2018-22
POWERLINK QUEENSLAND REVENUE PROPOSAL

APPENDIX 16.02

Submissions to Powerlink's Transmission Pricing Consultation Paper

Delivering better value

AURIZON

Jennifer Harris
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Feedback on Powerlink Queensland Transmission Pricing Consultation Paper

11 November 2015

Dear Jennifer,

Aurizon Network appreciates the opportunity to provide feedback on Powerlink's Transmission Pricing Consultation Paper (Consultation Paper), published October 2015.

Context

Aurizon Network has invested significantly in electrification assets in recent years in order to provide an electric traction service to customers in the Goonyella and Blackwater systems of the Central Queensland Coal Region (CQCR).

During the regulatory period covered by its 2014 Draft Access Undertaking[1], Aurizon Network expects to incur connection and transmission charges from Powerlink in the order of $77m per annum. This represents over 40% of the below rail access charge applicable to electric train services (AT_5).

Accordingly, changes to Powerlink's transmission pricing methodology can have a material impact on the below rail access charge paid by electric train services. Rail operators have a choice of whether to run electric or diesel services, and therefore, Powerlink's transmission pricing plays a key role in influencing the competitive pressures between electric and diesel traction modes.

Powerlink's Consultation Paper

The Consultation Paper seeks feedback on a number of questions. Aurizon Network has briefly commented on each question below, but notes that due to a lack of information, it is difficult to make a fully informed submission on these matters.

[1] Financial Year (FY) 2014 to FY2017.

1. **Do customers want the flexibility to *opt-in* to nominated/contract demand only locational TUOS charges OR should Powerlink seek to adopt nominated/contract demand only locational TUOS prices to apply to *all* customers in its next regulatory period?**

   Aurizon Network's understanding is that this option may result in lower locational transmission charges, where customers have the ability to adapt their demand behaviour. Nevertheless, non-locational charges, which are payable by all customers, are likely to increase to ensure that Powerlink's annual revenue requirement for TUOS Services is 'made whole'.

   While cost reflective pricing arrangements are generally of benefit where customers have the ability to influence demand for electricity, this optionality appears to penalise those customers who do not have that flexibility.

   As a result, Aurizon Network is concerned about the degree to which the behaviour of other parties (of which it has no control) can influence the charges it will incur. Particularly if there are no limitations placed on the ability to opt-in and opt-out at will.

   Aurizon Network believes that a stable and predictable regulatory pricing framework creates significant benefits for all stakeholders. Aurizon Network is concerned that this option will increase the complexity of Powerlink's pricing framework, resulting in less transparency and additional instability in its regulatory pricing arrangements.

2. **Should Powerlink propose to adopt a modified CRNP methodology to calculate locational TUOS revenue allocations in its Pricing Methodology?**

   Aurizon Network's preference is that Powerlink's regulatory pricing arrangements are as transparent, stable and predictable as possible.

   The Consultation Paper states that:

   "...modified CRNP is more complex, subjective and administratively onerous to apply."[2]

   And that:

   "...it is not clear whether there would be any real benefit to customers in adopting the modified CRNP methodology."[3]

   In Aurizon Network's experience, additional complexity comes at a cost. If the additional costs do not create a demonstrable benefit for customers, there is little point incurring them.

3. **Should Powerlink propose an increase to the locational component of TUOS revenue allocation away from the current 50/50 locational/non-locational TUOS revenue allocation in its Pricing Methodology?**

   The practical impact of this proposal appears to penalise those customers who do not have the flexibility to sufficiently influence their demand for electricity, or the ability to relocate to a lower cost connection point. Not only will these customers pay a higher locational price,

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[2] Powerlink Queensland, Consultation Paper, Transmission Pricing, October 2015, pg.17

[3] Ibid.

but the Locational Price side constraint means they are also likely to see an uplift to their Non-Locational Price.

Aurizon Network also refers to Table 2 of the Consultation Paper[4], which highlights the fact that all of the TNSP's listed apply a 50/50 locational revenue split.

