



11 September 2006

The Chairman,  
Australian Energy Market Commission,  
PO Box H166,  
AUSTRALIA SQUARE, NSW 1215

Submission by email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

**DRAFT RULE DETERMINATION: ECONOMIC REGULATION OF  
TRANSMISSION SERVICES (TRANSMISSION REVENUE)**

Dear Dr Tamblyn,

The National Generator's Forum (NGF) appreciates the opportunity to consider the draft transmission revenue Rule and requests the AEMC to give due consideration to the NGF's views on the incentive framework, definition of negotiated services and cost allocation.

**Incentive Framework**

According to the draft Rule determination, a number of stakeholders identified the benefits of aligning the incentives of network owners with the needs of network users and electricity customers. The AEMC's response in this area has been mainly directed towards improving existing process and minimising regulatory inefficiencies.

Long term transmission investment efficiency is essential to deliver optimum augmentation capability at the optimal time. However, there also needs to be a high degree of certainty associated with network investment regulation and planning to support the investment plans of network users. Whilst the proposed regulatory changes will go some way to improving network investment arrangements, the NGF would have preferred to see the Rule change deliver a regulatory framework that more explicitly improved certainty associated with network augmentation plans.

Performance standards should cover both network operations and investment efficiency. With regard to operations, the proposed performance

penalty/bonus arrangements could be linked to network outage plans that minimise major work during projected peak demand periods. A further refinement could include outage certainty as an incentive for network owners to minimise late notice changes to planned outages. In the area of investment efficiency performance incentives should cover costs, timing and the physical performance of the asset.

Developing an effective service performance incentive scheme presents significant challenges in regard to achieving the right balance between financial drivers and market benefits. The NGF supports the proposal to have the AER conduct a more thorough analysis of performance standard requirements and to develop a new scheme.

### **Negotiated Services and Cost Allocation**

The NGF acknowledges the benefits of differentiating prescribed and negotiated transmission services and applying a different regulatory framework to each. However, as noted by the AEMC, problems arise when a negotiated service asset becomes part of the shared network. In addition, situations may arise where a new network augmentation could be part negotiated service and part prescribed service. Therefore an effective and equitable cost allocation regime needs to be developed.

In order to minimise complexity and ambiguity of the proposed cost allocation, the NGF recommends a simple definition of 'attributable costs' be developed to provide an overarching principle to underpin the allocation methodology. In this regard, the following inconsistencies and discrepancies are noted:

- The boundaries between negotiable services and contestable services remain somewhat unclear. The AEMC needs to do more work to provide clear criteria on determining what constitutes a "contestable service", given that such services fall outside the regulatory protections of the proposed framework.
- The proposed Cost Allocation Principles prevent historically shared costs associated with prescribed transmission services from being reallocated to negotiated transmission services under Rule 6A.19.2(a)(8) – which include negotiated generator connection services (Glossary). This prevents inefficient cost shifting from historically shared services to dedicated connection services. However, existing 'legacy' generator connection costs are grandfathered as prescribed transmission services by Rule 11.5.11 and therefore denied this protection. It would appear that the same principle should apply to generator connection costs regardless of how historically determined - shared network costs should not be reallocated to generator connection costs.
- An entry or exit service provided by an asset included in the RAB as at 9/2/06 is grandfathered as a prescribed transmission service under Rule 11.5.11. However, if a TNSP modifies these assets (eg via a network reconfiguration or refurbishment project) it is unclear whether any increase

in asset value also forms part of the RAB, or would be deemed to be a negotiated transmission service. The treatment of increases in grandfathered asset value should be clarified. Any increase in asset value should not be allocated to existing generator connection costs where such projects are initiated to benefit users generally.

The AEMC may also wish to consider further refinement of the arbitration provisions for negotiated service pricing disputes. In particular it appears that such arbitration is limited to pricing matters. In addition, an NSP is expressly not required to provide a negotiated transmission service - even though such a service is still considered a monopoly service within the framework of Chapter 6A. This may render the dispute mechanism ineffective if the NSP can refuse to provide the service.

It is also conceivable that an NSP dissatisfied with the pricing outcomes of a dispute process may recover such costs through non-pricing terms (e.g. liability regime, payment terms, credit support, etc). The limitation of arbitration to pricing matters and the provision that an NSP not be compelled to provide a negotiated transmission service should therefore be reconsidered.

If you require clarification of the matters raised by the NGF please do not hesitate to contact me on (02) 6243 5120.

Yours faithfully,

John Boshier  
Executive Director