

## AUSTRALIAN ENERGY MARKET COMMISSION

### DRAFT RULE DETERMINATION

## DRAFT NATIONAL ELECTRICITY AMENDMENT (TRANSMISSION LAST RESORT PLANNING) RULE 2006

### 1. Introduction

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The AEMC has issued a Draft Rule Determination in response to a Rule change Proposal from the Ministerial Council of Energy (MCE) requesting the AEMC to make a Rule to provide it with a Last Resort Planning Power (LRPP). The major motivation underlying the LRRP Rule proposal is to ensure that the appropriate consideration is given to transmission investment in circumstances where existing incentives to undertake transmission investment may be lacking. This implies that the current Rules that apply to inter-regional investment in transmission are deficient inhibiting the level of inter regional investment in transmission able to be built. Accordingly, the AEMC has decided to issue a LRPP to itself.

TRUenergy's believes the revised Transmission Rules that apply to all transmission augmentations (including those built under the market benefit limb of the regulatory test) should achieve an optimal level of interregional investment on their own. The key reasons for this include:

1. The revised Rules that apply to transmission investment through the Transmission Revenue Rules provide adequate incentives to build inter regional investment
2. The reforms to the market benefits limb of the regulatory test improve the incentives to build inter regional investment

The introduction of this LRRP scheme will result in an additional layer of unnecessary regulation.

### **2. The Revised Rules that apply to transmission investment through the Transmission Revenue Rules provide adequate incentives to build inter regional investment.**

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#### ***2.1 The incentives that form part of the revised Transmission Revenue Rule provide incentives for TNSPs to build any transmission asset***

The incentive power for capital expenditure efficiencies has been increased by the Transmission Revenue Rule issued by the AEMC. The Rule allows for a TNSP to retain additional depreciation in addition to return on capital where a TNSP underspends relative to its forecast capital expenditure. These incentives apply to augmentations both undertaken through the reliability and the market benefits limb of the regulatory test.

## ***2.2 The inclusion of a contingent projects regime for capital expenditure for specific large projects***

The Transmission Revenue Rule provides for a contingent projects regime to apply to capital expenditure. This applies to specific large projects that are foreseen but unlikely to be built triggered by particular large events. A TNSP that builds any transmission project under the market benefit limb of the regulatory test as a contingent project will have a similar incentive mechanism applied to other capital expenditure captured in its forecast tariffs. Accordingly, the financial disincentive for undertaking an augmentation that passes the market benefits test during a regulatory period not captured in a TNSP's current Maximum Average Revenue (MAR) is adequately dealt with through the contingent projects regime.

## ***2.3 The removal of ex-post reviews of the prudence of actual capital expenditure***

Ex-post reviews of capital expenditure will not apply to the Transmission Revenue Rules. TNSPs that undertake augmentations under the market benefit limb of the regulatory test will not have the threat of the value of their investment being optimised away at the end of a regulatory period. This strengthens the incentives to invest in any transmission augmentations.

## **3. The Revised Regulatory Test Rule**

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The AEMC has recently revised the regulatory test through its recent rule change (Reform of the Regulatory Test Principles) Rule 2006. The major changes to the regulatory test require a TNSP to publish a request for information on the potential alternative options considered under the market benefit limb of the regulatory test application and second, requiring the regulatory test take the form of an assessment of the proposal against the "likely alternative or alternatives" rather than an assessment against all "genuine and practical alternatives." The AEMC has justified these changes on the basis that this will reduce the risk of a project being justified as maximising market benefits, yet failing to be constructed. The AEMC claim that these changes simplify the market benefits limb of the regulatory test, improve the incentives for market participants to undertake the regulatory test for inter regional investments. Accordingly, the case for providing a LRPP to the AEMC in a revised environment as it applies to transmission Rules is further eroded.

## **4. Conclusion**

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Recent changes to the rules governing the regulation of transmission have created strong incentives for TNSPs to undertake interregional investment usually undertaken under the market benefit limb of the regulatory test. The strong incentives present in the revised regulatory regime appear to make the implementation of a LRPP scheme redundant. On this basis, TRUenergy does not see the need for the scheme to be implemented.