



17 December 2012

Mr John Pierce
Chairman,
Australian Energy Market Commission
PO Box A2449,
Sydney South NSW 1235

Dear Mr Pierce,

Proposed Rule Change – Network Support Payments

SP AusNet proposes a Rule change under Section 91 of the National Electricity Law (NEL) which relates to the ability of Transmission Network Service Providers (TNSPs) and Distribution Network Service Providers (DNSPs) to recover network support payments. This would effect a change to components of Chapters 5, 6 and 10 of the National Electricity Rules.

The current Rules only allow TNSPs to recover network support costs where these relate to the deferral of network investment. The definition of network under the current Rules explicitly excludes transmission connection assets, therefore TNSPs are unable to recover network support costs which relate to the deferral of investment in transmission connection assets. In addition, the current Rules do not provide DNSPs with the same cost recovery mechanisms for network support as for TNSPs. This is a particular issue in Victoria where DNSPs are responsible for transmission connection planning.

These arrangements are unlikely to promote efficient investment in network and non-network services in accordance with the National Electricity Objective. They prevent TNSPs and DNSPs from recovering the efficient costs of providing network services, and bias investment decisions towards network solutions.

The proposed Rule change consists of:

- A widening of the definition of network support payments to include connection assets associated with network to network connection, and consequential amendments to clause 5.6.2(m) and the definition of network support agreement.
- A new regime to allow DNSPs to pass through network support payments. This consists of new DNSP network support pass-through provisions (based on

TNSP pass-through provisions set out in Rule 6A7.2 and clause 6A6.6 (c1)) and associated amendments to definitions in Chapter 10.

A marked-up draft of the proposed Rule change is contained in Attachment 1. Attachment 2 includes a description of the proposed Rule, a statement of the issues concerning the existing Rules, and an explanation of how the proposed Rule address those issues consistent with the National Electricity Objective.

SP AusNet notes that the recent Power of Choice Review considered the ability of DNSPs to capture the value of Demand Side Participation (DSP) projects, including the ability to manage the volatility of DSP expenditure and the treatment of DSP operating expenditure at regulatory resets. However, none of the recommendations address the inability of DNSPs to recover the costs of network support agreements that are initiated within the current regulatory period. This is preventing SP AusNet's distribution business from contracting network support solutions until its next regulatory period, even where these solutions are lowest cost solutions.

In addition, the ability of TNSPs (or DNSPs) to recover network support costs which relate to the deferral of investment in transmission connection assets is not addressed in the Power of Choice Review. Therefore SP AusNet requests that the AEMC considers the proposed rule change.

Should any further details be required, please do not hesitate to contact Tom Hallam, Manager Economic Regulation on (03) 9695 6617.

Yours sincerely,



Alistair Parker
Director Regulation and Network Strategy

Attachment 1

Proposed Rule Changes – Network Support Payments

Part A: Proposed widening of definition of network support payments to include connection assets associated with network to network connection

1. Amendment to Chapter 10 definition of *network support payment*

The current definition of *network support payments* includes payments by TNSPs for services that provide an alternative to augmenting the *network*. As the definition of *network* specifically excludes *connection assets*, the definition technically excludes payments for services that may provide an alternative to a network to network connection. The following proposed change to the definition of *network support payment* in Chapter 10 of the Rules is to expressly include payments for services that provide an alternative to an augmentation to network to network connection assets as well as augmentation to a network. This will enable NSPs to pass-through as *network support payments* amounts paid to service providers that may provide an alternative to an augmentation to network to network connection assets.

Proposed Rule change:

network support payment

A payment by a ~~Transmission~~ Network Service Provider to:

- (a) any Generator providing *network support services* in accordance with clause 5.6.2; or
- (b) any other person providing a *network support service* that is an alternative to ~~network~~an augmentation of a network and/or of connection assets used to connect a transmission network to a distribution network.

