

Our Ref: D05/30023



19 August 2005

Dr John Tamblyn
Chairman
Australian Energy Market Commission
By email: submissions@aemc.gov.au

Dear Dr Tamblyn

Review of the Electricity Transmission Revenue and Pricing Rules: Scoping Paper

Transend Networks Pty Ltd (Transend) has contributed to a joint submission by transmission network owners (TNOs) responding to the Australian Energy Market Commission (AEMC) Scoping Paper. In response to the specific questions in the Scoping Paper Transend provides a supplementary paper, included as an attachment to this letter. The views expressed in this attachment are consistent with the views contained in the joint TNO submission and should be read in the context of that submission.

Transend appreciates the opportunity to provide input to the AEMC Review. Should you have any questions about Transend's comments, please contact me on telephone: 03 6274 3909 or email: bess.clark@transend.com.au.

Yours sincerely

[by email]

Bess Clark
Manager Business Planning, Regulation and Compliance

ATTACHMENT: RESPONSE TO SPECIFIC QUESTIONS IN SCOPING PAPER

2.3 Transitional Arrangements

The Commission invites comment on the inclusion of any issues that may relate to savings and transitional arrangements.

Transitional issues that should be addressed include the treatment of revenue reset processes that are underway at the time any new Rules come into effect and ensuring that rights under existing revenue cap decisions are preserved.

3.1 Chapter 5 issues

The Commission invites comment on the relevance of each of these Rules to this Review and whether there are other Rules which are beyond the scope of this Review but which may be relevant to it.

The scope of the Review should be limited to ensuring that the recently finalised regulatory framework, namely the key elements of the building block framework and *Statement of Regulatory Principles* (SRP), is clearly reflected within the National Electricity Rules.

3.2 Market Network Service Providers (MNSP)

The Commission invites comment on whether, and to what extent the Rules that provide for non-regulated transmission systems may be relevant to specific matters in this Review.

The Rules for non-regulated transmission systems are not relevant to the Review.

4.2 Form of regulation

The Commission invites comment on whether, in the light of the NEM objective and the requirements of s.35(3), this Review should consider alternative approaches to the current CPI-X building block approach.

The scope of the Review should be limited to ensuring that the recently finalised regulatory framework in the SRP is appropriately reflected in the National Electricity Rules.

4.3.1 Asset base and criteria for determining efficient investment

The Commission invites comment as to whether there are any other issues that need to be considered in this Review in addition to those identified above.

There are no other issues that should be considered in addition to those identified.

4.3.2 Depreciation, return on investment and operating expenditure

The Commission invites comment on whether there are costs additional to those outlined above that should be considered as part of the Review.

Transend notes that the AEMC already has before it a TNO Rule change proposal in relation to revenue cap reopening and pass through mechanisms. There are no other issues that should be considered in addition to those outlined.

4.3.3 Incentive mechanisms

The Commission invites comment on what issues should be included when considering incentives for regulated transmission systems to make efficient operating and investment decisions.

Transend supports financial incentives for making efficient operating and investment decisions and notes that these are a component of the present regulatory framework. Transend supports the lifting of the present regulatory framework principles into the Rules.

4.3.4 Non-transmission alternatives

The Commission invites comment on what issues are relevant when considering non-transmission alternatives as part of this Review.

The consideration of non-network alternatives is an integral part of the regulatory test for new investments. The regulatory test should be taken as given and presumed to be effective for the purpose of this review.

5.3 Matters in existing Rules on electricity transmission pricing

The Commission invites comment as to whether the Rules appropriately cover the scope of matters that ought to be taken into consideration in this Review, and if not, what additional matters, or fewer matters, should be covered under the Rules.

In regard to transmission pricing, it should be noted that a number of the complex matters raised for consideration in the AEMC Scoping Paper could not be resolved by the National Electricity Code Administrator in over four years. Policy guidance may be required to assist in resolving a number of these matters.

Transend considers that there is an appropriate level of coverage and prescription regarding transmission pricing in the Rules. However, the Rules are not sufficiently specific on charges for new connections and the scope of services to be regulated by the Australian Energy Regulator (AER).

5.3.1 Transmission pricing arrangements

The Commission invites comment on whether it should be seeking to simplify and clarify the transmission pricing objectives and principles in the course of the Review.

The objectives and principles referred to relate to both transmission revenue and pricing regulation. Establishing meaningful high-level objectives and criteria within the Rules to guide revenue cap decisions should be a key area of focus for the Review. This would support the policy objective of separating Rule making (AEMC) from Rule enforcement (AER).

5.3.2 Range of charges

The Commission invites comment on whether this Review should address the range of charges set out above.

The Review of pricing regulation should be limited to improving and clarifying the present pricing regime. Beyond this, the range of transmission charges should not be addressed.

5.3.3 TUoS rebates

The Commission invites comment on whether this Review should consider avoided TUoS rebates.

Avoided TUoS rebates are a matter for distribution pricing arrangements and should not be considered within the proposed timeframe for the current Review. They will be relevant to future AEMC Rule setting for the electricity distribution sector.

5.3.4 Allocation of shared network costs

The Commission invites comment on whether this Review should consider the allocation of shared network costs between users of the transmission system.

The allocation of shared network costs between users of the transmission system is a complex and potentially controversial issue that should not be considered within the proposed timeframe for the second stage of the Review. Accordingly, this matter should not be addressed until after Rules for transmission revenue cap regulation are established and the Ministerial Council on Energy (MCE) provides policy guidance.

5.3.5 Form of shared network use of system charges

The Commission invites comment on whether this Review should consider the methodology(ies) for determining shared network usage charges.

Revisiting the pricing methodology for shared network usage charges is a complex and potentially controversial task that should not be considered within the proposed timeframe for the second stage of the Review. Accordingly, this matter should not be addressed until after Rules for transmission revenue cap regulation are established and the MCE provides policy guidance on the criteria for assessing alternative methodologies. Considerable time would be needed to develop, trial and implement any alternative approach, including significant systems development.

5.3.6 Structure of charges

The Commission invites comment on whether this Review should consider the degree of flexibility retained by transmission system operators to determine the structure of charges, and whether alternative structures should be considered.

Transend considers that there is an appropriate degree of flexibility to determine the structure of charges in the Rules.

5.3.7 Inter-regional TUoS transfers

The Commission invites comment on whether this Review should consider interregional TUoS transfers.

The Rules currently provide for any inter-regional payments to be agreed by jurisdictions rather than by TNSPs. Interregional TUoS transfers should not be considered within the proposed timeframe for the Review. Any review in this area will require MCE policy guidance given the potential for significant financial impacts for some jurisdictions.

6.1 Guiding discretion - economic regulation of electricity transmission

The Commission invites comment on whether this Review should consider the appropriate balance between discretion and prescription when the AER is making a transmission determination.

Improving regulatory accountability by establishing in the Rules the extent of, and criteria for, the exercise of regulatory discretion by the AER should be a key area of focus for the Review.

6.2 Guiding discretion – electricity transmission pricing

The Commission invites comment on whether this Review should consider the balance between unfettered versus guided discretion and formulaic prescription of charges.

Transend considers that there is an appropriate level of coverage and prescription regarding transmission pricing in the Rules. The Review of pricing regulation should be limited to improving and clarifying the present pricing regime.

6.3 Procedural requirements for AER decision making

The Commission invites comment on what issues are relevant when considering the process to be followed by the AER in making a transmission determination.

Implementing an improved revenue setting process by establishing in the Rules clear rights and responsibilities for both regulated transmission entities and the AER should be a key area of focus for the Review.