



Mr Sebastian Roberts
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Australian Energy Regulator
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Negotiated Transmission Service Criteria for Powerlink

28 April 2016

Dear Mr Roberts,

Aurizon Network welcomes the opportunity to respond to the call by the Australian Energy Regulator (AER) for submissions on the Negotiated Transmission Services Criteria (NTSC) for Powerlink in relation to the 2017-2022 regulatory control period.

Aurizon Network wishes to propose an amendment to the NTSC to provide additional clarity and certainty to specific circumstances where a prescribed connection service ceases to be prescribed and becomes a negotiated connection service. Aurizon Network believes that this amendment is important in providing additional confidence in relation to the provision of infrastructure supporting electric traction on Aurizon Network's rail infrastructure. Electric traction for rail haulage faces competition from diesel locomotives, with the present cost of diesel intensifying this competition. Aurizon Network is consequently working to actively manage all matters that impact on the overall cost of electric traction and the stability and predictability of associated regulatory pricing arrangements.

Background

Aurizon Network operates approximately two thousand kilometres of 25 kilovolt overhead power system to supply and sell electricity to train operators in the Central Queensland Coal Network (CQCN) to provide electric traction for rail haulage. The CQCN is physically connected to the National Electricity Grid via connection agreements with Powerlink and more recently Ergon Energy. A significant number of these connections were negotiated between two State Government owned entities and are the subject of a technical derogation and remain *prescribed connection services* under the transitional and savings provisions in section 11.6.11 of the National Electricity Rules (NER).

The transitional and savings provisions in 11.6.11 allow a connection to remain a *prescribed transmission service* unless:

- a) the term of the existing connection agreement expires; or

- b) the connection agreement has been amended at the request of the transmission network user for the purpose of altering the relevant service.

There is a possibility that during the 2017-2022 regulatory control period Aurizon Network's existing prescribed transmission services will expire and may need to be recontracted as negotiated transmission services.

Current draft NTSC and proposed amendment

The draft NTSC the AER has published for comment is largely consistent with the drafting in section 6A.9.1 of the Rules. In particular subclauses (1) and (2) in this section are reproduced in paragraphs 5 and 6 of the NTSC as follows:

The price of a negotiated transmission service must reflect the cost that the TNSP has incurred or incurs in providing that service, and must be determined in accordance with the principles and policies set out in the Cost Allocation Methodology.

Subject to criteria 7 and 8, the price for a negotiated transmission service must be at least equal to the avoided cost of providing that service but no more than the cost of providing it on a stand-alone basis.

Aurizon Network is of the view that these principles provide limited guidance with regard to what price represents an efficient, fair and reasonable price within the lower (avoidable costs) and upper (stand-alone) price bound. Accordingly Aurizon Network proposes that the NTSC include additional principles identifying matters that must be given regard in the pricing of a negotiated transmission service which is ceasing to be a prescribed transmission service. Specifically Aurizon Network proposes that the NTSC should contain the following new clause:

The price for a negotiated transmission service that ceases to be a prescribed transmission service due to the expiry of the term of the connection agreement must have regard to:

- 1. the value of the eligible assets that are to be removed from the regulatory asset base;*
- 2. the costs that were previously allocated to the prescribed transmission service;*
- 3. the direct costs attributable to the continuous provision of the negotiated transmission service;*
- 4. the relativity of the price of the negotiated transmission service to the current price of the prescribed transmission service; and*
- 5. the likely impacts of the price on demand for electricity by consumers in the affected downstream market.*

The proposed clause is limited to where a prescribed transmission service ceases to be prescribed due to the expiry of the agreement. This avoids its application to circumstances where the service has ceased to be prescribed due to the transmission network user's alteration of the relevant service.

The value of the eligible assets is consistent with clauses 11.6.11(d)(3) and 11.6.11(d)(4) of the NER and ensures the transmission network service provider does not earn revenue from the retention of the assets in the regulated income stream and its inclusion in a negotiated transmission service price.

The requirement to have regard to costs currently allocated to the prescribed service is consistent with clause 11.6.11(d)(2). This would preclude any material changes in cost allocations without a reasonable change in causative factors.

The necessity to have regard to the direct costs of providing the service is consistent with ensuring the price is at least the avoidable costs and is inclusive of any asset replacement expenditure.

The requirement to have regard to the current price of the prescribed transmission service reflects the fact that the regulated price represents the most reliable benchmark price. As the price of the prescribed transmission service is based on the allocated costs from the exit service revenue pool on the basis of replacement costs it also representative of the price associated with renewing the assets over time.

Finally the requirement to have regard to the likely impact of the price on the demand for electricity by consumers in the affected downstream market ensures that competition and efficiency consequences are given adequate consideration.

Conclusion

Aurizon Network believes that its proposed amendment will provide additional clarity to the NTSC. This will assist in improving overall regulatory certainty and encouraging the utilisation of the transmission network in the medium to longer term.

Aurizon Network also notes that it has been actively progressing discussions with Powerlink to explore opportunities to manage the overall cost of providing electric traction infrastructure. Aurizon Network has been encouraged by Powerlink's consideration of its concerns, which stem from the need to mitigate the risks of underutilisation of its electric traction infrastructure.

If you have any queries, please contact Alistair Baben der Erde on 03 3019 1622 or 0406 770 113.

Kind regards,



Lana Stockman
Vice President, Regulation