24 June 2010

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Reference ERC0106

Dear Mr Pierce,

National Electricity Amendment (Inter-regional Transmission Charging) Rule

Integral Energy welcomes the opportunity to comment on the Inter-regional Transmission Rule Consultation Paper (the Consultation Paper) released by the Commission in May 2010.

Integral Energy is the second largest state owned energy corporation in New South Wales, serving some of Australia's largest and fastest growing regional economies. It provides distribution network services to almost 860,000 customers or 2.1 million people in households and busin-esses spanning 24,500 kilometres in Greater Western Sydney, the Blue Mountains, the Illawarra and Southern Highlands.

Integral Energy:

- supports the principle that customers who import power from another region should contribute towards the transmission costs thereby incurred in the exporting region; and
- considers that the load export charge approach set out in the Consultation Paper provides a suitable mechanism for doing so.

Integral Energy submits that there would be value in the Commission's Draft Rule Determination providing more information on the materiality of the existing cross-subsidisation. However, subject to the comments below, Integral Energy considers that the Commission's proposal represents an appropriate evolutionary step in improving locational investment signalling in the National Electricity Market (NEM).

A key aspect of the Rule change will be to ensure that the new arrangements improve cost reflectivity while maintaining regulatory certainty. To this end, Integral Energy supports:

- the extension of the current transmission pricing principles to determining the load export charge, including both locational and non-locational components for the relevant TUOS charges;
- the adoption of consistent pricing methodologies across the NEM regions for the determination of load export charges, wherever feasible; and
- the transitional arrangements proposed in the Consultation Paper.

Unexpected movements in transmission prices, both within and across regions, can negatively impact network customers. Integral Energy has itself experienced material variation in transmission costs over recent years, in part due to unexpected changes in the value of inter-regional settlement residues available to offset the growth of the intra-regional transmission network.

As a general principle, Integral Energy would like to see greater stability and transparency in transmission pricing. In the current context, Integral Energy supports the proposed Rule setting out notification processes and requiring a level of information disclosure from the Co-ordinating Network Service Provider (CNSP) that ensures that the impact on distribution and retail tariff notification processes can be managed as effectively as possible.

Finally, Integral Energy notes that, as part of the draft Rule, the Commission proposes to change the way that inter-regional settlement residue (IRSR) auction proceeds are returned to customers in the importing region from a locational basis to a non-locational basis. The rationale is to prevent the distribution of the auction proceeds from reducing the locational signal provided by the load export charge.

It could be argued that this causes a problem since both the IRSR mechanism and the load export charge are intended to provide a locational investment signal. However, taking this narrow view would not be correct. The more accurate picture is that:

- the full IRSR process assists energy importers to price (and manage) congestion across the interconnector;
- the load export charge exposes them to the cost of using those assets; and
- as with network capacity constraints within regions, when the economic benefits of upgrading the interconnector (including reducing congestion) exceed the costs of doing so[1], then the augmentation should proceed.

The question is therefore whether the proposed change in the way that IRSR auction proceeds are returned to customers in the importing region is likely to mean a net improvement in the locational signalling. Ideally, Integral Energy would like to see the Commission provide analysis that demonstrated that reducing the auction proceeds available to customers who import across the interconnector doesn't over-value the congestion costs and therefore potentially distort the investment signal. It may also be appropriate to review the effectiveness of the change after a period of several years.

Integral Energy looks forward to further participating in the Commission's process for finalising the Rule change. If you have any questions with respect to this submission, please contact Mr Anthony Englund, Regulatory Policy Manager on (02) 9853 6511.

Yours faithfully

M. Martinson

Michael Martinson
Manager Network Regulation

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1 As well as the cost of any alternative solutions.