At this stage, Aurizon Network cannot see how an alternative allocation would benefit customers and recommends that Powerlink retain the current 50/50 revenue split.

4. **Should Powerlink propose a Rule change Proposal to the AEMC to calculate locational TUOS prices on the basis of a long run marginal cost (LRMC) methodology, rather than the current cost reflective network pricing (CRNP) methodology?**

   It is difficult to ascertain whether this option would be of benefit to customers based on the information contained within the Consultation Paper.

   While Aurizon Network would be interested to understand how TUOS prices would change if a LRMC methodology was applied, it also notes that the LRMC method relies heavily on forecasts and assumptions about future market conditions. The accuracy of these assumptions will naturally reduce over a longer time horizon.

   At this stage, Aurizon Network's preference would be to continue to calculate locational prices on the basis of CRNP.

   If Powerlink intends on pursuing the LRMC option, it should also consider the appropriateness of introducing an adjustment mechanism, whereby TUOS prices could be amended to the extent that the 'realised' market conditions materially differ from the forecasts and assumptions.

5. **Should Powerlink investigate options for providing more price predictability?**

   Aurizon Network is concerned that electric traction is currently perceived by some rail operators and end customers as a riskier proposition than diesel traction. In part, this is due to the uncertainty and increasing cost of electric pricing arrangements.

   This uncertainty is exacerbated by the fact that Powerlink publishes its charges only three (3) months prior to the commencement of the financial year and does not provide indicative pricing beyond this.

   As outlined above, Aurizon Network's preference is that Powerlink's regulatory pricing arrangements are as transparent, stable and predictable as possible. Aurizon Network asks that Powerlink give consideration to publishing an indicative pricing schedule, covering the duration of the entire regulatory control period.

6. **What, if any, other transmission pricing changes should be proposed?**

   Aurizon Network's understanding is that Powerlink allocates its Annual Aggregate Revenue Requirement (AARR) among each service and location in the basis of an Optimised Replacement Cost (ORC) methodology. Aurizon Network would be interested to know whether there would be merit in allocating AARR on the basis of a Depreciated Optimised

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[4] Powerlink Queensland, Consultation Paper, Transmission Pricing, October 2015, pg.23

Replacement Cost (DORC) methodology, which would also consider the age of the transmission assets at each location.

Under an ORC methodology, AARR is allocated in accordance with the full replacement value of the infrastructure. To the extent that the infrastructure at a particular location is heavily depreciated, it is likely to bear a disproportionate share of the AARR, relative to newer installations. Accordingly, a DORC methodology may result in more cost reflective pricing outcomes.

Aurizon Network would appreciate the opportunity to discuss the potential pricing impacts of a DORC allocation methodology with Powerlink in more detail.

Aurizon Network also asks that Powerlink consider whether additional transparency can be provided to customers with respect to the revenue allocations and pricing calculations at each of their relevant locations.

Next Steps

Aurizon Network looks forward to working more closely with Powerlink to better understand its Pricing Methodology and welcomes the opportunity to be involved in the AER's transmission determination process.

Kind regards,

Alistair Baben der Erde
Manager Commercial Development & Governance

Brisbane Office

BHP Billiton Mitsubishi Alliance

28 October 2015

Ms Jennifer Harris
Group Manager, Network Regulation
Investment & Planning Division
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Virginia QLD 4014

Via e-mail : jharris@powerlink.com.au

Dear Jenny,

BMA Submission to Powerlink Consultation Paper

BHP Billiton Mitsubishi Alliance (BMA) welcomes this opportunity to respond to Powerlink's Consultation Paper on Transmission Pricing which was published October 2015.

BMA is a large energy user in Queensland with numerous connections with Ergon Energy and as a direct connect customer of Powerlink. BMA is currently expected to contribute in excess of [redacted] towards transmission costs each year via these connections. As such, any changes to the calculations of transmission costs and how that will affect future charges will have a significant impact to BMA.

