



Transmission Frameworks Review

Directions Paper: 14 April 2011

The AEMC has released a milestone paper as part of its wide-ranging review of the role and operation of transmission networks in the National Electricity Market. The Directions Paper sets out a series of complex issues that the AEMC intends to address over the course of the review.

Directions Paper

The Directions Paper considers the broad range of issues raised by stakeholders earlier in the review and provides a framework for how the AEMC will progress these issues.

Although the paper does not pose any specific questions, the AEMC is seeking comment from stakeholders on the way it has framed the issues, and whether this represents an appropriate structure for resolving them.

Submissions close on 26 May 2011.

The importance of transmission

Transmission networks form the backbone of the national electricity grid. Although they only account for about 10% of the overall costs of electricity, transmission networks play a key role in transporting power from generators to consumers and in facilitating competition between generators so that consumers can be provided with electricity at the lowest cost.

Substantial new investment in all stages of the supply chain for electricity services, including transmission and generation, is required over the next decade in order to maintain secure and reliable electricity supplies. Additionally, policies such as the expanded Renewable Energy Target and proposals for a price on carbon are expected to drive significant new investment in renewable and low carbon generation.

These factors could lead to changes in patterns of generation and network flows. It is therefore critical that the arrangements governing the transmission sector are robust going forward to ensure that investment in transmission networks is timely and efficient, and that the best use is made of transmission assets once they have been constructed.

The Transmission Frameworks Review

This review was initiated by Ministerial Council on Energy to ensure that transmission frameworks deliver efficient outcomes in light of these challenges.

A number of risks might eventuate if transmission frameworks are not robust. For instance, if the frameworks promoted over-investment in transmission, consumers would face the higher costs that resulted from this without receiving a commensurate benefit in return. On the other hand, under-investment in transmission could lead to an unreliable supply and reduce competition between generators.

Importantly, the regulatory arrangements governing transmission are highly interconnected, and there is a significant risk that changes to one aspect of the frameworks could have unforeseen and undesirable side-effects. As indicated above, one example would be that greater competition between generators can be promoted by increasing the capacity of the transmission network; however, the costs of the additional transmission investment might outweigh the benefits of this.

Submissions to the earlier Issues Paper for this review highlighted the complexity and long-standing nature of the issues associated with transmission networks. The Directions Paper now sets out the rigorous approach that we will take to working through these, taking account of the complex interactions between framework elements.

The AEMC invites public submissions on this Directions Paper.

Submissions due 26 May 2011.

Five themes to be progressed

The paper identifies five key themes that the AEMC will be progressing under the review, together with some preliminary views on these. While the themes are inherently linked, separating them will allow us to undertake a more comprehensive analysis of the issues before considering comprehensive and consistent solutions. The five themes cover:

1. **The nature of access.** This issue – which primarily relates to the service provided to generators by transmission – has been debated since the inception of the National Electricity Market. We will undertake a comprehensive examination of the rationale, and potential options, for providing generators with a defined level of transmission service.
2. **Network charging.** There is a close linkage between the nature of the service provided by transmission and the issue of how generators and load customers should be charged for this. The review will consider the costs imposed by generation and load under different transmission service models and the consequent design issues for pricing principles.
3. **Congestion.** Congestion – which occurs when the network is unable to accommodate the lowest priced generation – has wide-ranging consequences for the efficient operation of the market; however, solutions to these issues proposed to date have been highly complex. An important aspect of the review will therefore be to assess the trade-off between the materiality of congestion and the complexity of options to address its impacts.
4. **Planning.** The way in which the network is planned is strongly tied to the service offered by transmission, and may provide an alternative means to resolving some of the issues around congestion. This part of the review will consider issues related to how transmission services can best be physically provided.
5. **Connections.** A significant number of stakeholders have raised concerns regarding the effective operation of existing frameworks for connecting generators and load customers to the transmission network. In response to this feedback, the review will consider issues such as the frameworks for negotiating a connection, interactions between connections and the wider network, and variations between jurisdictions.

Process for reviewing economic regulation of networks

In this review, the AEMC is to consider the extent to which the regulatory framework provides appropriate financial incentives on transmission businesses to ensure efficient and timely service provision. This led us, in the Issues Paper, to ask more generally whether the current regime for the economic regulation of transmission results in efficient network investment.

However, we have concluded that to assess all the issues associated with the economic regulation of networks – which also impact on the distribution sector – would lead to this review becoming unmanageable in scale. We note that the Australian Energy Regulator (AER) is intending to review the frameworks under which previous revenue and pricing determinations for networks have been made, and we regard this as being the most appropriate vehicle for initiating the consideration of these issues.

Next stage for this review

The next stage of this review will be to develop a series of potential policy packages for consultation and assessment. These packages will synthesise the analysis undertaken for each of the five themes to ensure the options put forward are internally consistent and recognise the inter-relationships between the issues being examined. We intend to publish the outcomes of this work in a First Interim Report in the third quarter of 2011.

For information contact:

AEMC Senior Director, **Chris Spangaro** (02) 8296 7800
AEMC Project Leader, **Andrew Truswell** (02) 8296 7800