% increase in transmission charges results in only few dollars extra per annum for a typical household. However, for the largest energy users, the increase could be in the order of a million dollars per annum. The market conditions faced by many of these businesses often involve significant price competition from overseas producers making it difficult to pass these costs on.

In addition, these increases can arise at relatively short notice, and only after a successful tendering process by a TNSP for network support services, making it difficult to adjust business strategies to compensate.

In each case a less efficient adoption of a transmission network augmentation solution would have resulted in much lower initial increases but higher costs in net present value terms over the long term.

In summary, the current regulatory treatment of network support arrangements creates short-term price increases which may undermine the willingness of some end users to enhance efficient demand side participation.

Possible Solution for Consideration as Part of This Review

To address this issue there would appear to benefit in providing for some form of amortisation of the recovery of network support payments over time.

Perhaps the simplest approach would be to treat network support payments as capital expenditure for regulatory purposes. In this way the network support payment would be added to the value of the TNSP's regulatory asset base and recovered over a longer period.

This approach may create concerns about the different treatment of regulatory accounts and audited financial accounts. However, this is already an issue for other reasons requiring express reconciliation of the two sets of accounts. Given that there is already a need to carry out this reconciliation there would appear to be no *'in principle'* reason for expressly providing for the ability to amortise network support payments in the National Electricity Rules, possibly by allowing their addition to the value of the regulatory asset base.

For these reasons TransGrid would welcome further express consideration of this option as part of this Demand Side Participation Review.

We would also welcome the opportunity to contribute further to the Review, drawing on TransGrid's recent experience with these matters. In this regard please feel free to contact me on (02) 9284-3555 or Mr Philip Gall (TransGrid's Manager/Regulated Transmission Access) on (02) 9284 3434 or via email: phil.gall@transgrid.com.au

Yours sincerely



Peter McIntyre
General Manager/Network Development & Regulatory Affairs