BMA has had productive discussions with both Powerlink and Ergon Energy on how the proposed changes will affect transmission prices going forward. This included modelling done by Powerlink on the impact to BMA on changing to nominated/contract demand only based locational price. The modelling also included the impact to BMA of the potential move by Powerlink to a 60/40 locational/non-locational revenue split.

Based on feedback from these limited discussions BMA would support Powerlink moving from the current methodology of nominated/contract demand and average demand based locational prices to nominated/contract demand only based locational price. BMA supports the option for customers to opt in.

While the Powerlink Consultation Paper has posed a number of questions for feedback this response is limited to providing input specifically on questions one and three.

With respect to adopting a modified CRNP or LRMC (after a Rule change) methodologies, BMA cannot provide comment until an assessment can be carried out as how changes to these methodologies would directly affect BMA's transmission charges.

In terms of providing more price predictability, BMA supports any proposals by Powerlink that would give BMA greater certainty of its future costs. With the heavy dependence on the pass through of transmission costs via Ergon Energy any commitment to providing price predictability would also need to be adopted by Ergon Energy.

BMA is happy to continue to contribute towards its share of the transmission costs but without a detailed understanding how the changes will flow through Ergon Energy it is difficult to fully recommend the proposed changes without reservation.

BMA encourages Powerlink to continue to investigate all possible methodologies that will provide transmission charges that are cost reflective of the use of the transmission grid with a view to reducing the overall costs across the Bowen Basin. At the same time BMA would like to see the use of revenues from the charges in ongoing augmentation of important infrastructure that supplies those customers contributing those charges.

Thank you for this opportunity to respond to the Consultation Paper on Transmission Pricing. BMA also recognise the valuable work done by Powerlink to date.

Please contact me on 07 3329 2957 or 0467 714 939 should you wish to discuss further.

Yours sincerely

David Hiette
Principal Utilities Access
Infrastructure and Asset Management
BHP Billiton Mitsubishi Alliance

Your ref:
Our ref:

16 October 2015

Jennifer Harris
Group Manager, Network Regulation
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Dear Jennifer

re: Powerlink Transmission Pricing Consultation Paper

ElectraNet is pleased to make a submission on Powerlink's Transmission Pricing Consultation Paper dated October 2015.

At a broad level, ElectraNet supports measures that improve the alignment of transmission pricing practices across the NEM and provide more cost reflective pricing signals to electricity customers.

The following comments address in turn the specific questions posed in the paper.

1a. Do customers want the flexibility to *opt-in* to nominated/contract demand only locational TUOS charges?

or

1b. Should Powerlink seek to adopt nominated/contract demand only locational TUOS prices to apply to *all* customers in its next regulatory period?

ElectraNet supports the use of contracted demand as the demand measure for the calculation of transmission prices and charges.

Transmission customers in South Australia are required to have a contracted demand specified in their connection agreements with ElectraNet. The reliability obligations documented in the Electricity Transmission Code (ETC) administered by the Essential Services Commission of South Australia (ESCOSA) in turn set reliability standards with reference to these contracted demands.

As the contracted demand represents the firm capacity that must be available to the customer its use in charging clearly links the service and the charges, greatly aiding transparency.

The AER Pricing Methodology Guidelines specify the conditions under which a contracted demand pricing arrangement may be used. Clause 2.2(g) provides that:

> The *contract agreed maximum demand* must only be used for the calculation of the locational component of *prescribed TUOS services* pricing structure if the *transmission customer*'s connection agreement or other enforceable instrument governing the terms of connection of the *transmission customer*:
>
> (1) nominates a fixed maximum demand for the *connection point*; and
>
> (2) specifies penalties for exceeding the *contract agreed maximum demand*.

Clause 2.3(c) (7) applies the same constraint to the use of contracted demand for the prescribed common transmission services charge and the adjusted non-locational component of prescribed TUOS services charge.

This requirement ensures that customers are incentivised to reduce their contracted demand to the lowest sustainable level but no lower, based on penalties for exceedance.

Under a contract demand based charging framework the basis for avoided TUOS payments is less apparent. A clear link between an embedded generator's influence on the contracted demand and a reduction in the requirement for transmission augmentation must be established in order to demonstrate that transmission charges are in fact avoided.

