grid australia
BACKBONE OF THE NEM

5 July 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Via website: www.aemc.gov.au

Dear John

Annual Network Pricing Arrangements Rule 2013 Consultation Paper (ERC0149)

Grid Australia welcomes the opportunity to provide this submission in response to the Commission's Annual Network Pricing Arrangements Rule 2013 Consultation Paper (the Consultation Paper).

As the Commission is aware, Grid Australia is the organisation which represents the owners of Australia's major electricity transmission networks. As such its members are responsible for the annual calculation of transmission prices for distribution and direct connect customers throughout the National Electricity Market (NEM).

The Consultation Paper addresses the NSW IPART Rule change request of 12 September 2012, which seeks, amongst other things, to bring forward the date of publication of transmission prices by two months from 15 May to 15 March each year.

In principle, Grid Australia supports the broad intent of IPART's Rule change proposal, namely to allow customers the best possible opportunity to respond to price levels and structures. In practice, this means allowing distribution network service providers (DNSPs) appropriate time to incorporate transmission charges into their own network charges and time for retailers to incorporate network charges into their final tariff offerings.

There is an underlying trade-off between accuracy and timing. Earlier publication of prices means a greater reliance on forecast information and hence the risk of later pricing variations to address any differences. Later publication of prices may be more accurate but reduces the ability of customers to make efficient choices. The existing publication requirements, and supporting administrative arrangements, are designed to strike the right balance. The Rule change proposal provides the opportunity to test whether further improvements can be made.

In this regard, Grid Australia makes two introductory comments:

- this is not the first time this issue has been tested, with the Commission rejecting a similar request in 2009; and
- on both occasions, the proposal has been made by New South Wales stakeholders — this suggests the issue may be jurisdictional, rather than NEM-wide. If so, and assuming that the Commission is of the view that there is a case for improvements, then local administrative changes may be a more appropriate way to address this rather than a NEM-wide Rule change.

If, nevertheless, the Commission considers that a Rule change is an appropriate response, then:

- IPART's proposed 15 March publication date for transmission prices would introduce too much price volatility relative to the likely timing benefits to satisfy the Rule making test. In particular, it would disproportionately impact directly connected transmission customers for whom transmission charges represent a relatively larger component of their final bill;
- for the reasons explained below, a better balance would be struck by a 15 April publication date; and
- a case for applying the change to jurisdictions other than New South Wales would need to be made clear, particularly in Victoria given its different transmission arrangements.

The attachment sets out Grid Australia's detailed responses to the relevant questions from the Commission's Consultation Paper.

Please do not hesitate to contact me on (08) 8404 7983 or korte.rainer@electranet.com.au if you wish to discuss any matter raised in this submission

Yours sincerely

Rainer Korte

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Chairman
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Attachment – Responses to selected questions from the AEMC's Consultation Paper

Grid Australia offers the following responses to specific questions posed in the Consultation Paper relevant to transmission.

Question 1: Is the assessment framework presented in this consultation paper appropriate for assessing this rule change request?

The AEMC's proposed criteria are reasonable.

Question 2: Are there any other key dates or inputs in the pricing process for TNSPs and DNSPs?

Figure 1 overleaf sets out key dates and inputs for the transmission price-setting process.

Draft transmission prices

While there is not a formal requirement to publish draft transmission prices, administrative arrangements typically exist between TNSPs and DNSPs in each jurisdiction to facilitate this exchange (in New South Wales, via memoranda of understanding between the relevant network businesses).

Preparation of network models for co-ordinating TNSPs

Co-ordinating TNSPs in a region must update not only their own network models and asset information as an input to the transmission pricing models but also network and asset information from other TNSPs within their region. This process necessarily involves an iterative process between those TNSPs. Figure 1 below shows this process incorporated into the overall transmission price-setting process.

