7 August 2014

Mr Chris Pattas
General Manager – Networks Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Chris

re: Submission to TransGrid's Revenue Proposal – Pricing Methodology

ElectraNet appreciates the opportunity to engage in the TransGrid revenue determination process. This submission is limited to commenting on TransGrid's proposed pricing methodology.

While transmission prices typically represent only a small component of end use customers' electricity charges, it is important that appropriate pricing signals regarding usage of the transmission network are presented to all customers.

While some refinements to TransGrid's pricing methodology are encouraged as addressed below, wider scale changes are most appropriately progressed at a NEM wide level rather than through ad hoc changes on a region by region basis. To this end, ElectraNet would support a broader review of transmission network pricing arrangements to address a number of the broader issues raised during TransGrid's customer and consumer engagement and in other forums.

Cost Reflective Network Pricing methodology (CRNP) – choice of operating conditions

ElectraNet has calculated prescribed transmission prices for the South Australian region since 1 January 2003. This has been achieved initially using an approved modified cost reflective network pricing methodology on a 10 day system peak energy basis and subsequently, since 1 July 2003, on a 365 day capacity basis.

The use of the 365 capacity basis was adopted by ElectraNet[1] to give effect to the then prevailing National Electricity Code (NEC) requirement that operating conditions should include those conditions *"which impose peak loading conditions on particular elements, recognising that these may occur at times other than for peak demand"*. The 365 day capacity method of cost allocation automatically captures the peak loading conditions on

[1] Currently used by TasNetworks, ElectraNet, TransGrid and Powerlink

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network elements from the operating conditions analysed and avoids the need for judgement concerning an appropriate set of operating conditions.

TransGrid has proposed to change to a 20 system peak days methodology in order to focus on system peak demand conditions. However, the merits of the proposed change do not appear to have been adequately demonstrated to support an informed decision on this proposal by the AER or consumers at this stage.

Modified Cost Reflective Network Pricing methodology

The modified CRNP methodology is intended to encourage better utilisation of existing assets by discounting the costs allocated to under-utilised elements relative to those that are more heavily utilised. It is used to calculate the prescribed TUOS services – locational component of prescribed transmission prices.

Modified CRNP calculates utilisation adjusted optimised replacement costs and applies an average return on asset to these asset values to determine the locational component of shared network charges (i.e. the arbitrary 50 / 50 split used with the standard CRNP methodology is removed). Prescribed TUOS non locational charges recover the balance of network costs. The rate of return is calculated so that at 100% utilisation the modified CRNP results in locational charges recovering the full cost of the network. Utilisation factors for each element are based on the maximum loading over the operating conditions analysed and the secure or design transfer capacity of the element.

The effect of this calculation is to ensure that lightly loaded elements recover proportionately less revenue from locational charges than heavily loaded elements. This substantially addresses a key deficiency of the standard CRNP methodology whereby more heavily loaded elements are in effect "cheaper" on a per unit of demand basis to use than more lightly loaded network elements.

ElectraNet supports TransGrid's proposal to adopt a modified CRNP approach to the calculation of locational prices. However, it is suggested that the proposed implementation should be documented in the revised proposed pricing methodology and approved by the AER prior to use for the calculation of transmission prices.

As both ElectraNet and TasNetworks (formerly Transend) have long-standing Modified CRNP based pricing methodologies that are well documented, this requirement should not present an impediment to the timely implementation of modified CRNP in the NSW region.

Postage stamp charges

TransGrid's proposal to amend its pricing structure to charge postage stamped components solely on a demand basis is consistent with the general direction of the network tariff reform debate at present. The demand used for transmission charging should be that which the transmission network is required to be designed and operated to achieve.

As the principal drivers of transmission investment relate to peak demand this move is appropriate.

TransGrid has identified that the move to demand based postage stamp charges is likely to result in material changes to the overall level of transmission charges at some connection points. In order to mitigate this, TransGrid has proposed to cap the overall increase in transmission charges to any customer to CPI + 3% with the capped amount being recovered from other customers by an upward adjustment to the non-locational charges at other customers connection points.

However, it is unclear that this is a permissible adjustment to non-locational charges under clause 6A.23.4(h) of the Rules, which specifically relates only to the adjustment to non-locational charges arising from the application of the 2% side constraint on locational prices under 6A.23.4(f).

Should the cap be found to be allowable under the Rules, it could be more appropriately expressed with respect to maximum allowed revenue rather than CPI as the proposed mechanism would not necessarily be achievable in the event of a material change in the revenue path (for example due to annual adjustment for the weighted cost of capital).

Excess demand charge

The requirement to charge an excess demand charge arises from the AER pricing methodology guideline and is intended to ensure that a customer specifying a contracted demand in a connection agreement for the purposes of transmission charging must have a penalty for exceeding that demand. This is to ensure that customers do not contract for an unrealistically low demand in order to avoid charges which must be borne by other customers. Accordingly ElectraNet supports the excess demand charge being set so as to ensure that other customers are kept whole.

For those customers that are concerned that exceeding their contracted demand at times of low network utilisation should not be penalised by an excess demand charge, alternative arrangements may be appropriate. One such alternative methodology for supporting the opportunity use of transmission network capacity on a non-firm basis may be found in the standby arrangements adopted in the approved ElectraNet pricing methodology which applies from 1 July 2013 and the TasNetworks proposed pricing methodology.

Other issues

The TransGrid transmission pricing methodology and supporting paper address a number of broader issues that either require a Rule or guideline change or would be best dealt with in the context of a broader review of transmission pricing arrangements. In this respect:

- ElectraNet supports in principle the proposal to provide a degree of price certainty to customers. A sustainable solution may be found in a review of clause 6A.26 of the Rules seeking to broaden the current prudent discounts arrangement to include provisions for longer term contracting of transmission prices to customers.

- ElectraNet also supports the breaking of the nexus between the revenue determination process and the approval and implementation of revised pricing methodologies, and consistent network tariff reform across the regions.

As indicated above, ElectraNet would support a broader review of transmission network pricing arrangements to address a number of the wider issues raised during TransGrid's customer engagement process and by other stakeholders. ElectraNet looks forward to working with stakeholders on such a review.

If you have any questions with respect to this submission please call Bill Jackson on (08) 8404 7969.

Yours sincerely

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