



Hydro Tasmania
the renewable energy business

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Mr Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
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By email to AERinquiry.PMG@aer.gov.au

Proposed (draft) transmission pricing methodology guidelines

Dear Mr Buckley,

Hydro Tasmania would like to thank the AER for the opportunity to comment on the proposed (draft) transmission pricing methodology guidelines. We would like to focus our comments on Section 2.4 of the guidelines, "Attribution of transmission system assets to categories of prescribed transmission services".

Clause 6A.25.2(d) of the Rules requires the AER to specify or clarify assets that are 'directly attributable' to categories of prescribed transmission service. We note, and support the AER's preference for a methodological process, which limits the scope for variation between TNSP applications. However, we have concerns that Section 2.4 of the guidelines does not provide sufficient clarity for unambiguous application by different TNSPs across the NEM, and over time. We are disappointed that in this regard, the draft guidelines provide little more guidance than the Rules.

There are five main points of concern to Hydro Tasmania:

1. The defined list is not comprehensive, and whilst it includes the named items, it is therefore not limited to the defined sets. This means that a TNSP may choose to include items not on the list. For example, transmission lines are not included in 2.4(b)(1) [as exit services]. In principle, in a given case they could be considered by some TNSP to be directly attributable to prescribed exit services. Another TNSP may take

a more restricted view, that the guidelines do not allow this. This potential ambiguity in interpretation undermines the AER's intent of uniform application of the guidelines across the NEM and over time.

2. In a similar way, the guidelines do not provide guidance as to how a particular type of asset should be classified. For example, substation establishment and building costs are included in all four category lists, with no guidance as to when they are to be allocated to each particular category.
3. Paragraph 2.4(a)(1)(iv) refers to transmission lines connecting 'generators' (sic) to the TNSP's assets. This gives no guidance as to where the shared network ends and the directly attributable assets begin. The definition of this point is critical in determining a generator's prescribed entry charges. We believe that there is a potential conflict between the application of the priority ordering process outlined in clause 6A.23.2(d) of the NER and the AEMC's intention that generators not be charged deep connection costs (as expressed in the Commission's Rule Determination on transmission pricing). The key point is that an application of the priority ordering in areas of the shared network, could lead to a residual amount, paid for by generators as prescribed entry assets (See Attachment #1 for further discussion on this).
4. We believe that Section 2.4(a) could be improved and offer for consideration an alternative wording in Attachment #2. The suggested amendment :
 - Clarifies that the section deals with *prescribed* entry asset costs, grandfathered through Clause 11.6.11, and not *negotiated* entry costs;
 - associates the connection with *generating systems* rather than *generators*; and
 - identifies applicable lines as being between the connection point and the shared network.
5. The issue of price shocks arising from regulatory change was raised by the National Generators' Forum in its submission to the Issues paper and was noted by the AER. Such price changes could occur as a consequence of changed interpretation of the new rules in relation to asset classification. We understand that the AER may believe this matter to be beyond scope, but we seek to have some comment from the Regulator in relation to what is good regulatory practice in this area. We do not believe that it is good regulatory practice to have major increases in costs when no change of service has been delivered. We ask the AER to express a view on the desirability of a proposal to limit year-on-year changes in asset classification, to prevent step changes in costs greater than, say, 5% pa. If it is desirable, then the question of how it can be achieved can be addressed separately, possibly outside this current exercise.

These suggestions are offered with the intention of removing ambiguity and reducing regulatory uncertainty. These outcomes would be in the interest of all parties.

If the AER is of the belief that the proposed changes to the guidelines are beyond scope, Hydro Tasmania would welcome the opportunity to discuss other measures, (including a Rule change) to achieve the AER's objective of pricing methodology guidelines, which provide sufficient guidance to achieve uniform application of the pricing principles across the NEM and over time. We see this as a very important factor for investors in giving them some regulatory certainty.

If you require any additional information, please contact David Bowker on 62 305775 or via email at david.bowker@hydro.com.au.

Yours sincerely

A handwritten signature in black ink that reads "D. Bowker." with a horizontal line underneath the name.