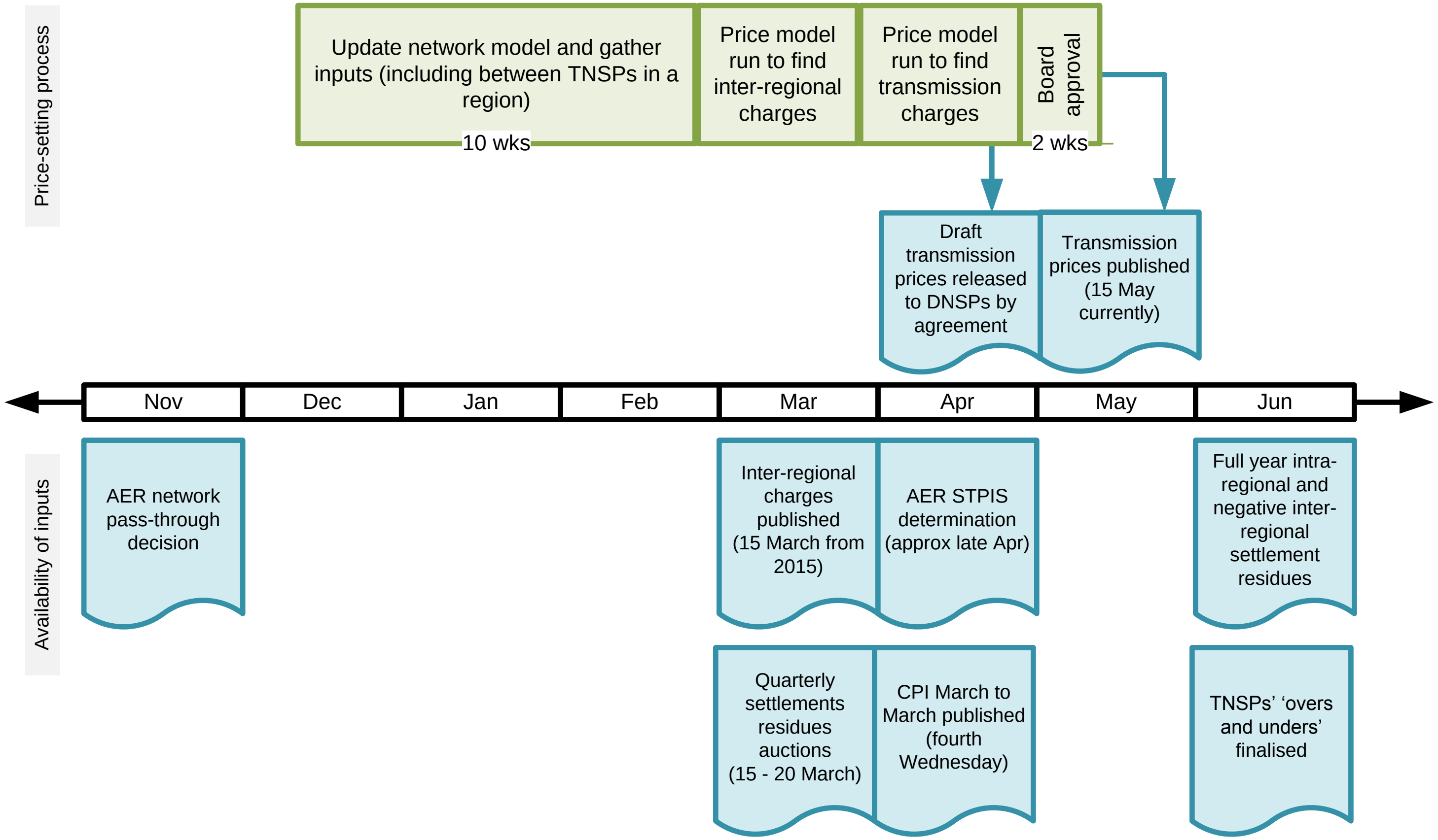
Inter-regional transmission charging

The Rule change proposal and Consultation Paper do not appear to fully reflect the new arrangements associated with the introduction of inter-regional charging. The requirement to publish inter-regional charges by 15 March, beginning in 2015, will of itself result in the entire transmission pricing process commencing approximately two months earlier than is currently the case. This will result in a greater reliance on forecasts for key inputs to the transmission pricing process and associated volatility in transmission charges. Thus, in order to retain inter-regional charging under IPART's proposal, the publication of inter-regional charges would need to be brought forward to approximately 15 January. This would significantly exacerbate the impact of IPART's proposal on transmission pricing cost reflectivity.

Inter-regional and intra-regional settlements residues

Settlements residues are a key input into the transmission price-setting process and can materially impact transmission pricing outcomes. Positive inter-regional settlements residues are auctioned quarterly by the Australian Energy Market Operator (AEMO), while negative inter-regional settlements residues, and positive and negative intra-regional settlements residues, are calculated and published weekly by AEMO. Notably, AEMO normally makes the results of the March positive inter-regional settlements residue auctions available between 15 and 20 March.

Figure 1 Transmission price-setting process and inputs



Notes
1. Durations of processes are approximate only
2. The method for incorporating inter-regional transmission charges in the overall transmission price-setting process is speculative, as the Rule change has not yet come into effect.
3. Green boxes indicate processes, while blue rectangles with waved bottom indicate publications or outputs

As part of transmission price-setting, TNSPs must forecast these inputs both to the end of the current financial year and for the entire next financial year. If TNSPs are required to forecast for longer periods for both intra-regional and inter-regional settlement residues it will result in increased volatility in transmission prices.