2. Should Powerlink propose to adopt a modified CRNP methodology to calculate locational TUOS revenue allocations in its Pricing Methodology?

ElectraNet supports the adoption of the modified CRNP approach to the calculation of locational prices by TNSPs as a proportionate way of improving long run marginal cost (LRMC) signals. The consumption of capacity is in effect a proxy for the future augmentation needs of the network.

ElectraNet notes that it has calculated transmission prices using an approved modified cost reflective network pricing methodology since 2003. It has done this under a published pricing methodology since that time which provides a significant degree of transparency to the process.

The modified CRNP methodology is intended to encourage better utilisation of existing assets by discounting the costs allocated to under-utilised network 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 allocates utilisation-adjusted optimised replacement costs to connection points 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 network element are based on the maximum loading over the operating conditions analysed and the secure or design transfer capacity of the network element.

The effect of this calculation is to ensure that lightly loaded network 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 than more lightly loaded network elements.

ElectraNet, TasNetworks and TransGrid operate modified CRNP based pricing methodologies that are well documented.

Modified CRNP as implemented by ElectraNet and TransGrid requires the calculation of utilisation adjustment factors for transmission lines to ensure that meshed elements are dealt with appropriately. The methodology for achieving this is also well understood and documented.

The adjusted ratings are calculated by examining flows in network elements over a range of peak system operating conditions first for system normal conditions, and then with each meshed network element out of service one at a time. ElectraNet uses automated load flow analysis to perform this task rather than subjective assessment. The calculation of utilisation factors on all transmission elements is performed by the approved CRNP software, TPRICE, without additional input from the operator.

Any process which seeks to allocate costs, either based on current or prospective consumption of network capacity, is inherently complex. Transparency is provided through the pricing methodology which seeks to make the principles underlying the process understandable to customers.

3. Should Powerlink propose an increase to the locational component of TUOS revenue allocation away from the current 50:50 locational/non-locational TUOS revenue allocation in its Pricing Methodology?

The usage of a 50:50 split between locational and non-locational charges in standard CRNP has been a feature since the introduction of the existing transmission pricing regime under the Rules. The basis for this is understood to have been a desire to strike a balance between the costs which are driven by consumption and those that are not as a proxy for short versus long run marginal costs.

By default, the modified CRNP methodology calculates the split between locational and non-locational charges based on the level of utilisation of the network. For ElectraNet this has not departed substantially from the notional 50:50 split envisaged by the Rules for standard CRNP.

It is important to recognise that the split between these categories of charges applies at a network level not a connection point level. At a connection point level there may be significant differences between the locational and non-locational prices.

In the case of a new connection, the locational price would be determined based on its location in the network, the expected usage patterns and, where required, the augmentation required to support it. Other customers in proximity to the new connection should not see their locational prices increase due to the operation of the side constraints on locational prices.

4. Should Powerlink propose a Rule change Proposal to the AEMC to calculate locational TUOS prices on the basis of a long run marginal cost (LRMC) methodology, rather than the current cost reflective network pricing (CRNP) methodology?

As noted above, the modified CRNP methodology is a proportionate way of providing LRMC based price signals. The consumption of capacity being a proxy for the future augmentation needs of the network.

The LRMC methodology as implemented by distribution network service providers (DNSPs) focuses on classes of customers and their collective impact on the marginal cost of network capacity provision. This is not consistent with the locational signalling which underpins the transmission pricing arrangements and would significantly blunt the cost reflective signals which the transmission pricing methodology already seeks to provide.

There may be options within the current modified CRNP methodology to weight the utilisation factors for those transmission elements for which augmentation or replacement is contemplated in the planning horizon.

However, as the vast majority of customers are unable to see or respond to such signals is not clear that this would necessarily improve pricing outcomes. Structuring prices so as to simplify the pass through of transmission pricing signals to distribution customers through retail pricing outcomes appears to be the greater issue than the cost allocation methodology used to develop those prices.