2. Consequential Amendment to clause 5.6.2(m)

There is a necessary consequential change to clause 5.6.2(m) of the Rules, which also refers only to a generation option as an alternative to network augmentation rather than as an alternative to both a network augmentation and an augmentation to network to network connection assets.

Proposed Rule change:

- (m) Where the relevant *Transmission Network Service Provider* or *Distribution Network Service Provider* decides to implement a *generation option* as an alternative to ~~an network~~an augmentation of a network and/or of connection assets used to connect a transmission network to a distribution network, the *Network Service Provider* must:
 - (1) register the *generating unit* with AEMO and specify that the *generating unit* may be periodically used to provide a *network support function* and will not be eligible to set *spot prices* when *constrained on* in accordance with clause 3.9.7; and

- (2) include the cost of this *network* support service in the calculation of *transmission service* and *distribution service* prices determined in accordance with Chapter 6 or Chapter 6A, as the case may be.

3. Consequential amendment to definition of network support agreement

It is also proposed to amend the definition of “network support agreement” which refers only to services that provide an alternative to a “network augmentation”.

Proposed Rule change:

network support agreement

An agreement under which a person agrees to provide one or more *network support and control ancillary services* to a *Network Service Provider*, including *network support services* to improve *network capability* by providing a non-*network* alternative to an *network augmentation of a network and/or of connection assets used to connect a transmission network to a distribution network*.

Part B: New regime to allow DNSPs to pass-through network support payments

1. Amendments to definitions in Chapter 10

Proposed Rule change:

negative network support event

A *network support event* which entails a ~~*Transmission*~~-*Network Service Provider* making lower *network support payments* in the preceding *regulatory year* than the amount of *network support payments* (if any) that is provided for in the *annual building block revenue requirement* or *building block determination* for the provider for that *regulatory year*.

network support event

- (a) If, at the end of a *regulatory year* of a *regulatory control period*, the amount of *network support payments* made by a ~~*Transmission*~~-*Network Service Provider* for that previous *regulatory year* is higher or lower than the amount of *network support payments* (if any) that is provided for in the *annual building block revenue requirement* or the *building block determination* for the ~~*Transmission*~~-*Network Service Provider* for that *regulatory year*, this constitutes a *network support event*.
- (b) In calculating the amount for the purposes of a *network support event* referred to in paragraph (a), the amount of *network support payments* made by a ~~*Transmission*~~-*Network Service Provider* must not include an amount of *network support payments* that are a substitute for an *network augmentation of a network and/or of connection assets used to connect a transmission network to a distribution network* where an allowance for such capital

expenditure ~~in relation to that network augmentation~~ has been provided for in the *revenue determination*.

network support pass through amount

The amount that should be passed through to ~~Transmission~~ Network Users in the *regulatory year* following the preceding *regulatory year*, in respect of a *network support event* for a ~~Transmission~~ Network Service Provider.

positive network support event

A *network support event* which entails a ~~Transmission~~ Network Service Provider making higher *network support payments* in the preceding *regulatory year* than the amount of *network support payments* (if any) that is provided for in the *annual building block revenue requirement* or building block determination for the provider for that *regulatory year*.

2. New DNSP network support pass-through provisions (based on TNSP pass-through provisions set out in Rule 6A7.2)

Proposed new network support pass-through provisions for DNSPs. Note mark ups are against current TNSP provisions.