David Bowker
Manager Regulatory Affairs

Attachment 1 - Potential conflict between the application of the priority ordering process and the AEMC's policy of shallow connection costs for generators.

Consider the case where shared network assets are prescribed due to Clause 11.6.11, (wholly in RAB as at 9 Feb 2006 and etc). The assets currently perform the role of connecting a generating system to the broader NEM (say 80% of their utilisation) and also have a role of supporting some local load (remaining 20% of usage).

On one reading, based on usage, the 'attributable cost share' for generation must surely be non-zero and so the priority ordering approach of 6A.23.2 would apply. However if this is done, then the sum of the 'stand alone amounts' for prescribed TUOS and prescribed common, would be far less than the asset value. [That is, the infrastructure required to supply the load on its own is quite small]. The residual amount would necessarily need to be allocated as prescribed entry/exit. However, allocating costs for parts of the shared network to generation in this way would contradict the AEMC's stated policy objective of 'shallow connection'. [National Electricity Amendment (Pricing of prescribed Transmission Services) Rule 2006 No. 22, 21/12/06].

This leads to the contrary reading that by necessity, shared network assets cannot have a component which is 'directly attributable' to generation, (notwithstanding its prime use being to connect generation plant to the main NEM). This means that the priority ordering process is never invoked with respect to the shared network, in relation to entry assets.

The problem with this is that the shared network is not well defined. It would be simpler if all the assets downstream of the generating system's connection point were defined as 'shared network'. However, because generation plant is often connected by long radial feeders, the true shared network is sometimes a considerable distance from the legal connection point. The lack of definition of shared network leads to ambiguity.

One possible definition of 'shared network' is the natural one of 'a network element which is used by more than one Market Participant'. This starts to approach the MEU's 'exclusion based' approach, ie assets which can be removed without impacting on another network user.

The key point is that an application of the priority ordering in areas of the shared network, could lead to a residual amount, which must end up being paid for by customers or generators as prescribed entry/exit assets. This is contrary to the policy of 'shallow connection'. If this potential conflict in interpretation is left unresolved, it will remain a source of regulatory risk for Market Participants.

Attachment #2 – Section 2.4 (a) and a Suggested Alternative Drafting

Section 2.4 of the transmission pricing methodology guidelines deals with the attribution of transmission system assets to categories of prescribed transmission services and outlines the types of *transmission system* assets that are *directly attributable* to each *category of prescribed transmission service*.

Existing draft guidelines

(a) Entry asset costs are recovered from *Generators* connected to the *Transmission Network*.

(1) *Transmission system assets* that are *directly attributable* to *prescribed entry services* include:

- (i) *substation* establishment and building costs;
- (ii) all switchgear and *plant* associated with *generators'* connection and *generator transformers*;
- (iii) all secondary systems associated with primary systems providing *prescribed entry services*;
- (iv) *transmission* lines owned by *TNSPs* connecting generators to the *TNSP's* assets; and
- (v) meters associated with prescribed entry services and owned by the *TNSP*.

Proposed alternative

(a) **Prescribed entry asset costs** are recovered from *Generators whose generating systems*¹ are connected to the *Transmission Network*, **through assets which satisfy 11.6.11**².

Transmission system assets that are *directly attributable* to *prescribed entry services* include:

- (i) *substation* establishment and building costs;
- (ii) all switchgear and *plant* associated with **generating systems'** connection and *generator transformers*;
- (iii) all secondary systems associated with primary systems providing *prescribed entry services*;
- (iv) *TNSP-owned transmission* lines, which connect **generating systems** to the *TNSP's* **shared network assets**; and
- (v) *meters* associated with *prescribed entry services* and owned by the *TNSP*.

¹ **generating system** A system comprising one or more *generating units* and includes auxiliary or *reactive plant* that is located on the *Generator's* side of the *connection point* and is necessary for the *generating system* to meet its *performance standards*.

² Or whose connection services satisfy 11.6.11, (depending on the interpretation of 11.6.11 as 'grandfathering' assets or services).

