

9 February 2007

Dr John Tamblyn
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Australian Energy Market Commission
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Dear Dr Tamblyn 

Draft Rule Determination: Transmission Network Replacement & Reconfiguration

Please accept this supplementary submission on the Draft Rule and Determination relating to Transmission Network Replacement and Reconfiguration, as proposed by Stanwell Corporation Ltd ("Stanwell Rule Change").

The circumstances warranting the lateness of this submission and substance of this submission are outlined below.

Reasons for lateness

At the time comment was sought on the Draft Determination for the Stanwell Rule Change (submissions sought by 21 December 2006) it appeared that certain aspects of this matter were being addressed separately through the parallel transmission pricing review and rule change process.

In particular, a Draft Rule was proposed through the transmission pricing review (Draft Clause 11.6.2) designed to effectively grandfather transmission entry and exit costs as at 24 August 2006. This offered protection to connected parties from one of the key risks which motivated the Stanwell Rule Change in the first place – namely the risk that transmission reconfiguration projects could lead to an unwarranted increase in connection costs for connected generators.

Consequently, Flinders Power did not seek to raise this specific issue at that time.

However, the Final Transmission Pricing Determination and Rule issued on 22 December 2006 removed the proposed grandfathering clause. This removed any protection for connected parties to externally imposed increases in prescribed connection costs and charges as a consequence of transmission reconfiguration projects.

An issue at the heart of the Stanwell Rule change proposal therefore remains unresolved at this point in time, warranting this further submission.

Submission

The National Electricity Rules provide a degree of protection for connected parties facing negotiated connection charges, through Rules which prevent inefficient cost reallocation to negotiated connection services, while enabling efficient sharing of connection costs that become shared over time.

Specifically, the Rules provide that:

Costs which have been allocated to *prescribed transmission services* must not be reallocated to *negotiated transmission services*. (6A.19.2(7))

This protects a connected party from an increase in negotiated connection costs from factors outside its control, such as a reallocation of shared network costs to connection charges following a network redesign or reconfiguration.

The Rules also provide that:

Costs which have been allocated to *negotiated transmission services* may be reallocated to *prescribed transmission services* to the extent they satisfy the principle referred to in subparagraph (3). (6A.19.2(8))

Subparagraph (3) requires that costs be allocated on the basis of direct attribution, or failing this, on a causation basis or through an accepted cost allocation methodology. (6A.19.2(3))

This protects a connected party from the risk of 'free riders', and enables costs for negotiated transmission services to migrate to prescribed services in the event that other parties later benefit from these assets on a 'directly attributable' basis. This is supported by Rule 6A.9.1(6) which allows the price for a negotiated transmission service to be adjusted in the event that the assets later provide services to another party.

Taken together, these arrangements provide a degree of cost certainty and stability for negotiated entry services, and reduce the level of unmanageable or unforeseen risk that generation investments would otherwise be subject to due to changes in the network over time.

However, the National Electricity Rules do not provide the equivalent protection and connection cost certainty for connected parties facing prescribed transmission entry charges.

The Rules provide that, as at 9 February 2006, all transmission assets included in the RAB or that have not been negotiated are excluded from treatment as negotiated transmission services and remain classified as prescribed transmission services (11.6.11). This includes transmission entry assets.

As above, transmission costs are allocated on a “directly attributable” basis, or failing this, based on causation or through an accepted cost allocation methodology (6A.19.2(3)).

In turn, prices for prescribed services are determined by allocating costs to categories of transmission services, and in turn allocating these cost shares to individual connection points, on a “directly attributable” basis (6A.22).

This framework allows transmission costs to migrate between categories of prescribed services, for example between prescribed exit services and prescribed TUOS or common services, based on the manner in which assets are used or required over time.

On the one hand, this provides a degree of protection from “free rider” risk, and allows for the sharing of connection costs for assets later used by another party. This is equivalent to the treatment of negotiated services.

On the other hand, however, this framework denies any protection from the risk of shared system costs (eg TUOS) being reallocated to connection costs. A generator, for example, faces the risk that a transmission reconfiguration project could increase the level of assets deemed to be providing entry services on a “directly attributable” basis, and consequently suffer an unjustified increase in its prescribed entry charges.

This may occur even if the project provides no direct benefit to the generator, is undertaken for reasons outside its control, and leaves its connection services unchanged.

Clearly this is inefficient. There is no logic in imposing a new locational price signal on a sunk investment. This treatment also directly undermines the AEMC’s stated objective of reducing the level of unmanageable or unforeseen risk that generation investments are subject to.

Different treatment of ‘legacy’ prescribed entry charges for pre-existing generators and negotiated entry charges for recently-connected generators - merely because the former did not have the opportunity to negotiate their connection charges historically - appears both discriminatory and inefficient.

Consistent treatment should be provided to both classes of transmission connection asset for cost allocation purposes.

This was initially proposed by the AEMC through the transmission pricing rule change process. However, the removal of any grandfathering provision from the final transmission pricing Rules now removes consistency of treatment for prescribed transmission charges, and again leaves generators exposed to unacceptable and unmanageable risk.

As exposure to connection cost risk for connected generators is a matter central to the Stanwell Rule change proposal, and now remains unsolved, it is essential that this issue now be addressed through the present Rule change.

Therefore, it is submitted that an equivalent provision to 6A.19.2(7) should be inserted to extend the cost principle of non-reallocation to prescribed entry charges:

6A.19.2(x) Costs which have been allocated to other categories of *prescribed transmission services* must not be reallocated to *prescribed entry services*.

Conclusion

An addition to the Stanwell Rule Change along the lines of that proposed above will achieve consistency of treatment for negotiated and prescribed entry charges, provide for equal cost certainty and stability, and will address a key issue at the heart of the Stanwell Rule Change proposal.

This approach will also support the AEMC's stated aim of reducing the level of unmanageable or unforeseen risk that generation investments are subject to, consistent with the promotion of long term efficiency in accordance with the NEM Objective.

Flinders Power would be happy to clarify any aspects of this submission, and would welcome the opportunity to discuss this matter further or to elaborate on this proposal, if that would assist the Commission. To this end, please contact Simon Appleby in the first instance on (08) 8372 8706 or myself on (08) 8372 8726.

Yours sincerely



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