

25 May 2011

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449 Sydney South NSW 1235



Dear John

Transmission Frameworks Review – Directions Paper

Thank you for the opportunity to comment on the Directions Paper for the Transmission Frameworks Review. We appreciate the opportunity to represent the views of our members to you.

The EUAA is that national association of electricity and gas users. We have around 100 members, including many of Australia's largest energy users. Some of our members are directly connected to transmission systems and therefore have a strong direct interest in this review. Whilst others are connected at the distribution level, they are still impacted by the transmission system in terms of charges levied at this level and the important role that transmission plays in the performance of the electricity market. This review is therefore important to them.

We support the approach that the AEMC is adopting in its examination in the transmission congestion and network connection areas. Our understanding is that the AEMC is intending to develop evidence of the problems in these areas, and then will develop solutions commensurate with the severity of the problems. There is logic in this approach.

We are, however, concerned about the approach that we understand that the AEMC is adopting for other aspects of this review (such as transmission planning, operation, charging and access). Our main concern is that there is little to suggest that the AEMC intends to seriously and independently establish evidence to assess whether or not there are problems in these areas that merit attention. For example, on page 14, in a section titled "Application of the National Electricity Objective", the directions paper repeats an observation by EnergyAustralia that *"it was not aware of any evidence that existing frameworks do not promote efficient outcomes consistent with the NEO"*. This is an observation and should be accorded no more or less importance than that, whereas the AEMC needs to establish whether such evidence actually exists and should set out to do so in this review. Unfortunately, in the text on "Commission's current views" at the end of that section, it seems to us that the AEMC has no intention of establishing evidence in this area.

This gives us cause for concern. We think it would be useful if the AEMC sought to establish evidence of whether or not transmission network service providers are delivering the objectives established in the NEO. Useful questions might include:

- Is the transmission service being delivered at least cost?
- Are transmission network service providers crowding out competing generators or demand-side response or are they instead being precluded from making investments that would better deliver the NEO?
- Is the network being planned efficiently?
- Is the service reliable, and are the standards appropriate?

We suggest that it would be very helpful if the AEMC assessed the outcomes that have been delivered by transmission network service providers so far, in establishing this evidence. This should be possible to do through a review of the AER's last three regulatory decisions, and a comparative assessment of the performance of transmission network service providers in Tasmania, South Australia, Victoria, Queensland and New South Wales. As you know, we have undertaken a similar exercise for electricity distributors in these states (other than Tasmania), and this has been helpful in establishing evidence of problems and in the description of possible solutions.

Finally, we are very concerned that the AEMC has excluded "economic regulation" from the frameworks review. The reasons cited for this are that it is very complex and that the AER is reviewing the Rules. This is unconvincing: why should complexity be reasonable grounds to ignore this area? Transmission network service providers are monopolies and the arrangements for their economic regulation should be at the heart of a review of their regulatory frameworks. In addition, while we welcome the AER's investigation into the Rules, the AER has no locus in reviewing the arrangements for the economic regulation of transmission: such reviews are a statutory responsibility of the AEMC.

We hope that these comments are useful and will assist in ensuring an effective review by the AEMC.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Roman Domanski', with a stylized flourish at the end.

Roman Domanski
Executive Director