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19 JUN 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Dr Tamblyn

I refer to your letter of 2 May 2008 addressed to the Honourable Geoff Wilson MP, Minister for Mines and Energy to the Ministerial Council on Energy Secretariat, enclosing a copy of the Australian Energy Market Commission's (AEMC) National Transmission Planner Review Draft Report (the Report). The Minister has asked me to reply on his behalf.

The Report is comprehensive and generally takes a practical approach to the issues. However, there are two key issues I would like to raise.

Firstly, I note the proposal for the annual National Transmission Network Development Plan to cover a period of at least 20 years. I fully support the aim for a longer term outlook and recognise the value of such information to market participants, potential investors and policy-makers alike. However, the value of the information relies on the ability to ensure forecasts over the period are sufficiently robust so as to provide meaningful guidance to interested parties.

I have also noted the proposed arrangements for the Regulatory Investment Test for Transmission investments (RIT-T), which would exclude small-scale projects from the RIT-T requirement but, at the same time, lower the threshold for capturing 'large' transmission investments from \$10 million to \$5 million.

The proposal to lower the threshold for large transmission investments is at odds with the Rule change proposal submitted to the AEMC by the Electricity Transmission Network Owners Forum (now Grid Australia) to increase the threshold for large transmission investments from \$10 million to \$35 million. I encourage the AEMC to reconsider this proposal in light of the arguments made for increasing the threshold, particularly in the context of escalating capital costs, and note the importance of ensuring regulatory requirements are not disproportionate to the size of a project.

In addition, I am particularly interested in the AEMC's evaluation of inter-regional charging arrangements. I look forward to reviewing the AEMC's findings on this matter in its Final Report, along with the other issues discussed above.

Yours sincerely



ALAN MILLIS
Deputy Director-General
Policy and Operations