

Our Ref: 44895
Your Ref: ERC0106
Contact Officer: Jess Hunt
Contact Phone: 08 8213 3441

20 September 2011

Charles Hoang
Australian Energy Markets Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Hoang,

Inter-regional Transmission Charging Discussion Paper – ERC0106

Thank you for the opportunity to comment on the inter-regional transmission charging discussion paper. The AER agrees that the introduction of such charges will improve the cost reflectivity of transmission charges and the allocation of costs across regions. This short response provides some high level comments on the matters raised in the discussion paper and also comments on broader pricing issues.

Comments on matters raised in the Discussion Paper

In terms of the assessment criteria, the AER suggests that the AEMC also consider the costs and benefits of the proposed model relative to a “do nothing” option.

In terms of the three options for reform put forward for consideration, ideally transmission charges should be as cost reflective as possible. On this basis, the AER prefers Option 3 (NEM-wide CRNP). However, this option is likely to be more difficult to implement than the alternatives. Should the obstacles to implementing this option within a reasonable timeframe prove insurmountable, then the AER considers that a simpler option, such as Option 1, is likely to constitute an improvement on the status quo.

Similarly, if a consistent CRNP methodology is required, then the AER prefers the CRNP methodology to be designed in a way that promotes cost reflectivity. The AER supports an inter-regional charge which is based on the locational component of prescribed transmission services. The inclusion of postage stamped components is likely to undermine the intent of the policy by obscuring the locational signals associated with inter-regional charges. We also note that some of the issues associated with the more cost reflective options (such as the ability for TNSPs to pick winners and losers under a system peak cost allocation methodology) could be addressed through careful drafting of the relevant Rules and/or guidelines.

Broader comments on pricing methodologies

The review of inter-regional transmission charging has highlighted certain issues relating to intra-regional transmission charging, which the AEMC has indicated will be addressed as part of the Transmission Frameworks Review (TFR).

Changes to the TNSPs' pricing methodologies have the potential to cause price shocks to consumers. By decoupling consideration of inter- and intra-regional transmission charging, consumers may be exposed to two sets of price shocks in relatively short succession. It would therefore be preferable if all issues relating to TNSP pricing methodologies are considered together, as part of a broad review of how tariffs are set in the NEM. Ultimately, the AER would like network service providers to take a more long term approach to pricing, and take more interest in the effect on their pricing strategies on consumers.

The AER intends to provide more detailed input on pricing issues in the broader context of the TFR. Any changes arising from the TFR, as well as the changes associated the current review, are likely to impact on the AER's transmission pricing guidelines and require these to be amended in due course. The AER looks forward to working with the AEMC to improve the effectiveness of the transmission charging regime.

If you have any questions on this issue please contact Jess Hunt on 08 8213 3441 or jess.hunt@aer.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Pattas', written in a cursive style.

Chris Pattas
General Manager, Network Operations and Development