ElectraNet looks forward to working with Powerlink and other TNSPs to progress thinking on this front.

5. Should Powerlink investigate options for providing more price predictability?

ElectraNet supports the exploration of options for greater predictability of transmission prices and charges. Sources of volatility typically relate to the revenue smoothing approach of the AER in revenue determinations (particularly in year one), settlements residue auction proceeds and customer consumption patterns.

One appropriate avenue to address this matter may be by refocusing the existing prudent discount provisions of the Rules to consider a broader range of issues of importance to larger customers. Any change in this area must not lose focus on the long term interests of consumers as a whole.

6. What, if any, other transmission pricing changes should be proposed?

ElectraNet has no further changes to suggest in the context of the Powerlink consultation. Material changes to the pricing principles are best pursued in a manner which maintains a level of consistency across jurisdictions rather than being considered in isolation.

If you have any further questions on this matter please contact Bill Jackson, Pricing Manager, on (08) 8404 7969 in the first instance.

Yours sincerely

Simon Appleby
Senior Manager, Regulation & Land Management

16 October 2015

Ms Jennifer Harris
Group Manager, Network Regulation
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Dear Ms Harris

Consultation Paper - Transmission Pricing

Energex welcomes the opportunity to respond to the Powerlink consultation paper on transmission pricing.

Energex connects to the Powerlink network at multiple transmission network connection points and pays Powerlink for the use of the transmission network. These costs are recovered from customers via Designated Pricing Proposal Charges (DPPC), and where signals are material and it is administratively efficient to do so, Energex passes through forecast DPPC to customers in the same form of price structure as it is received from Powerlink.

As flagged in Powerlink's consultation paper, Energex is developing a tariff structure statement (TSS) for approval by the AER and any changes to Powerlink's transmission pricing arrangements may have flow on impacts to Energex's TSS. If Energex is unable to include these proposed changes in its 2017-20 TSS, it may need to delay passing through these changes to customers until 2020 in order to meet its regulatory obligations.

Powerlink has specifically sought feedback on whether it should adopt nominated / contract demand only based locational prices to apply to all customers or allow customers the flexibility to opt-in to nominated / contract demand only locational charges. Energex supports the former, subject to transitional arrangements for existing customers, because it improves the cost reflectivity of pricing signals and simplifies network charging for large customers by aligning the structure of distribution and transmission charges. In particular, Energex would strongly support nominated / contract demand charges measures in kilovolt-amperes (kVA) rather than kilowatts (kW).

Powerlink has also sought feedback on whether to increase the locational component of revenue allocation away from the current 50/50 locational / non locational allocation. Energex supports any approach that links network cost drivers with TUOS allocations, for example an LRMC based split.

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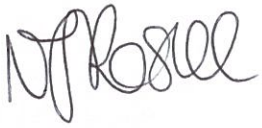
Should you have any queries regarding this submission please do not hesitate to contact Ms Rachel Leaver, Revenue and Pricing Manager on (07) 3664 4115.

Yours sincerely,



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16 October 2015

Ms. Jennifer Harris
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Dear Jennifer,

Ergon Energy Response to the Powerlink Transmission Pricing Consultation Paper

Thank you for contacting us regarding possible changes to Powerlink's currently approved Pricing Methodology. We appreciate the opportunity to provide input into Powerlink's consultation process.

Cost Reflective Pricing to improve customer decision making

Your consultation paper notes recent changes to the National Electricity Rules that require Ergon Energy to set prices that better reflect the efficient cost of providing network services to individual consumers. The aim of these changes is to allow consumers to compare the value they place on using the network against the costs caused by their use of it and therefore make more informed decisions about their use of electricity.

Ergon Energy is supportive of such changes. Prior to the rule change, Ergon Energy had already embarked on a significant network tariff reform journey underpinned by an extensive consultation process. The tariff reform and consultation process continues as we move to deliver our first Tariff Structure Statement to the AER[1].

Ergon Energy's network is designed and maintained to reliably supply the peak power demands of all our customers. As a consequence, network prices that signal the costs of demand (incremental network investment) at peak times, with lower rates when the network is not being used to full capacity, are inherently more efficient and equitable.

