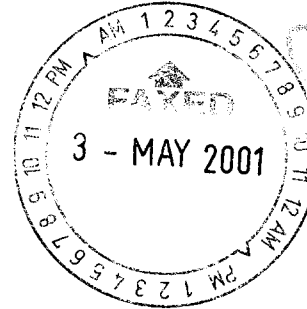


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3 May 2001



Mr Michael Rawstron  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

Dear Michael

**AMENDMENTS TO THE NATIONAL ELECTRICITY CODE – NETWORK PRICING AND MNSP DRAFT DETERMINATION**

ENERGEX Limited (ENERGEX) supports the position that will be put forward by the National Electricity Distributors Forum (NEDF) in their submission on the Draft Determination on network pricing and market network service providers.

In addition to the NEDF submission, ENERGEX submits further comments on the issues impacting network service providers, namely –

- (a) Transmission Use of System Charge variations, signalling and pass through transparency, and
- (b) Rebates for Embedded Generators.

This submission is therefore limited to these particular aspects of the Draft Determination.

**Transmission Use of System Charge Calculation**

The proposals in the Draft Determination concerning the responsibility for calculation of TUOS charges, whilst not directly impacting on ENERGEX, represents a centralised approach to TUOS price setting with no explicit rationalisation of this choice. The separation of the network pricing process from the TNSP results in a risk of the pricing process becoming remote and disjointed from the network management and operation role. This isolation of the price makers from the owners and operators of the transmission networks could result in disparity between the “price signals” and the costs of providing the transmission service.

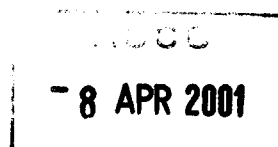
It is agreed that a uniform and consistent pricing approach is desirable but this does not necessarily imply that it must be completed by a third party.



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## **Efficient Signalling of Transmission Costs**

The current transmission network pricing framework and market settlements processes segregate the two primary costs associated with transmission networks, namely:

- (a) The return on the network assets, return of the network assets and the costs of operating and maintaining the network (TUOS), and
- (b) The losses associated with the transport of energy through the transmission network.

The TUOS charges are applied to the Distribution Network Service Providers who in turn incorporate these into the network charges applied to end use customers via their Retailer of Choice. Through this process TUOS signal will inevitably be averaged to some extent for all but the largest end users.

The costs of transmission losses however are transacted with the energy costs and managed through the settlements process.

The end result of these two pathways is that the end use customer to whom the pricing signals are being directed, does not necessarily receive the clear locational signal as intended.

If indeed the purpose of the Code Amendments is to clarify and improve the efficiency of the market (specifically transmission costs), then a fundamental opportunity appears to have been overlooked. That is, stronger locational and constraint signals can be achieved by either having Retailers pay TUOS directly or by incorporating some component of the TUOS charges in the market energy price (via Generator TUOS charges).

The requirement that Distribution Network Service Providers preserve the economic signals embedded in current or future TUOS prices is not practical at present due to the combination of fixed, demand and volume price components. The fixed and demand components must be allocated between users at every network connection point. This inevitably results in some dilution of the TUOS signal.

At present, the Distribution Network Service Providers are responsible for the payment of TUOS and to that end are seeking to:

- ensure appropriate cost recovery, and
  - apply prices on a simple and equitable basis,
- whilst seeking to maintain TUOS signals and transparency where feasible.

Distribution Network Service Providers must not incur additional costs or risks associated with TUOS pass through and interpretation without due recognition of these in their regulatory arrangements. ENERGEX submits that in progressing Code changes, the Commission investigate the possibility of reassigning at least a proportion of the liability for TUOS to other market participants better able to translate and respond to the signals. In this way end use customers will see and may be able to respond to the total economic and locational signals being delivered through the market (i.e. combined TUOS and transmission losses signals).

Should the Commission proceed with the principles outlined in the Draft Determination, ENERGEX submits that the following issues must be considered in determining an appropriate TUOS price structure:

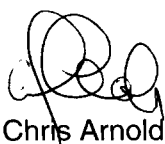
- (a) which end use customers should receive totally transparent TUOS prices?
- (b) what is the optimum price structure to convey the signals [eg fixed and aggregated demand charges (on a TNCP basis) would have to be translated for customers within the distribution network) ?

### **Rebates for Embedded Generators**

The matter of TUOS avoidance rebates to embedded generators has been the subject of considerable debate and continued uncertainty. ENERGEX submits that the current raft of recognition options are sub-optimal with the cost and complexity having a direct impact on the efficiency of the outcome. As set out in the NEDF submission, the transfer of a portion of the TUOS costs to the energy market (via allocation of TUOS to transmission connected generators) provides a more efficient and transparent mechanism. The resultant locational energy cost signals will result in the embedded generators responding directly to the locational signals flowing from the operation of the market. This approach would alleviate the issues arising from the current proposals which require Embedded Generators to negotiate payments with Network Service Providers.

ENERGEX supports an economically principled approach and in doing so strongly recommends a prompt resolution of the issues so that all parties can move into the future with certainty.

Yours sincerely



Chris Arnold  
Network Regulated Business Manager