

# **Gallaugher & Associates Pty Ltd**

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Dear Dr Tamblyn

## **CONSULTATION PAPER: National Electricity Amendment (Inter-regional Transmission Charging) Rule 2010 – Reference Code ERC0106**

I refer to the above proposed rule change and the rationale provided for it in the AEMC's Consultation Paper dated 13 May 2010.

In broad terms, I support the concept of inter-regional network charges. And I suspect that, in the current NEM TUoS framework, the proposal described in the Consultation Paper is probably not much better or worse than many other possible arrangements that could be introduced to address the matter.

However, there are many serious flaws with the current regulatory and economic framework for the provision of transmission services in the NEM and their interaction with the competitive sectors of the market, and these have been amply demonstrated through countless reviews of various types over the past 15 years.

Secondly, current TUoS charges recover of the order of \$1 billion per annum from NEM consumers and this total is unaffected by the proposal; i.e. we are merely considering how a relatively small component of that is allocated across the NEM customer base.

In these circumstances, I suggest the proposal as presented in the Consultation Paper is overly prescriptive for inclusion in the Market Rules and it has been grossly “over-sold” by the authors.

An alternative for example would be to simply obligate the NTP to prepare and publish a methodology for quantifying the charges in accordance with some limited but quite well defined objectives, and to prepare, publish and administer operating procedures for its implementation.

At least that way, the interregional charges would all be determined on a consistent basis across all interconnectors. Even with all of the detail now included in the draft rule change, it still leaves open the possibility of gross inconsistencies between States in the way they determine these charges, with each CTNSP having the opportunity to “game” its cost allocation methodology to maximise out-of-state revenue recovery.

## **1.1. NEO**

The proposal will at best only marginally enhance achievement of the NEO because it essentially has no impact on:

- where customer load is or will be located (for reasons of immateriality and lack of effective price signals being passed through to consumers by either NSPs or retailers);
- investment and/or mothballing/retirement decisions of both existing and new generator owners (because they see no TUoS price signals at all);
- material network development plans to be developed and published by the NTP (because the charges have no discernible impact on the quantum, location or timing of future generation or load development); or
- minute-by-minute generation dispatch patterns (because the short run costs of virtually all those participating in the bidding and dispatch process in the market will be unaffected).

Arguably, it could be said that, at best, the proposal will enhance consumer equity in the NEM whilst remaining more or less neutral in terms of its economic efficiency impacts.

## **1.2. Materiality**

The Consultation Paper provides no information whatsoever on the potential impact of the proposal on existing transmission cost allocations and TUoS charges in each of the NEM regions. This information should be readily producible by the TNSPs and should have been included in the Consultation Paper.

In addition, the Paper should have publicly disclosed in quantitative terms what in fact has occurred since NEM commencement in 1998 in respect of each of the interconnectors. This should have included information for each year for each interconnector, at least in terms of:

- energy flows;
- inter-jurisdictional payments as per any bilateral agreements between States; and
- interconnector residue payments by NEMMCO/AEMO to the TNSPs from settlements proceeds.

I urge the AEMC to publish the above information as an addendum to the Consultation Paper before the closing date for submissions.

### **1.3. Summary**

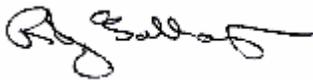
Given the gross inadequacies of existing transmission regulatory and pricing arrangements in the NEM from an economic efficiency standpoint, it is not sensible to base one's entire argument for any inter-regional network charging proposal including this one around the question of economic efficiency and the NEO.

Secondly, although no quantitative data has yet been provided, when it is, I suspect it will show the issue is quite immaterial and not worthy of the amount of time and attention it has already attracted and will continue to attract until it is resolved.

This seems to me to be yet another case of the MCE and the SCO attempting to over-engineer the regulatory and market framework via quite complex and unnecessarily detailed prescriptive provisions in the Market Rules to address what is in essence a relatively minor issue.

I would be pleased to discuss these matters with you or you staff if you wish.

Kind regards



Director