CPI figures

The Australian Bureau of Statistics publishes the CPI figures for March to March (currently specified as a pricing input by the Australian Energy Regulator (AER) in the majority of TNSPs' revenue determinations) around the fourth week of April.

AER Service Target Performance Incentive Scheme (STPIS) decision

The AER generally publishes its decision on TNSPs' annual service target performance incentive reports in late April each year.

Question 3: Other than the question of timing, are there any other differences in the regulatory arrangements in Victoria which are relevant for the purposes of this rule change request?

In Victoria, shared network pricing is the responsibility of AEMO, in collaboration with SP AusNet which must advise AEMO on its shared network charge projections. Transmission connection asset pricing is the responsibility of SP AusNet. Both AEMO and SP AusNet are required to release new prices by 15 May each year.

If adopted, the rule change being proposed by IPART would have no benefit in the Victorian pricing timeline as the prices made on 15 May are not included in DNSP pricing until the last quarter of the calendar year. Any change made to the timing of transmission pricing in Victoria would therefore only have downside, using an increased amount of forecast data requiring true-up in the subsequent year. None of the benefits claimed through the availability of earlier price setting would be applicable.

In relation to connection asset prices, in many cases the connection services from a terminal station are provided to two or more DNSPs/customers. SP AusNet sets the charges based on an annual review of utilisation, with reference to the 10 Maximum Demand days for the year. These values are recorded over the period 1 November to 31 March each year and are therefore not available until April. Accordingly the rule change would result in a 1 year misalignment in cost allocation (at the margin), or use of an additional piece of estimated data, with future true-up.

SP AusNet provides indicative shared network charge information to AEMO ahead of its final information – firstly at the end of November, and again in February, as an improved estimate.

Question 4: What are the risks in requiring TNSPs and in particular, DNSPs to publish their annual prices earlier than currently required? What are the consequences of these risks and can these risks be adequately managed if the proposed rule is made?

The risk of requiring TNSPs to publish transmission prices much earlier is that transmission price volatility will occur, in particular due to: an increased reliance on settlement residue forecasts, the introduction of inter-regional transmission charging arrangements and the time required for co-ordinating TNSPs to prepare price model inputs. As Figure 1 above shows, the further forward in the year that the transmission publication date is moved, the more heavily that forecasts must be relied on for:

- inter-regional transmission charges;
- settlement residues;
  - inter-regional settlement residues auction proceeds (quarterly);
  - negative inter-regional settlement residues (weekly); and
  - intra-regional settlement residues (weekly);
- the AER service target performance incentive scheme (STPIS) determination;
- CPI figures; and
- TNSPs' revenue under/over collections.

While all of these factors can be material, settlements residues have the potential to most significantly impact price volatility. By way of illustration, between 2007-08 and 2012-13, TransGrid's difference between forecast settlement residues (intra-regional settlement residues plus inter-regional settlement residue auction proceeds) and year-end actuals varied between -45% to +81%.

Transmission price volatility would also be exacerbated by the new requirement to incorporate inter-regional charging. This requires TNSPs to exchange pricing information on 15 March, two months prior to the current publication date.

This increased price volatility will most sharply affect directly connected transmission customers, for whom transmission charges represent a relatively high proportion of their bill.

Noting again Grid Australia's concern that the issue raised by IPART may be local to NSW, and therefore better addressed administratively in that jurisdiction, were the Commission to prefer a NEM-wide Rule change, Grid Australia considers that, in light of the volatility risks outlined above, a more appropriate timeframe would be to require transmission prices to be published on 15 April rather than 15 March. This would allow less forecasting risk in relation to two of the key drivers of transmission price volatility, namely, inter-regional transmission charges and settlement residues. It should also allow adequate time to ensure that co-ordinating TNSPs can prepare accurate network models on which to base their pricing.

Question 14: What are the key dates in the initial year pricing process of TNSPs and DNSPs?

As shown in Figure 1, key dates in both the initial and subsequent years of a TNSP's regulatory control period are the publication or advice of: cost pass-through decisions, inter-regional transmission charges, settlement residues auction results, STPIS determinations and CPI figures.

Question 15: What is the best option to manage the first year pricing issue? Is it necessary to keep timings for the first year and subsequent years the same?

Transmission prices are based on the Maximum Allowed Revenue (MAR) set in the AER's revenue determination. Thus, if the transmission pricing publication date were to be brought forward, either the AER would need to publish its final MAR (effectively its final revenue determination for a TNSP) earlier than the current 30 April date or the AER and TNSP would need to agree on an estimated MAR to use for pricing purposes. The latter gain could introduce further significant volatility into network charges if Final Decision outcomes varied from business forecasts.