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PO Box 5003
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Mr Mark Allen
Australian Energy Market Commission
Level 5
201 Elizabeth Street
Sydney NSW 2000

By online lodgement

18 January 2013

Dear Mark,

Re: Inter-regional Transmission Charging (AEMC reference ERC0106)

The Private Generators listed in the side bar (Private Generators) appreciate the opportunity to comment on the AEMC second draft determination on inter-regional transmission charging

The principle of inter-regional charging is supported by the Private Generators, as it is likely to improve the cost reflectivity of transmission pricing for network elements which support inter-regional flows of electricity. However, the Private Generators remains of the view that the proposed ex-post assessment of network flows is a poor surrogate to the identification of the true beneficiaries of a proposed network augmentation.

We will not re-state our arguments in this submission as these have been set out in our previous submissions to this consultation. However we will provide brief responses to two of the points raised in the second draft rule determination.

1. Future costs

In the second draft rule determination, the Commission has made the following points:

- *Expectation of future flows must be predicated on existing consumption patterns and interconnector use. Thus, charging based on this use is consistent with the expressed "causer-pays" philosophy.*
- *The purpose of efficient pricing is to signal future costs, not to allocate historical costs.*

In order to provide customers with a reliable signal of future costs, it is important to establish a methodology that assigns network costs to those that benefit from the augmentation. The best opportunity to do this is when the network augmentation is being proposed and the costs and benefits (and beneficiaries) are being assessed. This is a transparent process that gives the intended beneficiaries a clear understanding of what service they can expect to receive, and what they would have to pay. The alternative of using network flows as a surrogate to identification of the beneficiaries leaves the customers unsure from one year to the next whether they will be deemed to have benefited, what they will be charged, and whether they should support future investment.

2. Distorted signal

We note that the Commission has rejected the proposal that inter-regional transmission charging be applied only to new assets, and not to existing assets. The Commission indicates that such an approach would result in a distorted price signal with different pricing methodologies for existing and new assets.

The allocation of costs for existing assets requires an ex-post assessment of beneficiaries, as it is not possible to 'turn back the clock' and assess the rationale for building each of the current assets. For this reason, it is acknowledged that the ex-post assessment is the only effective method for allocation of these sunk costs.

However, as new assets are proposed and approved, it is desirable that the potential beneficiaries are identified, and that they agree to proceed with the implementation, mindful of the costs. This is consistent with the direction being proposed in the Transmission Frameworks Review, where generators would be able to obtain firm access in return for contributing to the cost of the network augmentation.

The fact that there is no effective alternative than to use ex-post assessment of network flows for existing network assets does not mean that we have to accept this sub-optimal approach for new network investment. Although this would result in different approaches for new network compared to existing network, the priority should be to provide the most effective pricing signal for new investment.

The Private Generators believe that the Commission's proposed approach of aligning the pricing of new network with the current approach for existing network is a distortion in that it results in a sub-optimal approach for new network investment. In consideration of options for pricing new investment, if we restrict our thinking to only consider options are "consistent" with the pricing for existing (sunk) assets, then the result could also be described as distortionary.

Our final comment relates to the interaction between IRC and the proposed optional firm access arrangements being discussed in the Transmission Frameworks Review. Although the decision on the Transmission Frameworks Review has not yet been made, we believe that there is a potential interaction that should be contemplated. If an interconnector capacity increases due to a generator purchasing firm access, any money recovered from customers in the importing region should be taken into account when deciding what payment the firm generator should contribute.

To summarise, the Private Generators believe that the determination of the beneficiaries and the proposed allocation of the costs of the transmission investment should be part of the analysis and consultation needed to meet the RIT-T. This provides the most direct cost-reflective signal.

Should you have any enquiries regarding this matter please do not hesitate to contact me on 03 9617 8331.

Yours sincerely,

Chris Deague
Oh behalf of PGG members