Proposed Rule change:

6.6.6 Network support pass through

- (a) This clause applies where a *network support event* occurs with respect to a *regulatory year* ('the **previous regulatory year**').
- (b) If a *network support event* occurs, a ~~Transmission~~ Distribution Network Service Provider must seek a determination by the AER to pass through to ~~Transmission~~ Distribution Network Users a *network support pass through amount*.
- (c) Where a ~~Transmission~~ Distribution Network Service Provider seeks a determination as referred to in paragraph (b), the provider must, within 60 *business days* of the end of the previous *regulatory year*, submit to the AER a written statement which specifies:
 - (1) the details of the *network support event* including whether the event was a *negative network support event* or a *positive network support event*;
 - (2) the amount that the provider proposes should be passed through to ~~Transmission~~ Distribution Network Users in the *regulatory year* following the previous *regulatory year* as a result of the *network support event*;
 - (3) evidence:

- (i) of the actual increase in the amount of *network support payments*, including certification by an independent and appropriately qualified expert; and
 - (ii) that such amounts occur solely as a consequence of the positive *network support event*; and
- (4) such other information as may be required pursuant to any relevant *regulatory information instrument*.
- (d) If the *AER* determines that a *positive network support event* has occurred in respect of a statement under paragraph (c), the *AER* must determine the *network support pass through amount*, taking into account the matters referred to in paragraph (i).
- (e) If the *AER* does not make the determination referred to in paragraph (d) within 60 *business days* from the date it receives the *Transmission Distribution Network Service Provider's* statement and accompanying evidence under paragraph (c), then, on the expiry of that period, the *AER* is taken to have determined that the amount as proposed in the *Transmission Distribution Network Service Provider's* statement under paragraph (c) is the *network support pass through amount*.
- (f) If a *negative network support event* occurs (whether or not the occurrence of that event is notified by the provider to the *AER* under paragraph (c)) and the *AER* determines to impose a requirement on the *Transmission Distribution Network Service Provider* in relation to that *negative network support event*, the *AER* must determine the *network support pass through amount* taking into account the matters referred to in paragraph (i).
- (g) A *Transmission Distribution Network Service Provider* must provide the *AER* with such information as the *AER* requires for the purpose of making a determination under paragraph (f) within the time specified by the *AER* in a notice provided to the provider by the *AER* for that purpose.

Consultation

- (h) Before making a determination under paragraph (d) or (f), the *AER* may consult with the relevant *Transmission Distribution Network Service Provider* and such other persons as the *AER* considers appropriate, on any matters arising out of the relevant *network support event* as the *AER* considers appropriate.

Relevant factors

- (i) In making a determination under paragraph (d) or (f), the *AER* must take into account:

- (1) the matters and proposals set out in any statement given to the AER by the ~~Transmission-Distribution~~ Network Service Provider under paragraph (c);
- (2) in the case of a *positive network support event*, the increase in costs in the provision of ~~prescribed transmission services~~ *standard control services* that the provider has incurred in the preceding *regulatory year* as a result of the *positive network support event*;
- (3) in the case of a *positive network support event*, the efficiency of the ~~Transmission-Distribution~~ Network Service Provider's decisions and actions in relation to the risk of the event, including whether the provider has failed to take any action that could reasonably be taken to reduce the magnitude of the *positive network support event* and whether the provider has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of that event;
- (4) the time cost of money based on the *allowed rate of return* for the provider for the relevant *regulatory control period*;
- (5) the need to ensure that the provider only recovers any actual increment in costs under this paragraph (i) to the extent that such increment is solely as a consequence of a *network support event*; and
- (6) any other factors the AER considers relevant.

3. **New clause 6.5.6(c1)**

Proposed new clause 6.5.6(c1) to mirror the equivalent 6A.6.6(c1) for TNSPs. Note mark ups are against current TNSP provisions.

Proposed Rule change:

(c1) If:

- (1) a ~~Transmission-Distribution~~ Network Service Provider made *network support payments* in accordance with a relevant agreement for *network support services* in the previous *regulatory control period*; and
- (2) the ~~Transmission-Distribution~~ Network Service Provider must continue to make *network support payments* to fulfil obligations under the relevant agreement for *network support services* in the relevant *regulatory control period*,

the AER must accept the forecast of required operating expenditure of the ~~Transmission-Distribution~~ Network Service Provider included in a *Revenue Proposal* ~~building block proposal~~ in relation to the remainder of costs required to meet obligations under the relevant agreement for *network support services* in the relevant *regulatory control period*.

