



Victorian Energy Networks Corporation

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Dr John Tamblyn
Chairman
Australian Energy Markets Commission
Level 16, 1 Margaret Street
Sydney NSW 2000
Submission: submissions@aemc.gov.au

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Dear John

Submission on Rule Proposal – Transmission Pricing for Prescribed Services

VENCorp welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) Rule proposal for Transmission Pricing for Prescribed Transmission Services (Rule proposal).

VENCorp supports the AEMC's proposal of moving from a prescriptive approach to transmission pricing to a principles based approach. It considers that a principle based approach to transmission pricing will provide the appropriate flexibility to address issues which currently exist because of the level of prescription in the National Electricity Rules (NER).

VENCorp wishes to provide the following comments in relation to prescribed and negotiated transmission services and also timing issues associated with VENCorp's revenue reset and the Australian Energy Regulator (AER's) Pricing Methodology Guidelines.

Prescribed and Negotiated transmission services

VENCorp acknowledges the AEMC's support for its Connection Augmentation Guidelines (Connection Guidelines) and concurs with the AEMC's views that the Connection Guidelines are consistent with its approach to negotiated and prescribed transmission services.

The AEMC may also be aware that VENCorp is currently dealing with additional issues presented by multiple parties seeking to connect to a similar part of the shared transmission network. Specifically, three potential generators have proposed to connect to the 500 kV transmission lines running from Moorabool, near Geelong, to Portland in the Southwest of Victoria within a 1 to 2 year timeframe. These connections present both economic/regulatory and technical challenges which were contemplated but not specifically addressed in the Connection Guidelines. VENCorp sought to address these matters in a discussion paper entitled Multiple Connections to the Transmission Network in Victoria (attached).

For the proposed multiple connections, a significant upgrade to the line protection and communication systems is required to allow any one party to connect in order to comply with the National Electricity Rules. Once that upgrade has been made, it will be sufficient to allow subsequent connections. VENCORP therefore considers that it is 'fair and reasonable' that all three parties pay for the network augmentations.

As noted in the Discussion Paper, VENCORP is proposing that all three parties will have the opportunity to negotiate how augmentation costs will be allocated. In the event that the negotiations fail VENCORP will need to determine a cost allocation methodology.

VENCORP believes that its approach of allocating costs augmentation costs to subsequent connecting parties is consistent with both the current NER and proposed NER, however, should it find that NER changes are required it will discuss this further with the AEMC. VENCORP expects to finalise its position on this issue in October.

Timing of VENCORP's Revenue Cap Application

VENCORP notes that as part of the arrangements the AER is required to develop Pricing Methodology Guidelines by 1 July 2007. However, VENCORP's Revenue Cap Application is due to be submitted to the AER in late February / early March 2007 and it therefore will be submitting its application prior to the AER's development of Pricing Guidelines.

To address this issue, VENCORP has identified the following options

1. A savings and transitional arrangement be inserted which does not require VENCORP to submit a pricing methodology until its next revenue reset (2012 to 2013);
2. A pricing methodology be submitted as part of VENCORP's application without the benefit of the AER Guidelines; or
3. A pricing methodology is submitted as an addendum to VENCORP's application after the AER has developed its Guidelines.

VENCORP's preference is to submit a pricing methodology after the guidelines are developed. However, we note that this would be inconsistent with the proposed Rules which require a TNSP to submit its pricing methodology 13 months prior to the expiry of the current revenue cap. VENCORP seeks a transitional arrangement to facilitate this arrangement.

Should you have any questions please do not hesitate to contact Louis Tirpcou on ☎ (03) 8664 6615.

Yours sincerely



Matt Zema
Chief Executive Officer