



Ref.: CP/TML

1 October 2010

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

www.aemc.gov.au ERC0114

97-99 Adelaide Street
Maryborough QLD 4650
PO Box 163
Maryborough QLD 4650
Telephone 13 10 46
Facsimile 07 4123 1124
Website www.ergon.com.au

Dear Mr Pierce

National Electricity Amendment (DNSP Recovery of Transmission-related Charges) Rule 2010 – Consultation Paper

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) *Consultation Paper – National Electricity Amendment (DNSP Recovery of Transmission-related Charges) Rule 2010* (the Consultation Paper). Ergon Energy understands that the Consultation Paper released by the AEMC relates to the National Electricity Rules (the Rules) Change initiated by United Energy Distribution on behalf of Victorian distribution network service providers (DNSPs).

Ergon Energy supports United Energy Distribution's (UED) rule change proposal. Ergon Energy also considers that the recovery of wider 'transmission related' charges is consistent with the pricing principles as set out in the *National Electricity Law* (NEL), which provides that:

- a regulated DNSP 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 payment¹.*

Ergon Energy notes that the AEMC has asked stakeholders to provide comment on a number of specific issues as well as any other general aspects of the Rule change request. Ergon Energy provides specific responses to the issues for consultation raised by the AEMC below.

What charges should be recoverable?

- *Should the current definition for 'transmission services' under the NER apply? If so, what would be 'charges' for transmission services? Should these charges only include charges for prescribed transmission services that transmission network service providers (TNSPs) impose on DNSPs (that is, the prescribed exit charge, the prescribed TUOS charge, and the prescribed common charge, which are determined under Chapter 6A of the NER)?*

Ergon Energy considers that the current definition of *transmission services* in the NER is not sufficiently broad to adequately capture all charges which may be incurred by a DNSP for 'transmission related charges'. Ergon Energy currently passes through the following transmission related charges to customers:-

¹ section 7A(2)

- regulated transmission charges;
- unregulated transmission charges;
- inter-distributor charges; and
- avoided TUOS charges.

Ergon Energy would therefore support a rule change that allows DNSPs to recover the wider transmission related services.

The recovery of 'transmission services' should not be restricted to prescribed transmission services that TNSPs impose on DNSPs. This is because not all TNSP have (fully) transitioned to Chapter 6A of the NER, and it is possible that DNSPs may also incur other transmission charges from a TNSP which may be considered to sit outside of prescribed transmission services as defined in the NER. For example in Queensland, Ergon Energy incurs unregulated transmission charges for entry and exit services for four unregulated connection points between Ergon Energy's distribution network and Powerlink's transmission network.

In addition to network services provided by a TNSP, Ergon Energy also incurs charges for network services provided by another Queensland DNSP (Energen) which supply a small group of customers that cannot be economically supplied from Ergon Energy's distribution system. Like other DNSPs, Ergon Energy is also liable to pay embedded generators avoided TUOS payments in order to comply with its regulatory obligations under the NER.

Ergon Energy considers that a DNSP should be able to recover the aggregate of all charges relating to the connection and use of another network, regardless of whether or not the other network is a transmission or distribution system. There does not appear to be any logical reason why prescribed transmission services should be able to be passed through to customers, whilst broader 'transmission related payments', such as avoided TUOS to embedded generators, inter-DNSP charges and other TNSP charges should not.

- *As connection services are defined under the NER as prescribed transmission services, do charges for prescribed transmission services capture all connection costs?*

Ergon Energy agrees that it is not entirely clear whether the definition of prescribed transmission services under the NER would capture all connection costs. As noted above Ergon Energy currently incurs unregulated customer connection charges (or entry and exit charges) from Powerlink in Queensland, which are not captured under the definition of prescribed transmission services under the NER. Therefore Ergon Energy considers that a DNSP should be entitled to recover the aggregate of all charges relating to the connection and use of another network, regardless of whether or not the other network is a transmission or distribution system.

- *Are there other transmission-related charges that DNSPs incur in providing standard control services?*

There are other transmission-related charges that DNSPs incur in providing standard control services. For example, Ergon Energy currently incurs other relevant 'transmission related' charges such as avoided TUOS payments to embedded generators and inter-DNSP charges. These charges are incurred in the delivery of Ergon Energy's Standard Control Services, and therefore a DNSP should be entitled to recover these charges.

- *How should 'inter-DNSP payments' be defined?*

Ergon Energy notes that UED has proposed that inter-DNSP payments be defined as 'distribution services provided by other Distribution Network Service Providers, net of distribution services provided to other Distribution Network Service Providers.'

