

ACCC  
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Mr Michael Rawstron  
General Manager - Regulatory Affairs Electricity  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

Dear Michael

Re: Network Pricing and Market Network Service Providers Review

Origin Energy welcomes the opportunity to provide comments to the Australian Competition and Consumer Commission (ACCC) in regards to the Transmission Network Pricing (TNSP) review being conducted in the National Electricity Market (NEM).

Origin believes that the review should promote clear and fair price signalling which will allow the most economically sound solutions to market problems, specifically supply/demand imbalances.

The NEM is currently in the midst of several key reform agenda including the REIMNS and Ancillary Services review. As well as these key market reform reviews several jurisdictional bodies including South Australia and Victoria are concerned with the current supply demand balances and thus are examining ways of ensuring supply in the future while reducing both risks and costs for the end use customer. It would be remiss not to consider all these factors and concerns when evaluating the TNSP review and the proposals presented.

**Beneficiary Pays / New Investment**

Origin Energy supports NECA's proposal for a methodology of beneficiaries pays to be embodied in transmission pricing and therefore Origin disagrees with the ACCC's decision to delete this provision.

Origin understands that the ACCC is concerned that all beneficiaries can't be identified and that they can change over time. But this in it self does not provide a reasonable basis to dismiss this proposal. There are many infrastructure projects where not all beneficiaries are charged for the benefit that they receive. For example, when a new highway is built while the users of the highway might pay a toll, those drivers on the surrounding roads where traffic may now be lighter are not charged. It is not important that every single beneficiary be charged because it is impossible to identify every beneficiary. However it is a relatively simple task to identify the major beneficiaries.

Origin would propose a middle ground for this issue to ensure that where direct beneficiaries can be identified that they should be charged for that augmentation. Clearly where this an augmentation to a transmission line those units connected to this

line will receive a clear access benefit and should be charged the verifiable long run marginal cost (LRMC). Otherwise the costs of such augmentation will be simply smeared over all regional generators and provide an effective price penalty to those units that have located in a non-congested part of the network. It is important that generators that receive a benefit from network augmentation be charged on a LRMC basis for that benefit.

If the ACCC does not support a form of beneficiaries pays test then there may be a misallocation of resources caused by the masking of financial benefits of those investments which offer cheaper solutions to augmentation and this will act as a disincentive to the provision of least cost investment solutions.

## **Transmission Charges - TUOS Usage and General Charge**

Origin supports the ACCC's proposal that transmission usage charges be applied to all network users depending on whether they add to or relieve network congestion. However it is not clear that the ACCC has provided appropriate guidelines to NECA/NEMMCo on the price methodology. For example, how would the ACCC determine the split between the Usage and General charge? What percentage of the usage charge should be paid by the generators? It is important that the methodology be clarified and codified to give investors confidence in the basis of charges into the future. The ACCC's proposal that TNSPs should offer five-year fixed transmission usage charges does not match well with a program for the development of new generation projects which often requires a minimum of ten to fifteen years of regulated costs certainty.

The ACCC has proposed that the usage charge be based upon congestion, that is positive charges for those options relieving congestion while higher charges for those investments that increase congestion on the network. The concern here is that congestion levels will change over time, thus a decision to invest in embedded generation which offers relief to a transmission constraint requires an assurance that such benefits (translated into rebates, see next section regarding embedded generators), is guaranteed for the life of the investment.

Origin believes the beneficiaries pays test should be linked into the calculation of the usage charge so as to ensure that there is no smearing of costs due to network augmentation.

It is important in the scheme of market design, price signalling and environmental concerns that co-generators, and smaller sized renewable generators that locate closer to the demand centre are not penalised if constraints change.