The total power demand that a customer places on the network has two components - Real Power and Reactive Power. Customers consume real power to perform work at a particular time. Reactive power arises due to energy stored in the load and returned to the source, and does not perform useful work. Therefore the total power demand on the network is usually greater than the real power. Improved power factor will reduce Ergon Energy's costs for all customers by reducing the capacity the network must provide.

The network charges for Ergon Energy's business customers are progressively being altered to match the total power demand on the network, rather than the real power. Starting with our largest business customers, demand charges have been based on the

[1] More information can be found at https://www.ergon.com.au/futurenetworktariffs

total power in 2014-15. The monthly demand charge is now based on the maximum number of Kilovolt Amperes (kVA), rather than Kilowatts (kW) consumed. Over the following two years kVA charging may be introduced for all demand customers (those having annual consumption greater than 100 MWh).

Questions regarding transmission charge structures

The components of the transmission charge, which is different at each of the connection points to the Powerlink network, are as follows.

TUoS cost component	Transmission price signal	Price structure
Exit	Location specific connection cost	Fixed monthly charge
Transmission Use of System (TUoS)	50% provides locational price signal	$/kW/month
	50% non-locational recovers remainder of revenue	¢/kWh or $/kW/month (price does not vary with location)
Common service	Services that benefit all customers	

To improve pricing efficiency, we see benefits in demand charges from Powerlink for business customers being aligned with the Long Run Marginal Cost (LRMC) of supply from Ergon Energy's distribution network. The price structure which Ergon Energy has moved to for its very largest customers and may extend to other business customers is set out below.

DUoS cost component	Distribution price signal	Price structure
Exit	Connection cost (locational for large customers)	Fixed monthly charge
Demand	Provides LRMC price signal	$/kVA/month
Capacity	Based on assets provided	$/kVA/month on fixed kVA
Energy	Remainder of revenue	¢/kWh

The component of these charges that provides a price signal intended to modify customers' consumption patterns is the demand charge. The structure of the TUoS and DUoS charges differ, in that Powerlink's charge is based on the real power, whereas Ergon Energy's is based on the total power for its largest customers and within a few years may apply to other demand customers.

As it is the total power demand that networks must be capable of supplying, and which drives their costs, Ergon Energy suggests the locational price in Powerlink's charges be expressed in $/kVA/month at the transmission connection point. For consistency and simplicity in pricing, the non-locational and common service component could also be expressed on the same basis. This is expected to have the following advantages:

- consistency in messaging on locational network charges for all customers, regardless of whether connected to the transmission or distribution network;
- demand charges in kVA are more efficient in signalling the impact on network costs;
- Powerlink's cost allocation for the locational TUoS charge is based on the kVA at each transmission connection and TUoS prices in kVA would preserve consistency;

- It would avoid the necessity for Ergon Energy to convert Powerlink's locational TUoS charges to kVA, for inclusion on the customer's bill; and
- The TUoS and DUoS components would have the same charging components and could be readily unbundled.

It is recognised that this change will require some additional data manipulation by Powerlink.

Question 1b. Should Powerlink seek to adopt nominated/contract demand only locational TOUS prices to apply to all customers in its next regulatory period?

On initial consideration we see this may be of benefit where Ergon Energy only supplies major customers through a Bulk Supply Point from Powerlink as these customers all have an Authorised Demand removing the risk of forecast average demands as shown in Figure 3 and 4 of the consultation paper. However, this is only the case for a small number of connections and the impact if applied to all connection points would need to be reviewed. Any impact this change may have on the Avoided TOUS calculation methodology would need to be considered carefully.

Finally, Ergon Energy wishes to highlight that while TUOS is a pass through charge to our customers, the majority of our customers receive an averaged TUOS rate by way of Ergon Energy grouping customers by TUOS regions, T1, T2, T3. Our Individually Calculated Customers are the only network tariff class where TUOS rates are determined from the Bulk Supply Point (BSP) to which they are connected.