Attachment 2

SP AusNet Rule Change Proposal - Network Support Payments

1. Summary

SP AusNet proposes a Rule change under section 91 of the National Electricity Law (NEL), which would enable TNSPs and DNSPs to recover the costs of a network support service that defers:

- investment in a connection asset that is used to connect a transmission network to a distribution network (for ease of reference, we refer to such investments as “transmission connection assets”¹); or
- a distribution network augmentation.

A network support service is a service provided by a generator or a demand side participant to alleviate a network constraint. A network support service can be considered to be a substitute for new investment in transmission or distribution assets that would otherwise be required to expand the capacity of the network and alleviate the constraint. The TNSP or DNSP would enter into a contract with the generator or demand side participant for the provision of network support services. The costs of the network support services would be recovered from customers.

The rationale for obtaining network support services and recovering the costs from customers is straightforward:

- TNSPs or DNSPs should adopt capital and operating expenditure solutions that deliver reliable network services to customers at the minimum efficient cost. In some instances, network support services – which result in higher operating expenditure – will be more cost effective than more traditional network investment options that require capital expenditure; and
- As network support is an efficient operating expenditure incurred by the TNSP or DNSP in providing services to customers, it is appropriate that these costs are recovered from customers.

If, however, a TNSP or DNSP is prevented from recovering network support costs from its customers, this situation is likely to promote less efficient outcomes and higher costs to customers. This is because the TNSP or DNSP will face a financial disincentive to pursue the most efficient solution.

At present the Rules only allow TNSPs to recover the costs of network support services where such costs relate to the deferral of ‘network investment’. The definition of ‘network investment’ does not capture network support services that would be procured for the purpose of deferring investment in transmission connection assets.

A TNSP’s network support costs form part of the TNSP’s revenue allowance, and are recovered from distributors and large, directly connected customers. However, if a TNSP identifies a network support solution that would defer a transmission connection investment, this cost is not recoverable from its customers. Such arrangements are unlikely to promote efficient investment in network and non-network services in accordance with the National Electricity Objective.

¹ We note that under the Rules, the costs of services provided by transmission connection assets are allocated fully to customers.

Accordingly, under this Rule change proposal, the definition of network support services would be amended to include services that enable the deferral of transmission network investment or transmission connection investment.

In Victoria, DNSPs are responsible for planning transmission connection assets. Under the Victorian arrangements, DNSPs will identify cost-effective non-network solutions for alleviating transmission connection constraints and they will seek to enter into contracts for the provision of associated network support services. However, the Rules as presently drafted do not provide DNSPs with the same cost recovery mechanisms for network support as those afforded to TNSPs.

The purpose of the Rule change proposal is therefore to allow TNSPs or DNSPs to fully recover the efficient costs of network support services, including where these services include the deferral of a transmission connection investment. In doing so, the proposal recognises that:

- there is no logical reason for defining network support services narrowly to exclude services that defer investment in a transmission connection asset:
- in certain circumstances – such as in Victoria, where DNSPs have a licence obligation to undertake transmission connection planning - DNSPs, instead of TNSPs contract for network support services that enable transmission connection investment to be deferred; and
- to the extent that full recovery of efficient network support service costs is impeded or uncertain under the current Rules, NSPs face an inappropriate incentive to not employ network support services in circumstances where it would be economic to do so.

The Rule change proposal therefore ensures that DNSPs and TNSPs are able to recover the efficient costs of network support services. In doing so, the Rule change proposal will promote efficient investment in network and non-network services in accordance with the National Electricity Objective.

2. Background

2.1 Development and operation of the existing Rules

On 4 November 2010, the Ministerial Council on Energy (MCE) submitted a Rule change proposal to the Commission. The Rule change proposal sought to ensure that embedded generators are not over-compensated (and customers not overcharged) for the network services they provide. In particular, the MCE's Rule change proposal was predicated on a view that embedded generators should not be able to receive both avoided transmission use of system (TUoS) payments from a DNSP and a network support payment from a TNSP for the same service.

