

16 May 2008

Mr John Tamblyn
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

By email: submissions@aemc.gov.au

Dear John,

Congestion Management Review - Arrangements for Recouping Costs for Participant Funded Network Augmentations

Thank you for the invitation to provide a submission to the AEMC on its *Congestion Management Review - Exposure Draft on Arrangements for Recouping Costs for Participant Funded Network Augmentations* (Exposure Draft) of 2 May 2008.

Grid Australia is broadly supportive of the Exposure Draft. In particular, Grid Australia is satisfied that the proposed Rule change set out in Appendix A to the Exposure Draft (Rule Change) is largely confined in its effect to clarifying the operation of the existing provisions of the National Electricity Rules (Rules).

However, Grid Australia wishes to make some observations regarding the extent to which the Exposure Draft reflects the stated intent of the Rule Change.

The stated intent of the Rule Change is described as follows in the Exposure Draft (at 4):

'The proposed changes clarify in the Rules the framework for how participants who fund network augmentations can recoup some of their costs (or pay lower ongoing charges) in the event that new parties subsequently connect.'

The genesis for the Rule Change is the AEMC's consultation on its *Congestion Management Review Draft Report*. In the Exposure Draft, the AEMC observes (at 2) that:

'[A] number of stakeholders noted in their submissions to the CMR Draft Report that rule 5.4A was unlikely to be used in its current form because of the perceived "free-rider" problem'. This is when a party connects to the network previously augmented by a participant, but does not contribute to the cost of the augmentation. Stakeholders noted the principles set out in 6A.9.1(6) in their submissions, but said that the Rules do not clearly provide for the recoupment of capital costs associated with participant funded transmission network augmentations'.

Thus, the stated intent of the Rule Change is to clarify that existing rule 6A.9.1 operates to require a transmission network service provider (**TNSP**) to adjust the negotiated use of system charges payable under rule 5.4A(f)(3) by a participant that has funded an augmentation, in circumstances where another participant uses that augmentation as a result of connection at a later time¹.

However, it is not clear that the drafting of the Rule Change fully addresses the stated intent. Specifically it is Rule 5.4A(f) that requires the TNSP and a connection applicant to negotiate in good faith to reach agreement on charges. Hence Grid Australia considers that the proposed new clause would better achieve the stated intent if it was to be included as a new rule under Rule 5.4A(f).

Finally, Grid Australia disagrees with the AEMC's comment, in section 4.2 of the Exposure Draft, that 'clause 6A.9.1 sets out the principle that the price for a negotiated transmission service should change over time to reflect the extent that others use the service'. Grid Australia observes that, while rule 6A.9.1 requires an adjustment to the price for a negotiated transmission service if others use the service, the quantum of the price adjustment is instead to 'reflect the extent to which the costs of that asset is [sic] being recovered through charges to that other person'. Grid Australia considers the AEMC correctly describes the operation of rule 6A.9.1 when it states, also in section 4.2 of the Exposure Draft, that the 'adjustment should reflect the extent to which the cost of the asset is recovered through charges to that other person'.

Grid Australia looks forward to publication of the Draft Rule determination. In the interim, Grid Australia would be happy to provide the AEMC with any further assistance or clarification regarding its submissions set out above that the AEMC desires.

Yours sincerely,



Rainer Korte
Chairman
Regulatory Managers Group

¹ Rule 6A.9.1(6)