Mr John Pierce
Mr Neville Henderson
Dr Brian Spalding
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Commissioners,

Reference: ERC0106

A: Introduction

TRUenergy welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) "Discussion Paper" that considers the National Electricity Amendment (Inter–regional Transmission Charging) Rule 2011.

The AEMC released a "Discussion Paper" on the National Electricity Amendment (Inter-regional Transmission Charging) Rule 2011 after issuing a Draft Rule determination that proposed to introduce an inter–regional transmission charging mechanism in the form of a Load Export Charge (LEC).

Following submissions to the Draft Rule determination, the AEMC decided that the in-consistent approach to determining intra-regional transmission charges in the different jurisdictions would undermine the credibility of any LEC. As a result of this, the AEMC released a "Discussion Paper" to reconsider the objectives of inter-regional transmission charging and identify a range of options that might achieve those objectives.

The AEMC proposed the following key options:

- Option 1: Modified Load Export Charge (MLEC)
- Option 2: Cost Sharing (CS)
- Option 3: NEM –wide Cost Reflective Network Pricing (CRNP)

The AEMC seeks comments from the market on the appropriateness of the different options.

B: TRUenergy position

TRUenergy supports the introduction of a NEM wide CRNP - "Option 3" on the basis it is more likely to satisfy the NEO.

The National Electricity Objective (NEO) is set out in section 7 of the National Electricity Law (NEL). Its key objective 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, safety, reliability, and security of supply of electricity; and
(b) The reliability, safety and security of the national electricity system

We consider that the relevant aspect of the NEO to be "efficient pricing" for this Rule change request. Therefore, we believe that a NEM wide CRNP is more likely to satisfy the NEO because:

- it would be applied in a consistent manner nationally across the different jurisdictions and avoid the problems associated with the implementation of a LEC

- it would lead to more cost reflective pricing outcomes compared to the CS approach

- it would charge customers not just on the use of assets in adjoining areas but those assets in non adjoining areas

C: TRUenergy does not support a Load Export Charge (LEC)

TRUenergy does not support a LEC.

The AEMC proposed a LEC in its original Draft determination. Following some investigations, the AEMC discovered TNSPs apply different methodologies to recover their intra-regional transmission costs in the various jurisdictions. As a consequence of this, customers could be charged on different bases for the same type of service in different jurisdictions under a LEC. The inconsistent application of intra-regional TUOS in the NEM would raise serious questions regarding the efficiency of any intra-regional transmission tariff developed under a LEC. For that reason, we do not consider that an inter–regional transmission charge in the form of a LEC would be consistent with the NEO.

Some examples of the various approaches used by TNSPs to recover their intra-regional transmission service costs include:

1. **The different methods used to allocate costs as part of the standard CRNP**

   Currently, TNSPs apply two methods to recover their intra-regional transmission costs under the standard CRNP.

   They include both the:

   - 10 day system peak method; and
   - The 365 day element peak method

   AEMO uses the 10 day system peak method. The other TNSPs use the 365 day element peak method. As we understand it, the two methodologies would result in customers being charged on different bases for the same type of service in different jurisdictions.

2. **The composition of the postage stamp components of the of the LEC vary in different jurisdictions**

   TNSPs have differences in the composition of the postage stamp components such as the types of assets included and the state based taxes. As a result, the allocation of costs to the postage stamp components in the different jurisdictions would result in customers being charged on different bases for the same type of service in different jurisdictions.

3. **The different methods used by TNSP to recover the costs of postage stamp components**

   TNSPs use different methods to allocate costs to recover the postage stamp components of transmission charges.

   TransGrid uses actual monthly maximum demand, where as other TNSPs use a contract agreed maximum demand. The two methodologies would result in customers being charged on different bases for the same type of service in different jurisdictions.

4. **The different methods used by TNSPs for calculating the Optimal Replacement Costs (ORC) of their assets**

   TNSPs use different methods to calculate the ORC of their assets. This means that the attributable pool of their costs developed under their ORC would be based on a different methodology. This would deliver an inconsistent approach to valuing the regulated assets of TNSPs across jurisdiction.

   The different approaches to calculating the pool of their costs under an ORC of their assets would result in customers being charged on different bases for the same type of service in different jurisdictions.

