

30 May 2014

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By online submission AERinquiry@aer.gov.au

Dear Sir/Madam,

Draft amendments to the AER's transmission Pricing Methodology Guidelines: Inter-regional transmission charge (Consultation Document)

AEMO welcomes the opportunity to comment on the Consultation Document and to assist the AER in developing its Pricing Methodology Guidelines.

We would like to note one issue that needs further attention that relates to the cost allocation process and we wish to make additional observations.

1. Locational pricing

We note that the AER's description and depiction of the two stage TUoS process requires the intra-regional calculation to be done as a first step, followed by the inter-regional stage.

We have reviewed the new National Electricity Rules (NER) provisions in detail and considered the matter from a practical perspective. In our view, the sequence of the two runs should be reversed. The first run should determine the notional export load charge and use the permitted *MLEC CRNP Methodology* (calculated under new clause 6A.29A.2 of the NER). This will be netted against the adjoining region's charge (if any) and the netted amount is added to or credited against the pre-adjusted locational component to derive the adjusted locational component.

2. Use of forecast data

In order to calculate TUoS charges, AEMO currently obtains the most up-to-date data relating to the Service Target Performance Incentive Scheme (STPIS) prior to the 15 May TUoS publication date. A consequence of finalising data to publish load export charges by 15 March is that it will require a larger reliance on the forecasting of STPIS amounts which potentially has the effect of creating larger over and under recovery amounts in the following year. This could lead to greater volatility in intra-regional charging.

3. Timing Inconsistency

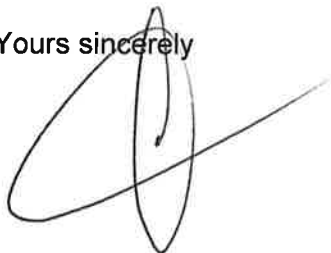
A further consequence for AEMO of the earlier publication date for the load export charge, arising from the changes to the NER, is that the data period used to calculate the load export charge will lag behind the data period used to calculate the intra-regional charges. This is because AEMO's recently published Pricing Methodology provides that TUoS pricing (intra-regional) will be calculated using the most recent usage data (most recent 12 month period (year $t - 1$) considered to be 1 March to 28 February) for intra-regional locational pricing

whereas the load export charge requires the use of the data period relating to most recent complete financial year (year $t - 2$).

This will cause a misalignment between the allocation of costs contained in the load export charge and those contained in the intra-regional charges. We note that when consulting with TUoS customers during the recent amendments to our Pricing Methodology, customers' strongly held view was for the transmission charging to reflect as much as possible the most recent usage data, hence AEMO's move to calculating charges on year $t - 1$ data rather than the more usual year $t - 2$.

Should you need further information or wish to discuss this submission further, please contact Sandra Chui on (03) 9609 8623 or sandra.chui@aemo.com.au.

Yours sincerely



Jack Fitcher
Acting Chief Financial Officer