

3 June 2011

Mr Chris Spangaro
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged via www.aemc.gov.au

Dear Mr Spangaro

Directions Paper EPR0019 - Transmission Frameworks Review

ActewAGL is pleased to make this submission to the AEMC's Directions Paper on the Transmission Frameworks Review, dated 14 April 2011. ActewAGL welcomes that both the MCE and the AEMC have recognised the need for the existing arrangements to be reviewed and strongly supports the development of cost reflective pricing arrangements for all generators.

As an electricity distributor, ActewAGL is the recipient of TUoS charges that in recent years have sharply increased. The great majority of the transmission charges in the National Energy Market (NEM) are borne by distribution network service providers (DNSPs) and must be recovered directly from their customers. Moreover, for ActewAGL, 70 per cent of these charges are recovered as a postage-stamped tariff on energy.

From the commencement of the NEM, the incumbent generators have not borne charges for their use of shared transmission assets. A Rule change in 2009, proposed by the National Generators Forum (NGF), altered the transmission cost allocation to further reduce the incumbent generators' contribution to transmission network charges.¹ This reduction in the generator charge was passed through to DNSPs as an increase in their non-locational charges.

This, plus the flow-on effect of the changed allocation process for exit connection assets, exacerbated ActewAGL's TUoS charge increase in 2010/11. The transmission charge to ActewAGL has increased by an average of 29 per cent in each of the three years to 2010/11. The majority of this increase has been driven by the postage-stamped (non-locational) component.

¹ NGF, Cost Allocation Arrangements for Transmission Services, Rule 2009 No. 3, commencing 13 February 2009.

This disproportionate increase in ActewAGL's TUoS charges has heightened our concern that the TUoS arrangements that apply to generators, and specifically to the incumbent generators, are not cost reflective. In our view, this is creating a distortion in the market settlement price that will lead to sub-optimal decision making on the part of all participants. This is of particular concern in the current environment with the likely development of:

- new, lower emission forms of generation, potentially in non-traditional locations; and
- a sharper focus by networks and load participants on both demand management and energy conservation.

ActewAGL has also given consideration to alternative approaches to the recovery of the TUoS costs in the wholesale energy market and would be pleased to contribute to any AEMC assessments of these issues.

In conclusion, ActewAGL supports the overall approach that the AEMC has proposed for its conduct of the Transmission Frameworks review.

Should you have any questions or require clarification on any aspect of this submission, please contact Chris Bell on (02) 6248 3180.

Yours sincerely,



David Graham
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