



7 August 2007

To: The Regulatory Manager

Dear Sir/Madam

**Transmission pricing methodology guidelines**

I am writing to you seeking comments on a number of specific issues related to the implementation and impact of the AER's proposed pricing methodology guidelines (the proposed guidelines).

In December 2006, the Australian Energy Market Commission released its National Electricity Rule Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22. Rule 22 requires the Australian Energy Regulator (AER) to develop pricing methodology guidelines by 31 October 2007. In July 2007, the AER released its proposed guidelines and an explanatory statement explaining its reasons for the positions adopted in the proposed guidelines. In accordance with the NER, the AER has allowed 30 business days for interested parties to make written submissions on the proposed guidelines (submissions close 5 September 2007).

In developing the proposed guidelines the AER has identified a number of issues surrounding their implementation and potential pricing impact. Given its limited role in pricing matters to date, the AER would appreciate your comments on these issues. The specific questions that the AER seeks comment on are set out in Attachment A to this letter.

In order for the AER to fully consider your responses it would be appreciated if you could provide a response by Monday 27 August 2007. If you have any questions in relation to this matter, please contact Simon Bell on (02) 6243 1232.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mr Mike Buckley', is written over a horizontal line.

Mr Mike Buckley  
General Manager  
Network Regulation North Branch  
Australian Energy Regulator

## Attachment A

1. Under the current transmission pricing arrangements, what proportion of total transmission charges are locational, non-locational, common, exit and entry charges?
2. What proportion of total electricity charges do transmission charges represent for both direct connect and retail customers?
3. Please advise if the transmission pricing arrangements adopted in the proposed pricing methodology guidelines are likely to materially change the existing charges paid by any network users connected to your transmission network? Can you quantify the likely impact of these changes on the charges for each category of prescribed transmission service?
4. In the proposed pricing methodology guidelines the AER has specified two permitted pricing structures for locational charges (section 2.2(c) of the proposed guidelines). What are the implications for TNSPs and network users in calculating locational charges using demand data from the previous financial year (i.e. the year ending ten months prior to publication of prices)? Is another time period more appropriate and if so why?
5. In the issues paper and the proposed guidelines, the AER provided a list of transmission assets likely to be included in each category of prescribed transmission service. In its submission to the AER's issues paper, the MEU proposed an alternative asset allocation methodology. The MEU approach involved consideration of the point at which entry and exit assets become network assets. The MEU stated that '...entry and exit assets are those which can be removed from a substation without impacting users connected to the wider network other than those connected at the entry/exit point substation.'<sup>1</sup> Further, the MEU state that '...an entry must be defined as where electricity is injected to the transmission network, and an exit is where electricity is extracted.'<sup>2</sup> The AER is seeking to assess the merits of the MEU's alternative approach and is seeking your views on the practicality of the alternative approach.
6. Clause 6A.23.2(d) of the National Electricity Rules specifies a priority ordering process for those transmission assets that are attributable to the provision of more than one category of prescribed transmission service. Under the priority ordering process the attributable cost share is to be adjusted so that costs are allocated first to transmission use of system services, then to common services and finally to prescribed entry services and prescribed exit services. To what extent could this process result in costs currently classified as shared network costs being transferred to prescribed entry and prescribed exit costs? How significant an impact is the priority ordering process likely to have, particularly in relation to entry and exit charges?
7. Under clause 6.4.2 (c) of version 9 of the National Electricity Rules (the old rules), where an individual asset provided both entry service and exit service the TNSP was required to negotiate an equitable cost allocation method with the users involved. While the priority ordering process outlined in clause 6A.23.2(d) of the new rules sets out the process for allocating costs to more than one category of prescribed service, the last step requires that costs be allocated to prescribed entry services and prescribed exit services. Under the priority ordering process, how will costs be allocated if they are attributable to both prescribed entry services and prescribed exit services? How often is it expected that this situation will arise?

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<sup>1</sup> Major Energy Users Inc, May 2007, submission on the AER's issues paper, P.40, available - <http://www.aer.gov.au/content/index.phtml/itemId/711271/fromItemId/709345>.

<sup>2</sup> Major Energy Users Inc, May 2007, submission on the AER's issues paper, P.40, available - <http://www.aer.gov.au/content/index.phtml/itemId/711271/fromItemId/709345>.