NATIONAL GENERATORS FORUM

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Chairman
Australian Energy Regulator
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Dear Mr Edwell

Electricity Transmission Regulation – Cost Allocation Guidelines

Please accept the following comments on the First Proposed Electricity Transmission Network Services Providers Cost Allocation Guidelines, as issued for comment on 31 January 2007.

Background

Generators have a clear interest in the level and certainty of the connection costs they face. Of particular concern are charges for transmission entry services.

The level and stability of connection charges will clearly be influenced by both the transmission pricing framework and transmission revenue framework, and the manner in which these arrangements are implemented.

While it is understood that the Cost Allocation Guidelines do not cover the allocation of costs for pricing purposes, the allocation of transmission revenue between categories of activity at a broad level will nevertheless have a consequent impact on ultimate pricing decisions.

It is within this context that the following comments are made. It is also noted that separate submissions may be made on the *Transmission pricing methodology guidelines issues paper* and also on the *Transmission Pricing Methodology Guidelines* when they are released for public comment.

Issue

The cost allocation principles as reflected in the proposed Guideline provide a degree of connection cost certainty for connected generators:

> 2.2.7(a) Costs that have been allocated to *prescribed transmission services* must not be reattributed or reallocated to *negotiated transmission services*.

Given that a large portion of generator connections in the NEM (including all new connections) face negotiated entry charges, this provision prevents the wholesale movement of costs from prescribed transmission service categories to negotiated services - for example as a result of externally driven network changes such as reconfiguration projects that might otherwise result in a reallocation of shared network costs to negotiated connection services.

These arrangements provide a degree of cost certainty and stability for generator connection services and reduce the level of unmanageable and unforseen risk that a generation investment would otherwise be subject to due to factors beyond its control, such as external changes in the network over time.

However, under the cost allocation framework detailed in the proposed Guidelines, there remains scope for the reallocation of shared network costs to generator connection charges.

This anomaly arises due to the fact that a number of pre-existing generators face prescribed entry charges for connection services. The Guidelines provide no protection from the risk of shared system costs being arbitrarily reallocated to these ‘legacy’ prescribed connection costs.

Specifically, a generator facing prescribed entry charges therefore faces the risk that an externally driven network development (such as a reconfiguration project) could increase the level of assets deemed to be providing entry services, and consequently suffer an unjustified increase in its prescribed entry charges.

There appears to be no rationale or efficiency benefit in this exposure. Nor is there any apparent justification for the inconsistent treatment of ‘legacy’ generator connection costs and negotiated connection costs.

As a matter of good regulatory practice and administrative consistency, it is therefore recommended that this apparent uncertainty should be addressed in the final Cost Allocation Guidelines.

Proposal

To address the above anomaly, and achieve consistency in the allocation of costs across all entry services under the Guidelines, it is proposed that an additional clause be adopted to the effect that:

> 2.2.7(x) Costs which have been allocated to other categories of *prescribed transmission services* must not be reattributed or reallocated to *prescribed entry services*.

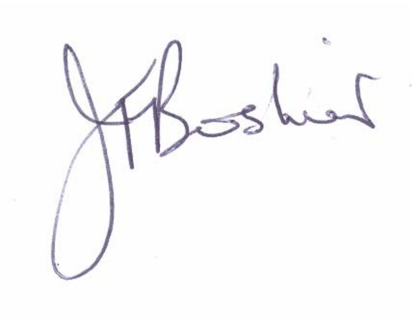
A provision of this nature should assist in ensuring equivalent treatment of both new and pre-existing generator connections from a network cost allocation perspective.

It is also expected that this provision would be straightforward to apply and administer from a regulatory perspective.

The NGF appreciates the opportunity to comment on the proposed Guidelines, and bring this apparent anomaly to your attention.

Please contact me on 02 6243 5120 should you wish to discuss our position further.

Yours sincerely



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