Ergon Energy is concerned that this definition may be overly prescriptive and may pertain to previous economic frameworks governing the pass through of 'inter-DNSP payments' in certain jurisdictions.

Ergon Energy believes that any definition of 'inter-DNSP payments' should cover all aggregate charges paid by one DNSP to another DNSP which is associated with the connection and use of its network.

- *Are there any other charges that should be included?*

Ergon Energy considers that any charges incurred or payments received associated with the connection and use of a network that provides support to another DNSP's network in order for it to deliver its standard control services, should be able to be passed through to customers.

- *What factors should be considered in order to establish the appropriate level of prescription in defining the relevant charges?*

Ergon Energy provides no comment.

- *What level of transparency would be appropriate of how transmission service charges, avoided TUOS payments and inter-DNSP payments are calculated?*

Ergon Energy considers that the DNSP is best placed to determine an appropriate methodology of how transmission and distribution related payments are calculated. This is because it is the DNSP who is responsible for determining the costs to be recovered from its customers and designing tariffs and charging parameters within its tariffs which send appropriate signals as to the costs in serving those customers.

Ergon Energy also considers that the NER already provides for an appropriate level of transparency in terms of how charges for transmission and distribution related payments are calculated. In order to comply with Part I of Chapter 6 of the NER, a DNSP must set out in its Pricing Proposal how it intends to pass through these charges to customers. Ergon Energy is also required under Appendix E and Appendix L of its Regulatory Determination to set out a record of the actual types and amounts of payments paid and the actual revenues recovered from customers for these charges.

Ergon Energy's passes through these charges to customers as cost reflectively as possible, and has designed its tariffs in a transparent manner, to ensure customers are able to see the components of their total network use of system charge, and the pricing signals inherent within them.

How should the charges be recovered?

- *Are charges for 'transmission services', inter-DNSP payments and avoided TUOS payments outside the control of DNSPs (or subject to other regulatory oversight)?*

Ergon Energy considers that the majority of its 'transmission services' charges and transmission related payments it incurs in the provision of its Standard Control Service are generally outside of its control. Ergon Energy therefore considers that such charges are best recovered through an annual revenue adjustment, an unders-and-overs feature of the revenue control mechanism.

Ergon Energy is also of the view that these charges are subject to sufficient regulatory oversight through regulatory processes managed by the AER. Powerlink, as the Queensland TNSP, is required to submit a Pricing Methodology proposal to the AER for approval under Chapter 6A of the NER. Similarly ENERGEX, (the other QLD DNSP which Ergon Energy makes inter-DNSP

payments to), is required to submit a Pricing Proposal to the AER for approval under Chapter 6 of the NER.

As the economic regulator, the AER has regulatory oversight on the revenues and prices set for transmission and distribution services. Ergon Energy therefore relies on the workings of the AER to ensure prices developed by Powerlink and ENERGEX are developed on a fair and efficient basis.

- *If DNSPs have some control over the level of these costs, would including these costs to be passed through directly under the pricing process provide sufficient incentive to ensure that these costs are minimised?*

As noted, Ergon Energy considers that it generally has no real control over the level of costs imposed by a TNSP and DNSP for transmission and distribution related services.

- *Should any of these costs be included in the distribution determination process?*

These costs should not be included in a distribution determination process. This is because these charges do not relate to charges that are generally within the control of a DNSP. Ergon Energy considers that the most appropriate mechanism for recovering these charges should be recovered via an annual revenue adjustment, set out in the DNSPs Pricing Proposal which is approved by the AER in accordance with provisions in Chapter 6 of the NER.

How to ensure administrative efficiency?

- *What factors should be taken into consideration to ensure that any amendments to the revenue determination and pricing process minimises the administrative costs of the AER and DNSPs?*

Ergon Energy believes that the current processes already ensure administrative efficiency and see no need to develop more prescriptive requirements.

What savings and transitional requirements would be required?

While Ergon Energy appreciates there may be a need for transitional arrangements, Ergon Energy sees no benefit in amending its current Distribution Determination to apply the Rule change in the current regulatory control. This is because Ergon Energy has already commenced its Distribution Determination, and the AER has allowed for the recovery of transmission related payments which include transmission charges paid to TNSPs, avoided TOUTS payments and inter-distribution payments. Ergon Energy considers that the AEMC should ensure that in developing transitional arrangements, there is scope for DNSPs to apply the Rule change at an appropriate time with respect to its current and next Regulatory Determinations.

Ergon Energy would be pleased to discuss this submission with the AEMC.

Yours sincerely



Carmel Price
Group Manager Regulatory Affairs

Telephone: 07 41219545
Facsimile: 07 3228 8130
Email: carmel.price@ergon.com.au