The concept of avoided TUoS payments arises because an embedded generator's output (or a demand side participant's load-shedding) may have the effect of reducing the transmission charges that are payable by the host DNSP. Clause 5.5(h) of the Rules provides for the embedded generator (or demand side participant) to receive the avoided TUoS from the DNSP.

On the other hand, network support payments recognise the benefit that an embedded generator or demand side participant can provide in terms of a specific or enhanced level of service in order to defer a particular investment, typically on the transmission system. The AEMC described network support payments in the following terms:

“Network support payments are payments made by TNSPs to generators (or any other person) who provide a firm service which is an alternative to network augmentation. The payments are agreed under a network support agreement between the generator and TNSP.

Network support typically involves the sourcing of local generation by a TNSP in order to address forecast constraints in its transmission network. In certain circumstances, a TNSP may find it more cost effective to use generators as a non-network solution for network support to maintain system reliability, rather than undertake network augmentation (such as building additional transmission lines).

Network support provides a direct benefit to transmission customers and end users, as it can defer the need for transmission augmentation, and hence results in lower TUoS charges in the long term, while maintaining the reliability of the network.

Under the current Rules, TNSPs are allowed to recover from their customers actual network support payments made. The network support pass through process (as set out in the Rules) has been established to adjust any network support payments included in a revenue cap so that only actual payments are recovered from transmission customers.”²

As explained by the Commission, the overall purpose of network support is to maintain reliability at reduced costs to customers. In short, it is a mechanism for ensuring that TNSPs deliver network services to customers as efficiently as possible by considering network and non-network solutions for alleviating constraints.

In relation to the MCE’s Rule change proposal, the Commission recognised the subtle, but important difference between avoided TUoS and network support services. The Commission concluded that the MCE’s concern regarding the possible over-compensation of embedded generators – if avoided TUoS and network support payments were both paid for the same service – was best addressed by requiring TNSPs to take account of avoided TUoS payments in the negotiating of network support payments. From SP AusNet’s perspective, the Commission’s determination codified SP AusNet’s current practice in negotiating network support payments.

In explaining its Rule determination, the Commission noted that a network support payment is defined in the glossary of the NER as:

“A payment by a Transmission Network Service Provider to:

- (a) any Generator providing network support services in accordance with clause 5.6.2; or
- (b) any other person providing a network support service that is an alternative to network augmentation.”³

The Commission made the following observations in relation to this definition in the context of the Rule change proposal submitted by the MCE:

² AEMC, Consultation Paper, National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011, 23 June 2011, page 4.

³ AEMC, Rule Determination, National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011, 22 December 2011, page 16.

“A number of submissions to the staff consultation paper sought clarification of what type of network support payments were being considered under this rule change. In the context of this rule change request, a network support payment is as defined above. The rules do not cover any network support payments (to the extent they exist outside the definition in the NER) made by a DNSP⁴. Therefore, the rule as made only relates to network support payments from a TNSP to an embedded generator.⁵

A 'network support payment' is defined in the NER as a payment from a TNSP for non-network alternatives to 'network' augmentation. The NER definition of 'network' includes 'the apparatus, equipment, plant and buildings used to convey, and control the conveyance of, electricity to customers (whether wholesale or retail) excluding any connection assets.' Therefore, any examples of payments to an embedded generator for an agreement which solely deferred transmission connection assets, are not interpreted as network support payments under the NER.⁶

The Commission also highlighted important differences in the arrangements in Victoria, noted below. Despite these differences, however, the Commission concluded that the rule as made will not detrimentally impact upon DNSPs entering into contracts with embedded generators whether this occurs in Victoria or any other jurisdiction:

“Unlike in other jurisdictions, in Victoria, DNSPs are responsible for planning and directing both new, and upgrades to, transmission connection assets that connect their distribution systems to the shared transmission network.”⁷

“It is therefore the DNSP in Victoria who has greater incentive to evaluate competing options from AEMO (for a new transmission connection asset or an upgrade of existing transmission connection assets), and from embedded generators and other non-network solutions as a substitute. As such, the Victorian DNSPs would be the party more likely to enter negotiations, and subsequently contract, with embedded generators. These contracts, which would be equivalent to the network support agreements that TNSPs in other jurisdictions would enter, are not governed by the NER as network support agreements are.

