

TPB

Ms Tanya Barden,  
Australian Competition and Consumer Commission  
PO Box 1199  
Dickson ACT 2602

6 April 2001

Dear Ms Barden,

**Network Pricing and Market Network Service Providers Pre Determination**

Delta Electricity wishes to make comment on the arrangements for Market Network Service Provider (MNSP). We believe that the Commission should reject the authorisation of the MNSP on the basis that the access regime (as put before the Commission) will bring about a lessening of competition.

The concept of a MNSP was created to complement a national transmission network and ensure regulated links did not restrict the opportunity for entrepreneurial developments – however the reverse appears to be happening where MNSP's are stopping regulated links. The downside is that national generator competition is now being impeded. Competition is being lessened by the restricted access to available capacity and resources between regions and bringing into question the benefits of national electricity market reform. This impediment to investment and trade between regions is not in accord with competition principles agreed between the States and Commonwealth.

**1.0 National or Local Competition – what do we want?**

There has been debate in recent times as to whether the regulated and non-regulated transmission access regimes produce the same economic outcome.

On one hand regulated links are required to operate in a free running mode without capacity control. They allow the socially optimum volume of power to flow and facilitate generator competition on a national level. A network of regulated interconnectors shares the economic benefits of national resources at lowest cost of supply.

On the other hand non regulated links are capacity controlled and derive their income from pool price differences. A non-regulated link is effectively a load/generator pair. In the high priced region the link looks like a generator controlling volume (flow) and price to maximize its profitability. Hence, it acts to increase local competition but only to the extent it allows power to flow which may be inconsistent with the socially optimum level. The link behaves like a local

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generator and will quarantine the high priced region from the full impact of national generator competition (arbitraging the cost of supply in one region from the cost of supply in the other). The MNSP regime will promote the development of independently priced interconnected regions each facing their own marginal cost of supply. The incremental cost of the “toll premium” of an MNSP applied to all energy consumed in the high price region may be many multiples of the regulated cost of network investment recovered by TUOS charges.

The long term outcome of the transition to a MNSP regime is that customers in one region will be forever isolated from the economic benefits of lower cost resources in another region. This has serious uninvestigated public policy and economic development implications.

### 2.0 Net Public Benefit

Delta believes it would be too simplistic to examine this authorisation from the perspective of just “with” and “without” a MNSP. Clearly a MNSP lets some power flow into the high priced region, adding marginally to supply and local competition and hence reducing price by some degree. However this does not reflect the negative impact of the MNSP regime.

Therefore we believe this authorisation must consider the economic impact and competitive behaviour of the MNSP regime in the market and inter regional planning process. This by necessity requires the MNSP regime to be benchmarked against a regulated regime and understand how MNSP can operate in parallel and in series to any further incremental regulated network investment.

Delta Electricity believes the ACCC must consider this authorisation from the perspective “would greater public benefit and competition result from a link being non regulated or regulated?” It must consider the real prospect that a single MNSP may be incompatible with or lock out any future regulated link development in that region should the need arise. The inter regional planning process also needs to resolve the same question.

### 3.0 Planning Process

When the Inter Regional Planning Committee (IRPC) considers a regulated project the committee is required to take into account so called “committed” projects. Practice has shown that “committed” MNSP projects make the regulated link uneconomic. Hence this is why we have seen no regulated interconnections under the steward-ship of the national market.

However we believe there are several difficulties with the IRPC process as follows:

- Firstly, we understand that the IRPC planning process equates 1MW of MNSP capacity with 1MW of an equivalent regulated link. We believe this is invalid since by definition MNSP operate on a capacity controlled basis and regulated links are free flowing;
- Secondly, we believe that the IRPC process makes no distinction between the competitive behaviour of MNSP and regulated links. The competitive response of MNSP is quite variable as would be expected, whereas the competitive response of

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regulated links remains constant (full capacity available) irrespective of market conditions

- Finally, we believe the economic outcomes under each regime will not be the same. If the ACCC authorise the MNSP then the IRPC planning process should not be prevented from approving a parallel regulated link if the MNSP behaviour is such that the expected economic outcomes and public benefits are not being achieved.

Unfortunately the planning process provides a tactical advantage for MNSP which has been used to block the path of proposed regulated links. The reality is that this authorisation if approved will allow MNSP's to continue to gazump regulated links and perpetuate high priced regions. For these reasons we believe the ACCC should reject the authorisation of the MNSP.

The inter regional planning process is problematic when some participants see influencing the planning process as part of the "competitive game". What constitutes a "committed" project in the planning horizon is problematic. Delta suggests that if the Commission authorises MNSP then it consider a condition of authorisation that for all projects to reach the "committed" status a bank guarantee must be lodged with the IRPC. The guarantee may be called upon if the project is not built to capacity and on time. This will take the planning process out of the "competitive game" and bring certainty with clear benefits to end use consumers and jurisdictional governments.

### 4.0 Review

If the ACCC do in fact authorise the MNSP regime then at the very least a review of the regime should be conducted within 2 years. The review should examine the net public benefit and economic outcomes of MNSP's and include what benefits would have occurred had free flowing regulated interconnectors been developed.

### 5.0 Conditions of Authorisation

Delta Electricity would recommend that following amendments be considered by the ACCC:

- The MNSP regime as placed before the Commission should be rejected since the public benefits do not outweigh the lessening of competition when compared to the alternate regulated regime.
- If the MNSP regime is authorised then the ACCC should only authorise it for 2 years with a review of the MNSP regime examining the principles of their operation, economic outcomes and net public benefit.
- If the MNSP regime is authorised the public benefit test for regulated interconnectors should differentiate:

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- the capacity offered by a free flowing regulated link from that offered by a MNSP;
  - the constant behaviour of a regulated link from the variable competitive response of a MNSP across a range of market conditions;
  - the impact on utilisation of national resources, including investment and inter state trade, of the two regimes and
  - between the economic outcomes of tolling (MNSP) and regulated tariffs.
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- If the MNSP regime is authorised then the ACCC should require a bank guarantee to be lodged by all project proponents with the IRPC if a project is to be classified as "committed". The guarantee will be called if the project is not commissioned on time and to capacity.
  - If the MNSP regime is authorised then the ACCC should ensure that the IRPC planning process can approve a parallel regulated link if a MNSP link does not deliver the full economic benefits upon which it was originally assessed in the planning process. (If such an event occurred the MNSP could apply for regulated status)

This is not a confidential submission. If you require further discussion please contact Rodney Ward, General Manager/Marketing (02 9285 2719).

Yours faithfully,



Jim Hennessy  
Chief Executive