Thank you again for the opportunity to provide input into the tariff consultation process. Please contact me on (07) 3851 6416 or Brendon Crown, Manager Regulatory Determination and Pricing on (07) 3851 6785 if you would like to discuss any aspect of this further.

Yours sincerely

Jenny Doyle
Group Manager Regulatory Affairs

16 October 2015

Jennifer Harris
Group Manager, Network Regulation
Investment & Planning Division
Powerlink Queensland

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Dear Jenny,

Thank you for the opportunity to make a submission on the Consultation Paper – Transmission Pricing. The EUAA welcomes the dialogue between our members - some of Queensland's largest retail, industrial and resource based organisations - and Powerlink. As part of our consideration of transmission pricing we have sought feedback from members and tested some of their concerns with Powerlink during the consultation phase.

General Comments

The issue of pricing is very complex, particularly for those who do not have any economic background. It is difficult to know how to pitch a discussion paper given the wide variation in reader knowledge. It was difficult for the EUAA to come to a firm landing on some of the specific questions asked because the Consultation Paper did not give enough information on how the particular concept might apply and how it would work out in practice.

For example, the Consultation Paper refers to the Grattan Institute's Fair Pricing for Power report and describes its general conclusion around capacity based charges supplemented by a peak load tariff. Then the Paper says:

> *"…Powerlink notes that the report has received criticism. One of the key criticisms from Darryl Biggar was that capacity-based tariffs are economically inefficient and unfair."*

We think it would have been helpful for the Paper to more fully analyse the differences between the Grattan and Biggar approaches to help readers. This discussion did not require Powerlink to come down in favour of one or another approach but it would have helped stakeholder understanding. The way the Paper discusses the matter leaves the reader thinking that Powerlink has made up its mind that the Grattan approach is not the way it wants to go. That may be correct but the reasoning is a black box to stakeholders.

The Paper uses the term "cost reflective network pricing" in a way that suggests all stakeholders have an agreed understanding of what that means. Providing the definition *"…a method for calculating locational prices under the Rules, based on peak utilisation of backward-looking (or sunk) asset costs"* is only a partial help. It would have been helpful to describe that in more detail and note that this definition is not generally used in the economics literature given that "sunk" assets include stranded assets which detract for economic efficiency.

During the webinar on 12th October, one question related to whether Powerlink had considered the TransGrid discussions on pricing. The Powerlink response was that it had not given

detailed consideration to it and that in any case Powerlink preferred to discuss issues with its customers directly and not be influenced by what has been done elsewhere. If this is the approach then more explanation of options than is contained in the Consultation Paper, is required to assist that discussion.

The EUAA's general conclusion is that the level of analysis provided in the Discussion Paper is not enough to allow the open discussion Powerlink is seeking.

The final general comment is that no matter what changes are made in pricing methodology the requirement that prices change by no more than ±2% per year nominal means that it will be a long time before there is true economically efficient cost reflective network pricing.

Response to specific questions asked

1a. Do customers want the flexibility to opt-in to nominated/contract demand only locational TUOS charges?

or

1b. Should Powerlink seek to adopt nominated/contract demand only locational TUOS prices to apply to all customers in its next regulatory period?

EUAA response

An assessment based on only nominated/contract demand (rather than nominated/contract demand plus average demand) is more cost reflective and hence preferable if all customers face it. The opt-in approach will only result in more inefficient cross-subsidisation.

2. *Should Powerlink propose to adopt a modified CRNP methodology to calculate locational TUOS revenue allocations in its Pricing Methodology*

EUAA response

The lack of information in the Consultation Paper on the actual impact of a change to modified CRNP means the EUAA is unable to express a definite view. While a modified CRNP will result in lower prices for those customers where there is spare capacity - which is often the result of over investment and stranded assets – given the ability to recover to the revenue cap, this stranded asset costs burden is transferred to those customers who are connected to fully utilised assets. We are not convinced that this would result in an overall increase in system efficiency.