As a result of these observations, we agree with the AEMC that an inter-regional TUOS charge in the form of a LEC will lead to in-efficient transmission charges.

Therefore, it is not likely to be consistent with the NEO.

D: TRUenergy does not support a Modified Load Export Charge (MLEC) – Option 1

TRUenergy does not support a MLEC.

We acknowledge that there would be a range of benefits to the market as a result of the introduction of a MLEC. As with the original LEC, the importing region TNSP would recover the inter regional charge from its customers. The exporting region TNSP would rebate the inter regional charge that it recovers to its customers. We understand that these charges could be aggregated so that customers only see one aggregated charge comprising of both intra-regional and inter–regional elements.

However, we understand that a MLEC - which would recover inter–regional transmission charges on a bilateral basis - has one major shortcoming. And, that is that inter regional charges can only be levied on TNSPs in adjoining areas under a MLEC. A MLEC of this form would not be applied to all the flows between regions in the NEM. As such, it would fail to recover all of the inter–regional TUOS that it should because it was not applied to all of the different flows of electricity across regions in each of the different jurisdictions.

As we have previously indicated, we consider that the relevant aspect of the NEO to be "efficient pricing" of electricity services for this Rule change request. On the basis that a MLEC would fail to deliver an inter-regional TUOS charge to all the relevant flows in the NEM, we conclude that it would not deliver efficient pricing outcomes and be inconsistent with the NEO.

E: TRUenergy does not support the cost sharing option (CS) - Option 2

TRUenergy does not support CS under "Option2".

We consider that the cost sharing approach under Option 2 to be inconsistent with the NEO because it would lead to less cost reflective pricing.

In broad terms, we understand that the AEMC is considering two variations to this option.

They include:

1. Allocating the costs of for inter- regional TUOS to the different jurisdictions on a postage stamp basis

2. Allocating the costs for inter-regional TUOS to the different jurisdictions on the basis of the number of transmission customers in that jurisdiction.

We acknowledge that the cost sharing option would be easier to implement compared with the other options given its simplicity of design. However, in providing a simple inter–regional transmission charging approach under this methodology, the price signalling to customers would be lost. In short, costs would be shared between TNSPs and not based on the proportionate use of the assets.

Due to these factors, we consider that this option will deliver less efficient pricing outcomes for inter-regional TUOS. Hence, it is less likely to be consistent with the NEO.

F: TRUenergy supports a NEM wide CRNP – Option 3

TRUenergy supports the introduction of a NEM wide CRNP - Option 3.

We consider that a NEM wide CRNP is more likely to satisfy the NEO because:

- it would be applied in a consistent manner nationally across the different jurisdictions and avoid the problems associated with the implementation of a LEC

- it would lead to more cost reflective pricing outcomes compared to the CS approach

- it would charge customers not just on the use of assets in adjoining areas but those assets in non adjoining areas

We appreciate that in comparison to a modified LEC, this methodology would be administratively more complex to implement. In addition, a NEM wide CRNP methodology would require all TNSPs to agree on how the national CRNP would be co-ordinated.

Whilst we understand that the implementation of a NEM wide CRNP would presents challenges, ultimately it represents the most efficient option. Therefore, we think it is more likely to satisfy the NEO.

G: Conclusion

TRUenergy supports the introduction of a NEM wide CRNP on the basis it is more likely to satisfy the National Electricity Objective (NEO).

However, before the AEMC makes a determination on whether to support this option, we think that it needs to be convinced that the benefits of this option outweigh the costs. In this regard, whilst acknowledge that the implementation of Option 3: NEM wide CRNP will deliver the most efficient inter regional transmission tariffs, it will require much more effort to implement than the other options. Therefore, the AEMC needs to be satisfied that this approach can be implemented and that its benefits exceed its costs. We believe that before any form of new pricing regime is introduced, the AEMC needs to be satisfied that the benefits of implementing that new regime should exceed its benefits.

We thank the AEMC for its consideration of the issues that we have raised in relation to this Rule change. We hope that they will give our submission its due consideration. If you have any enquiries regarding this submission, please feel free to contact Mr. Con Noutso - Regulatory Manager at TRUenergy on Tel: 03 8628 1240

Regards

Con Noutso
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TRUenergy