The Commission understands that the driver for negotiations to defer transmission connection assets to be between a DNSP and embedded generator is likely to be specific to Victoria. Therefore, the benefits of the rule change in Victoria are likely to be less than in other jurisdictions. However, the Commission does not believe that the rule as made will detrimentally impact upon DNSPs entering into contracts with embedded generators whether this occurs in Victoria or any other jurisdiction.”⁸

It follows from the above excerpts from the Commission’s Rule Determination that the following issues in relation to network support were not addressed:

- The existing Rules currently limit the scope of network support services to the deferral of shared transmission network augmentation. However, opportunities may arise for network

⁴ It should be noted that a DNSP is able to nominate a pass through provision in its regulatory proposal. However, the Victorian DNSPs have not nominated such a provision.

⁵ AEMC, Rule Determination, National Electricity Amendment (Network Support Payments and Avoided TUoS for Embedded Generators) Rule 2011, 22 December 2011 page 16.

⁶ Ibid, page 18.

⁷ Ibid, page 25.

⁸ Ibid, pages 25 and 26.

support services to defer investment in transmission connection assets or distribution network augmentation; and

- In Victoria, the DNSPs are most likely to identify opportunities to defer investment in transmission connection assets and enter into agreements for network support with generators or demand side participants. However, the current Rules do not provide DNSPs with the same pass-through arrangements for network support costs as afforded to TNSPs.

3. Reasons for Proposed Rule Change

3.1 General Statement of Issues

The existing Rules prevent TNSPs from recovering the costs of network support services to the extent that those services defer a transmission connection asset. In addition, the Rules do not enable DNSPs to pass through network support costs, even though such provisions apply to TNSPs.

In SP AusNet's view, the Rules should promote the efficient delivery of services to transmission and distribution customers, whether these services are provided by network or non-network solutions. SP AusNet therefore regards the existing Rules as deficient because the cost recovery arrangements fail to treat network and non-network solutions on an equal footing. In particular, a TNSP or DNSP can obtain cost recovery in relation to a transmission connection asset, but cannot recover the costs of providing the same services through network support, even if network support is the more efficient option.

It should be noted that subsection 7A(2) of Revenue and Pricing Principles in the NEL states that:

“A regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in—

(a) providing direct control network services; and

(b) complying with a regulatory obligation or requirement or making a regulatory payment.”

SP AusNet regards the existing Rules as being inconsistent with this Revenue and Pricing Principle because a TNSP cannot recover efficient network support costs if these relate to the deferral of a transmission connection asset. In addition, a DNSP does not have reasonable certainty regarding the recovery of network support costs, whereas TNSPs benefit from a cost pass through provision.

3.2 Description of Rule change

The proposed Rule change includes a revision to the definition of 'network support payment' in Chapter 10 of the Rules to expressly include payments for services that provide an alternative to an augmentation of transmission connection assets as well as augmentation to a network. This revision will enable TNSPs to pass through as network support payments amounts paid to service providers that may provide an alternative to a transmission connection asset.

A consequential change is also proposed to clause 5.6.2(m) of the Rules, which currently refers to a generation option that is an alternative to a network augmentation.

The proposed amendment would recognise that a generation option may also be an alternative to a transmission connection asset.

