Transmission, Investment and Regulation: Comments on Firecone Report

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The Nature of Transmission

- Very long life assets 40 – 70 years
- Very low levels of maintenance 1.5 – 2% of RV pa
- Difficult to permit development
- Capital intensive but nothing compared to roads
- An enabling infrastructure like roads
  - Other investment follows regardless of wisdom of original decision
  - Very difficult to retrospectively estimate “right” decision
Transmission Investment

• Given transmission costs are between 2% and 20% of customer bill
  – And the previous difficulties with measuring efficient decisions
• Why not build in an unfettered manner?
  – Prof Frank Wolak – reduces local market power
  – Paul Kleindorfer – investment needed in transmission
• Efficient investment is the right answer
Institutional Models

• Best alternative model for efficient transmission investment
  – Clarity of obligation
  – Asymmetry of information
  – Conflict of interest
  – Incentive effects
  • Government for-profit organisations
  • On underinvestment in Queensland distribution, the Financial Review editorial on 27/7/04 said “But the lack of accountability and transparency inherent in state ownership has played a part.”
Institutional Models (2)

• Firecone conclusion that for-profit asset owner should have the planning role is not supported by the analysis
  – I note Crew and Kleindorfer (2004) on page 27 of their paper to this conference support this recommendation although the issue of government ownership is not discussed
  – They also go on to say that a not-for-profit RTO could declare the requirements for augmentations to the grid to give easier passage for asset owners to include in rate base
National Planner

• COAG Energy Market Review proposal for national planner with competitive tender for augmentation
• Firecone proposal is for a small step in that general direction
  – Information disclosure on inter-regional adequacy
  – Identification of options to remove major flow path congestion
  – Good proposals
• 14 August 2003 was an issue of not one ISO able to see the whole problem – needs national co-ordination
• AEMC power of direction needs to be carefully codified and applied by the AEMC
Service Standards

• What is the regulatory contract?
  – Maximise availability
  – Maximise reliability
  – Maximise net benefit test
  – Target redundancy
  – Minimise market constraint costs

• TNSP should flag outages well ahead and aim to keep to timetable

• ACCC service standards work progressing
  – Inconsistent
  – Only just being introduced as incentive into revenue caps
Reliability Obligations

- Most are redundancy obligations which cap utilisation of plant
- Firecone recommendation of Reliability Panel and TNSPs to define connection point reliability targets unachievable
- The forced outage rate of transmission plant is very low < 0.1%
  - most connection points would have 100% reliability most of the time
  - a load interruption event may occur once in forty years
  - long term average reliability would be a useless number to measure year by year against
- Why not value reliability as VENCorp does?
The Regulatory Test (capacity obligation)

• Need simple consistent test
  – However conference papers all appear to be saying that the value of transmission should be calculated including its ability to reduce local market power!
  – Bidding strategies would be highly arguable!

• No reliability path because the reg test is a “Unifying TNSP obligation” since reliability and dispatch cost reductions are included together