## **Embedded Generators**

It is imperative that generators not directly connected to the high voltage transmission network be treated fairly. However Origin does not believe that the current proposals provide the correct rebates that should be available to embedded generators. They are currently limited to receiving only a small proportion of the avoided TUOS thus providing a windfall gain to the distributor. The Code proposal by the ACCC would see embedded generators only receive a rebate for their share of the Usage charge while the distributor would collect from the customer the general charge, and the balance of the usage charge as well. These charges should be rebate-able to the embedded generator whose

existence has prevented the requirement to import into the distribution network that quantity of energy.

Origin Energy believes that it is crucial that co-generators and other embedded generators that locate within the distribution network receive the full financial benefit that they create. With the advent of more regional pricing nodes in the NEM as promoted by the REIMNS review the importance of locating generation close to demand, especially to cater to those times of high demand when the transmission network is under stress will be crucial as both a risk management tool for the retailer and as a means on ensuring guaranteed supply to the local customers.

This approach does not conflict with the ACCC's concerns that large generators will be built within the distribution network so as to avoid the TUOS charges and in fact receive large rebates. Firstly the ACCC should not attempt to deter such generation projects where they may provide the cheapest economic alternative to the costs of network augmentation or where they defer such costs. However significant export by large units built within distribution networks will result in large loss factors being applied. The Code requires that if the generator is a significant impact on central dispatch then marginal distributional loss factors may also apply. The financial penalty of possible losing in excess of 10% of revenue due to high marginal loss factors will be a financial disincentive to avoid TUOS charges. The risk of being constrained off would also be a deterrent for the large generator embedded in the distribution system.

## **Negotiation of Discounts**

Origin Energy while supporting the ability of the TNSP to offer discounted charges to those customers whom would otherwise choose to bypass the transmission network does not support the recovery of these discounts from the other transmission users. Rather we believe that any revenues raised via discounted charges where no revenue would otherwise be collected should result in a reduction of fees charged to all other transmission users. These revenues should be viewed as extra revenues not anticipated by the TNSP in the setting of transmission charges. Any attempt to recover discounted charges from all other users of the network will create perverse price signals.

## **Service Standards**

It is critical to the success of the NEM that all the various structural components including generation and Market network service providers (MNSP) continue to improve their levels of service and reliability, transmission networks are no exception. It is simple economic theory that improved levels of reliability and service often lead to improved financial returns for an asset. Such motivation is essential, especially where a monopoly arrangement exists. Origin Energy supports the ACCC's requirements to amend the National Electricity Code so as to allow the Commission to take service levels into account when regulating transmission revenues.

## **Information Disclosure**

Proper planning for new generation and augmentation of existing networks is essential for the future of the NEM. Informed investment decisions can only be made with informative planning disclosure by the TNSPs. While Origin Energy supports the ACCC's proposal for

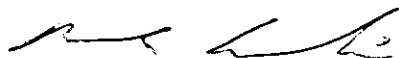
greater information disclosure to customers it is crucial that this be extended to more regular and detailed planning information by the TNSPs so as to allow the market to respond to structural and constraint signals.

## Conclusion

While the ACCC has made an attempt to promote a TNSP pricing methodology for the future it fails on several key fronts. Firstly it fails to provide sufficient details on the calculation of the Usage or General charges and how they are to be split between customers and generators. Clearly this will require direct involvement by the ACCC in this process so as to provide appropriate guidance. Secondly there appears to be an inconsistency between the effects of several proposals in light of other market structural reviews being conducted such as the regional review. While it is accepted that this proposal has not been put to the ACCC by NECA as of yet, it is clear that there is considerable linkage. It is important that a sense of consistency is taken in light of all the market reviews currently being undertaken.

There is also a lack of reference to any environmental considerations. While it is not specifically the role of the ACCC to promote environmental action there needs to be a tempered approach so as not to conflict with policies being promoted by the federal and state jurisdictions. Thus it is important that the full TUOS savings achieved via embedded generation is passed on. If you have any questions regarding this submission please contact me on (03) 9652 5569.

Yours Sincerely



Mark R. Landis  
Manager Wholesale Regulation