3. *Should Powerlink propose an increase to the locational component of TUOS revenue allocation away from the current 50/50 locational/non-locational TUOS revenue allocation in its Pricing Methodology?*

EUAA response

EUAA supports an increase in the locational component because it results in a more cost reflective tariff. A 70/30 locational/non-locational split was proposed at the last Customer and Consumer Panel meeting when this issue was discussed.

4. *Should Powerlink propose a Rule change Proposal to the AEMC to calculate locational TUOS prices on the basis of a long run marginal cost (LRMC) methodology, rather than the current cost reflective network pricing (CRNP) methodology?*

EUAA response

Again the lack of information in the consultation Paper makes it difficult for the EUAA to express a view on this question. We would need more information on how prices would change under a LRMC approach - given that whether it is CRNP or LRMC, the rules allow Powerlink to recover past investments whether stranded or not.

5. Should Powerlink investigate options for providing more price predictability?

EUAA response

Yes. Large users would appreciate the opportunity to negotiate effectively a long term transmission pricing hedge. It would need to cover all components of transmission costs, not just TUOS.

6. What, if any, other transmission pricing changes should be proposed?

EUAA response

The Consultation Paper only focussed on the TUOS component of transmission charges. Powerlink should also present pricing proposals for the other two components for stakeholder consultation – common services and entry/exit service. For example, we expect that there would be locational components of the common services charge – e.g. the cost of voltage support would not be the same everywhere in the Powerlink system.

EUAA members are particularly interested to learn what work is Powerlink doing on asset valuation as input into it revenue proposal? An understanding of Powerlink's position on this would be extremely helpful to guide.

We look forward to further consultation that may be planned as we formulate our position and response to the forthcoming revenue reset phase.

Yours sincerely

Phil Barresi
CEO, EUAA

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Date: 9 November 2015

Jennifer Harris
Group Manager, Network Regulation
Investment & Planning Division
Powerlink Queensland

Dear Jennifer,

Thank you for the opportunity to comment on suggested changes to Transmission pricing in Queensland.

In particular, you would like feedback on:

1. **"Should Powerlink propose an increase to the locational component of TUOS revenue allocation away from the current 50/50 location/non-location TUOS revenue allocation in its Pricing Methodology."**

We think not, as this only reinforces and restricts the economic development of North Queensland, as electricity is an enabler to economic development. North Queensland already suffers under the burden of have some of the highest transmission costs in the NEM.

These high costs are due to the very old legacy where generation is concentrated in Southern Queensland and transmission networks have to cover large distance for the most basic commodity of energy. Increasing the location component will only exacerbate this problem.

The consequence of this change is the Queensland Government will have to pay more Community Service Obligation (CSO) costs to North Queensland to maintain a uniform tariff policy and large users like ourselves have another reason not to expand due to high transmission costs in North Queensland.

2. **"Should Powerlink seek to adopt nominated/contract demand only locational TUOS prices to *all* customers in its next regulatory period?**

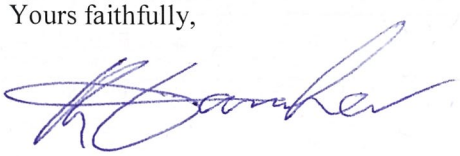
All locational TUOS cost should not be based on nominated/contract demand, as it would mean that all of Powerlink costs will be fixed. This reduces the opportunity for users to look for ways to manage their load to reduce costs. It also assumes constant production by users, which is not the case over a 12 month period and the end user will end up paying for costs they are not using.

The analogy here is that we have built a plant that has a large portion of fixed costs, but if our customers lower demand we cannot pass these fixed costs onto the end customer. Similarly, Powerlink must be more forward looking and if their network is getting underutilized then these costs should be absorbed by Powerlink in the next re-set period, rather than being passed on to end customers.

3. **"What, if any, other transmission pricing changes should be proposed?"**

Sun Metals has the ability to manage its demand in response to network/system conditions. Due to this flexibility Powerlink could consider a new rate to use this flexibility. For instance, it could be used to delay augmentation of the network or just to manage congestion in the network more efficiently.

Yours faithfully,



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