



Tasmania

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Review of Electricity Transmission and Pricing Rules

The Tasmanian Jurisdiction appreciates the opportunity to provide a submission to the Australian Energy Markets Commission (AEMC) consultation, *Review of Electricity Transmission Revenue and Pricing Rules*. The Tasmanian Jurisdiction supports the ongoing review of electricity market arrangements in pursuit of further efficiency gains in this sector.

Due to the capital intensive nature of transmission assets, the quality of signals to investors in these long life assets is crucial to the dynamic efficiency of this sector and hence progression of the market objective. This submission relates to these transmission investment signals, specifically sovereign risk issues arising from the potential impact of the draft Rules on the future revenue of sunk investments in market network services.

The proposed new clause 6.2.3(c)(3) of the draft Rules change deals with the calculation of the value of the regulated asset base for a market transmission service converting to a regulated transmission service (prescribed service).

It would seem that as drafted, clause 6.2.3(c)(3) limits the market benefits allowable in calculation of the value of the regulated asset base of a converting market transmission service to a subset of those market benefits allowed by the Australian Competition and Consumer Commission (ACCC) and Australian Energy Regulator (AER) in the conversion of Murraylink and Directlink, and indeed a subset of the market benefits taken into account in the decision to allow the efficient costs of other prescribed services.

In effect, clause 6.2.3(c)(3) as proposed would seem to dilute the effectiveness of the 'Safe Harbour' provisions as envisaged by architects of the NEM and previously applied in practice under the National Electricity Code.

Rule 2.5.2 (c) allows for the conversion of a market network service to provide prescribed services at the discretion of the AER, "*in which case the relevant revenue cap or price cap may be adjusted in accordance with Chapter 6.*" Chapter 6 provides no specific guidance on the conversion of market network services. Nonetheless, in its Directlink Draft Decision, the AER considered that:

“... the history and intent of the conversion provision remain relevant to the consideration of conversion applications. When Directlink and other entrepreneurial (unregulated) interconnectors were built, market network service providers (MNSPs) were encouraged despite being considered somewhat experimental — as acknowledged in the National Electricity Code Administrator (NECA) working group’s review of arrangements for including MNSPs in the NEM. One means of encouraging these market based investments was to include a conversion provision to ensure market design risks did not inefficiently inhibit investment. In light of these matters, the ACCC, in its Murraylink decision, took a broad interpretation of the NECA working group’s intention and decided that it was appropriate to focus its assessment on whether the network service falls within the category of a prescribed service rather than a higher threshold.”

This position is a useful articulation of the broad intent of the ‘Safe Harbour’ provisions. The ACCC and, subsequently, the AER have developed a practical approach based on their interpretation of the ‘Safe Harbour’ provisions, as reflected in the Directlink and Murraylink considerations.

The Ministerial Council on Energy (MCE) policy statement on transmission endorsed these principles as to the revenue entitlements of existing market transmission services converting to a prescribed service. Specifically, the **MCE Report on Reform of Energy Markets – December 2003** recommends (among other things):

“Removal of existing biases in favour of un-regulated transmission investment, in mid 2004. The code changes to recognise and protect the rights of existing investors in market transmission services.” (Underline added)

In order to guarantee consistency with this MCE recommendation, any proposed Rule change regarding the revenue entitlements of a market transmission service converting to a prescribed service must protect the rights of existing investors at that time. As such, the new Rules should ensure that for an existing market network service provider (at time of Rule change), the regulatory asset base is determined consistent with the established practice of the ACCC and AER in the application of revenue cap determinations for market transmission services that have previously converted to prescribed services. This would be aside from any arrangements for new investors in MNSPs, who will be fully aware of market experience thus far.

Please contact Andrew Jones on (03) 6233 3329 in the first instance if you require any additional information.

Yours Sincerely,

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