



Supplementary Submission to the ACCC  
 NECA proposed Code Changes – Transmission and Distribution Review and  
 Network Augmentation Criteria

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## Network Planning and Augmentation

The requirements on DNSPs for the planning of augmentation are not well defined. In particular, Section 5.6.2 of the Code needs to be clarified so that the planning, consultation and assessment of DSM and local generation options apply equally for TNSPs as well as DNSPs. The ACA is concerned that this clause could be interpreted as applying to DNSPs only as so far as the proposed network augmentation was a result of joint planning with the TNSP. For augmentation that did not involve the TNSP then it could be argued that DNSPs do not have an obligation to consider non-network alternatives and do not have consult.

## Network Augmentation Criteria

The issue of how augmentations are assessed raises several crucial practical issues which the ACA does not believe have yet been adequately addressed.

- Under clause 5.6.2 NSPs are required to consider DSM and Local generation as alternatives to network augmentation.
- When NSPs evaluate DSM and local generation against network options they are required to evaluate which option provides the most “market benefits” ie. benefits to generators and customers.
- In addition, the “beneficiary pays” approach will mean that the beneficiary of the augmentation will be required to pay in proportion to the benefits that they receive.
- One would expect that NSPs would undertake the “market benefits” and beneficiary pays” tests at the same time.
- The market benefits that accrue to particular parties may be disputed – in fact they are likely to be disputed when anyone other than customers, who are poorly represented, are expected to pay.
- How will the test apply when generation/DSM options present a different set of benefits / costs to customers and generators? There will always be generator dis-benefits when DSM and local generation are considered, as they will be displacing energy that would otherwise be produced by existing generators.
- Existing generators will therefor always suffer a cost or loss of benefit when considering a DSM and local generation option. This will be equivalent to the difference between their avoided fuel cost and the market price of electricity.
- Will the ACCC apply the same test when it comes to optimising the value of the assets at subsequent reviews?
- How will NSPs be able to apply the test when they will not know (i) what other options may be available, (ii) the cost of these options or (iii) the avoided costs / benefits of existing generators?

Let us consider an example:

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Example 1

	Customer Benefits	Generator Benefits	Market Benefits
Network Option	(120)	(47)	(167)
Local Generation Option	(43)	(290)	(333)

In the above example existing generators will suffer a cost or loss of benefits if the local generation project gets implemented as they will suffer reduced energy sales. (The market benefits test protects existing generators from competition – however we would expect the existing generators to pay for this).

In the above example customers are clearly better off with the local generation option at a net effective cost of (43). The ACCC “market test” however would dictate that the network option proceed – what then should be the allocation of the costs?

Clearly customers should not pay any more than (43) with the balance (123) [167-43] paid for by generators. Generators will be (167) [290-123] better off than if the local generation option had been implemented

**Result:**

Network Option proceeds – Customers pay 26% and generators pay 74%.

What if the Local generation option proceeds in any case? And the benefits to the generators do not materialise. Clearly they would believe that they should cease to pay for their 74% proportion.

Who should make up the difference – clearly customers should not as they are already paying for the benefit they receive – the NSPs should therefore have their value of assets written back to reflect that the benefits that were to accrue due to an augmentation, failed to materialise. NSPs should not be protected from the consequences of their actions.

Let us consider a modification to Example 1 where the local generation option has the greatest market benefits.

Example 2

	Customer Benefits	Generator Benefits	Market Benefits
Network Option	(120)	(47)	(167)
Local Generation Option	(43)	(120)	(163)

Under the ACCC test the local generation option should proceed instead of the network option. This is fine, however the local generation option will not get committed unless it receives a “network support” payment ie. in lieu of network augmentation. Under the network Option the NSP would commit to augmentation at a capital cost of \$200 million. Who is going to pay the local generator an equivalent amount? Customers? Existing Generators?

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Clearly existing generators do not receive any benefit if the local generator is built. Customers could pay an equivalent network support payment to the local generator and would be satisfied that this approach was the lowest cost option (43) cf: (120). But perhaps the best option for customers would be if the network option actually proceeded and existing generators actually paid for some of the cost of the augmentation. This may also suit the existing generators as they then retain their energy sales.

### Other Issues

What costs / benefits are to be included as part of the “market benefits” test

- Environmental costs (NSW licensing obligations) – EnergyAustralia has valued the cost of complying with the licensing conditions at approx. \$25/tonne equivalent – and have sought to recover this in their franchise tariffs.
- In the case of cogeneration where the thermal host receives benefits due to reduced capital, operating costs and fuel costs for thermal energy – is this included?
- Some power stations have integrated mine/power plants; will the NSP be required to impute an opportunity value for the coal produced that includes recovery of sunk costs? How will sunk gas supply costs be treated in comparison?

### **Conclusion**

- Application of the “Market benefits” test will result in irrational outcomes that will continue to be contested by the parties that are expected to pay.
- The “market benefits” concept is antiquated and is not consistent with market based outcomes and encouraging the development of competition for network services.
- These regulated augmentations actually serve to prevent the creation of regions – which would provide better signals to all market participants.

The more appropriate approach would be:

- NSPs deem that augmentation is required to provide adequate security / reliability to customers (ie. due to load growth).
- If the NSP’s would otherwise incur a cost of \$200 million and charge customers an extra \$20 m per annum in charges - alternative options should be sought that resulted in a lower annual charge – this could be local generation, DSM or even non-regulated network options.

Concepts of “market benefits” or “customer benefits” should be discarded – the simple approach should be:

**that option that delivers the lowest network cost to customers for a given reliability / security of supply outcome.**

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Another way to view this is that the test should be - that option that maximises the benefit (or minimises the costs) to those that are expected to pay for the augmentation.

[ network and non-network options have different cost and reliability profiles – these need to be assessed in a consistent and equitable manner]

**Competitive neutrality:**

Local generation and DSM can be seen as bundled network and generation options and compete with both generation and network service. As such they should be similarly rewarded when compared to distant generation / network alternatives.

Ric Brazzale  
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