



CitiPower Pty
ACN 064 651 056
www.citipower.com.au

Head Office: 40 Market Street Melbourne Victoria
Telephone: (03) 9683 4444 Facsimile: (03) 9683 4499 DX 433 Melbourne
Postal address: Locked Bag 14090 Melbourne Victoria 8001 Australia

Powercor Australia Ltd
ACN 064 651 109
www.powercor.com.au

25 January 2006

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

submissions@aemc.gov.au

Dear Dr Tamblyn,

**AEMC Review of the Electricity Transmission Revenue and Pricing Rules
Transmission Pricing: Issues Paper**

The attached submission is made on behalf of both Powercor Australia Ltd (**Powercor**) and CitiPower Pty (**CitiPower**) who, as electricity distribution businesses, are affected by transmission charges. These businesses have common ownership through Cheung Kong Infrastructure, Hong Kong Electric Holdings and Spark Infrastructure

CitiPower and Powercor look forward to reviewing the Options Paper on Transmission Pricing to be issued in April 2006.

Should you have any questions in relation to this submission, please do not hesitate to contact me on (03) 9683 4282 or at the address below:

Rolf Herrmann
Powercor Australia Ltd
Locked Bag 14090 MCMC
Melbourne VIC 3000
rherrmann@powercor.com.au

Yours sincerely

Rolf Herrmann
Manager Regulation

AEMC Review of the Electricity Transmission Revenue and Pricing Rules

CitiPower and Powercor Response to the Transmission Pricing Issues Paper, November 2005

Requirement for Regulation

It is commonly acknowledged that transmission services exhibit natural monopoly characteristics and the Commission is likely to find that some form of regulation is necessary.

CitiPower and Powercor believe that regulation should be as light handed as possible with the discretion of the regulator clearly defined in the Rules. The 'propose-respond' model, has features that would meet the requirements of an efficient yet flexible regulatory framework and should be considered for application in transmission pricing regulation. Under this model, the regulated business would submit a proposal to the economic regulator for its assessment against the principles and objectives of the access regime. This assessment process would be informed by regulatory information collected under the regulator's information gathering powers and a consultation process involving affected parties. If the proposal meets the regime requirements, it is approved by the regulator and enters into operation.

This model was recommended by the Prime Minister's Export Infrastructure Taskforce and has been operating sustainably over time under the existing National Gas Code.

Context and Objectives for the Review

In considering the distributional consequences of rule changes, which is likely to result in secondary pricing constraints often called "rebalancing constraints", the Commission should also keep in mind the fact that generally transmission charges are passed through to customers via distributors' network tariffs, which are subject to a separate regulatory regime.

The consideration of distributional constraints for transmission regulation should take into account the downstream distributional constraints affecting the distributors' network tariffs. In particular distribution businesses should not be required by constraints to behave like a bank in relation to transmission costs as this could result in significant cash flow impacts on the business.

Current Transmission Pricing Regime

CitiPower and Powercor support the current pricing arrangements of a common service charge, connection charges, customer usage charge and customer general charge. These charges are operating effectively and the allocation of network costs between the connection and shared network categories in the Rules have resulted in cost reflective pricing structures. Any proposed departure from the current model

should take into account the downstream constraints affecting network and retail tariffs.

The rules should prescribe the criteria for approval of the CRNP approach but leave scope for the TNSP to develop the methodology and prices to be set. Network customers should not be able to request that a modified CRNP methodology be implemented, as this has the potential to create various methodologies for different customers and hence increase the potential for inefficient outcomes.

The CRNP and modified CRNP methodologies are both likely to result in prices that can be regarded as efficient.

The connection and use of system charging methodology should retain the flexibility to allow TNSPs to offer lower transmission prices to specific customers to avoid inefficient by-pass of the network. Efficient pricing reduces costs for all customers as it avoids otherwise marginal customers from bypassing the network. The TNSP must be allowed to recover the revenue foregone due to discounts from other customers.

CitiPower and Powercor support the inclusion of the current TUOS rebate arrangements in the Rules as long as it can be shown that the embedded generator has delivered a decrease in transmission charges for the DNSP and has contributed to the avoidance of a transmission augmentation to serve that DNSP's load. The existing arrangements for TUOS rebates ensure that embedded generators receive an incentive to locate so as to reduce transmission charges incurred by the DNSP as a result of the generator's operation. The existing rules are simple to follow and provide an unambiguous methodology for determining the rebate based on the long run marginal value of their contribution. The arrangements should include an embedded generator capacity threshold below which generators would not be eligible for a TUOS rebate because the administrative costs are likely to outweigh the benefits.

Efficiency and Transmission Pricing – Key Concepts

Transmission pricing arrangements should consider efficiency in the long run and the pricing principles should set out in the Rules. The Rules should accommodate the fact that a range of prices would be regarded as economically efficient. An example of this form of requirement can be found in the recent Victorian Electricity Distribution Price Review 2006-10 where the Essential Services Commission determined that Distributors must establish efficient Transmission Tariffs by having regard to principles including the following:-

- (a) each transmission tariff should be above the avoidable cost of serving distribution customers assigned to that transmission tariff;*
- (b) each transmission tariff should be below the cost of providing the service on a stand alone basis to distribution customers assigned to that transmission tariff; and*

The TNSP should be allowed discretion in setting the Transmission prices provided they are within the efficient range and meet any other regulatory constraints.

Relevant NEM Context

The businesses consider that it is inappropriate to prescribe end-use customer transmission pricing structures in the rules. As discussed above, the Rules should set out the principles for efficient pricing but should not prescribe the pricing structures.

Allocation of Regulated Revenue across Transmission Users

The issues paper highlights the complexities with deep connection charges as the deeper the connection charge the more difficult it is to define what specific assets are associated with a particular generator's connection. Whilst a shallow connection charge may not signal the full (long run) marginal cost of the connection, any move towards a deep connection charge can only be implemented if the deep connection method efficiently allocates costs.

The businesses consider that it is not appropriate for the AER to have guidelines in place which constrain the terms under which discounts can be recovered from other users. TNSPs should have the discretion to discount charges to avoid inefficient bypass as long as the prices are efficient, i.e. equal to or above the avoidable cost of serving the customer. TNSPs should be entitled to recover the full cost of discounts from other loads otherwise it would discourage efficient discounts.

The existing TUOS rebate arrangements for embedded generators, as previously discussed, are considered to be adequate. The businesses consider that an arrangement whereby TUOS rebates are left for negotiation between the DNSP and the connected party would result in uncertainty about the interpretation of the Long Run Marginal Cost of new transmission investment that would be avoided by an embedded generator leading to protracted negotiations.

Structure of Prices

The rules should provide sufficient flexibility to allow TNSP's to determine efficient pricing structures within the pricing principles prescribed by the Rules.

The AER would have the role of ensuring the TNSP's compliance with the pricing principles but the AER should have no further discretion to determine the pricing structures.

Pricing of Non-prescribed Services

CitiPower and Powercor believe that the current arrangements applicable in Victoria are workable. However, these arrangements include a licence requirement for offers to be "fair and reasonable" and provide a role for the Essential Services Commission as arbiter of what is "fair and reasonable". The Essential Services Commission has issued Guidance through a paper titled *Fair and Reasonable Terms for the Provision of Unanticipated Transmission Connection*