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7 December 2007

Mr Sebastian Roberts
General Manager – Markets Branch
Australia Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Roberts,

Transmission congestion incentives not to be applied to EnergyAustralia

I welcome the opportunity to comment on the AER's draft Explanatory Statement and draft Service Target Performance Incentive Scheme (STPIS), including the incentives to reduce transmission congestion. EnergyAustralia has monitored the progress of this work to date because of the current Rule provision that classifies some of EnergyAustralia's assets as transmission.

In the AER's June 2007 Issues Paper on congestion incentives, it was acknowledged that it would be inappropriate to apply the transmission congestion component of the STPIS to EnergyAustralia. I strongly support this position and expect that the AER's view has not changed since June, even though it was not explicitly mentioned in the AER's draft Explanatory Statement. EnergyAustralia's position is that its transmission assets primarily serve a distribution function and that they do not have any impact on the dispatch of the wholesale market. Therefore, it would be inappropriate to apply the congestion incentive regime to EnergyAustralia.

The MCE's SCO has also recognised that EnergyAustralia's transmission assets are not the same as those of TransGrid and the other TNSPs. The draft transitional Rules for the NSW/ACT 2009-2014 regulatory reset provide the AER discretion not to apply a transmission incentive to EnergyAustralia for that period¹. This discretion is not just for the congestion component but for the entire STPIS. The AER's preliminary position, which I fully support, is to not apply the transmission incentive to EnergyAustralia².

I accept that it is appropriate for EnergyAustralia to be required to report the performance of its transmission assets as for its distribution assets. EnergyAustralia supports a consistent performance reporting framework for its entire network.

Until the AER finalises its position on this, there is uncertainty about what performance data EnergyAustralia should collate for its Revenue Proposal. One of the major constraints on the AER's ability to finalise its position is that the transitional Rules have not yet commenced, but are expected to commence on 1 January 2008.

¹ See: <http://www.mce.gov.au/assets/documents/mceinternet/Transitional%5FProvisions%5FNational%5FElectricity%28Economic%5FRegulation%5Fof%5FDistribution%5FServices%29Amendment%5FRules20071129125657%2Epdf>

² AER, *Preliminary positions: Matters relevant to distribution determinations for ACT and NSW DNSPs for 2009-2014*, 22 November 2007.

It would be helpful for EnergyAustralia to receive, soon after Rule commencement, the AER's decision regarding the application of the STPIS, to make progress on the Revenue Proposal. This is, of course, presumes that this aspect of the transitional Rules is finalised without change.

I look forward to your response, particularly in relation to the AER's timing and process for communicating the AER's final position to EnergyAustralia.

If you have any enquiries or would like to discuss this matter please do not hesitate to call me on (02) 9269 4171.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H. Colebourn', with a long horizontal flourish extending to the right.

Harry Colebourn
Executive Manager – Network Regulation & Pricing