The proposed Rule change would also introduce a new mechanism to enable DNSPs to contract for network support services in the same way that TNSPs contract for such services. Pass through arrangements for DNSPs are proposed for network support that would mirror the current arrangements for TNSPs.

3.3 Implications of Change

As explained above, the effect of the proposed change is to ensure that both TNSPs and DNSPs are able to recover the efficient costs of network support services where these services defer transmission connection assets as well as network augmentations. In doing so, the proposed Rule change will provide benefits to customers in terms of lower prices for network services than would otherwise be the case.

The Rule change proposal cannot be regarded as having a detrimental effect on any party. Non-network service providers are potential beneficiaries of the proposed change as it broadens the potential scope to contract for non-network services and recover the efficient costs from customers.

4 **SP AusNet's Right to Submit this Proposal**

SP AusNet requests that the AEMC approve this proposed Rule in accordance with section 91 of the NEL. SP AusNet is registered as a TNSP in accordance with Section 2.5 of the NER.

Under section 91(1) of the NEL, the AEMC may make a Rule at the request of any person, the MCE or the Reliability Panel. As such, SP AusNet may request that the AEMC make or amend a Rule.

5 **Power of the AEMC to Make the Proposed Rule**

The subject matter about which the AEMC may make Rules is set out in section 34 of the NEL.

SP AusNet considers that the proposed Rule falls within the subject matters that the AEMC may make Rules about, as it relates to the activities of persons participating in the NEM.

6. **How the Proposed Rules Contribute to the National Electricity Objective**

Before the Commission can make a Rule change, it must apply the rule making test set out in the NEL, which requires it to assess whether the proposed Rule will or is likely to contribute to the National Electricity Objective.

The National Electricity Objective is defined by section 7 of the NEL as follows:

The objective of this Law is *to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –*

- (a) *price, quality, reliability and security of supply of electricity; and*
- (b) *the reliability, safety and security of the national electricity system.*

SP AusNet considers that the proposed Rule change is likely to contribute to the National Electricity Objective for the following reasons:

- To promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity, TNSPs and DNSPs should consider network and non-network solutions on an equal footing. The proposed Rule change addresses the following deficiencies in the existing Rules:
 - TNSPs and DNSPs are prevented from recovering the cost of network support services where such services would defer a transmission connection asset or a distribution network augmentation. These exclusions have no economic basis and will tend to distort investment decisions towards network solutions.
 - DNSPs are not afforded the same certainty as TNSPs in relation to the pass through of network support costs. There is no basis for this difference in approach, which will tend to discourage DNSPs from entering into network support agreements.
- The Revenue and Pricing Principles in the NEL require the adoption of the proposed Rule change, as it will enable TNSPs and DNSPs to recover the efficient costs of providing network services.
- In the absence of the Rule change proposal, potential providers of network support services will be disadvantaged by cost recovery arrangements that favour network solutions. The National Electricity Objective would be promoted if this potential distortion is removed.
- The Rule change will promote efficient investment so it will benefit customers, particularly in terms of the price of network services.

7. Expected Benefits and Costs of the Proposed Rule

As discussed above, the proposed Rule change will promote the achievement of the National Electricity Objective by avoiding outcomes that would be inconsistent with the Revenue and Pricing Principles and that would distort the incentives for investment in network solutions as compared to non-network solutions.

SP AusNet does not expect that there will be any changes to market systems, additional compliance, procedural or other administrative costs arising from implementing this proposed Rule change.

The drafting changes are minimal and do not require any further work to be undertaken by the AER or interested parties. Implementation costs and on-going costs arising from the proposed Rule change are insignificant.

In summary, SP AusNet considers that the benefits in promoting the National Electricity Objective substantially outweigh the cost associated with the impact of the proposed Rule change.

8 Glossary

AEMO	Australian Energy Market Operator
DNSP	Distribution Network Service Provider
NEL	National Electricity Law

NEM	National Electricity Market
NER	National Electricity Rules
TNSP	Transmission Network Service Provider