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Our Ref:

Dr John Tamblyn
Chair
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

By email: submissions@aemc.gov.au

11 September, 2006

Dear Dr Tamblyn

Draft Rule Economic Regulation of Transmission Services

The Public Interest Advocacy Centre (PIAC) thanks the Commission for this opportunity to provide further comments to the review of economic regulation for electricity transmission services. We note that these comments in response to the draft amendment to the National Electricity Rules (the Rules) follow several earlier opportunities to make our views known to the Commission.

While PIAC does not necessarily support all the elements of the Commission's proposed change to the Rules we recognize the effort made by the Commission to balance the interests of various stakeholders and to achieve a framework for regulation which is intended to meet the objectives of the *National Electricity Law*.

In particular, PIAC welcomes the decisions of the Commission with respect to:

- including in the Rules a requirement for economic regulation to be undertaken using a 'building blocks' approach;
- clarification of the use of 'propose-respond' within the process of regulatory reviews;
- substitution of contingent projects within CAPEX with a re-opener provision subject to clear criteria; and
- the removal of ex-post assessment of CAPEX.

We note the difficulties facing the Commission in seeking to constrain the bids from the regulated businesses around proposed CAPEX and OPEX. As the Commission will appreciate, information asymmetry is a significant issue that faces end-users perhaps as much as regulators.

Use of the term 'reasonable' to limit the ambit of bids made by the transmission entities may well be argued to be so broad as to be ineffective. It is pleasing, then, that the Commission has sought to balance the prerogative given to the businesses by establishing clear grounds on which the Australian Energy Regulator (AER) may challenge those bids. The inclusion in these grounds of end-user submissions is especially welcomed.

At this point PIAC remains uncertain of the merit of permitting the regulated businesses to nominate the X-factors to be applied to their respective revenue caps. We look forward to this being discussed in greater detail during the review of the network pricing provisions of the Rules.

Yours sincerely
Public Interest Advocacy Centre Ltd

A handwritten signature in black ink, appearing to be 'JW', with a long horizontal flourish extending to the right.

Jim Wellsmore
Senior Policy Officer

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