

6/461

Tanya,

Please find enclosed Basslink Pty Ltd's submission on the draft Network Pricing Determination.

I have also sent it electronically to the aee at electricity.group@aeu.gov.au.



ACCC
18 APR 2001

Regards
Jonny Hosford

FILE No.
DOC:

With Compliments
Basslink Pty Limited
ACN 090 996 231
ABN 52 090 996 231

GPO Box 4606 SS
Melbourne VIC 3001
Level 12, 356 Collins Street
Melbourne VIC 3000

Telephone: +61 3 9607 4700
Facsimile: +61 3 9607 4750
Email: basslink@access.net.au
www.basslink.com.au

A National Grid Project

**Response to ACCC Draft Determination on
Network Pricing and Market Network Service Providers**

Basslink Pty Ltd (BPL) is proponent of the largest unregulated interconnector project under development in the National Electricity Market. The BPL project due for commissioning in late 2003 will link the Tasmanian and Victorian transmission systems via an undersea high voltage direct current cable. It is anticipated that the link will have a rated power transfer capability of 480MW with a dynamic capability of up to 600MW for certain periods of time. BPL will participate in the NEM as a Market Network Service Provider.

BPL is a wholly owned subsidiary of National Grid the UK based transmission company which also has significant interests in the USA and other countries. National Grid owns and operates a number of interconnectors and is actively investigating further projects. The following comments from BPL are framed from the perspective of a Market Network Service Provider in the context of Basslink, and more generally as a would-be developer of other transmission projects in Australia, whether classified as regulated or unregulated.

Proposed Introduction of Transmission Usage Charges for Generators and MNSPs

We are concerned that the proposed introduction of a transmission usage charge for MNSPs brings with it a new and additional uncertainty for developers. Whilst high level pricing principles can be debated on their academic merit, there is a great difficulty in estimating the magnitude of charges/rebates which might be applied under the ACCC proposals. It is particularly difficult to anticipate the effect on a two way link which will be capable of acting like a generator or a demand dependent upon prevailing system and market conditions at different times of the day and year.

This comes in a climate where the National Electricity Market is already seen to be providing inadequate incentives for investments in either new capacity or transmission augmentations. The lack of timely and appropriate investments is a particular problem for the future success of the NEM given the acute need to relieve the tight supply/demand balance which is particularly evident in the Victoria and South Australia regions. The effect of project uncertainties is to push up the cost of developments and this cost will ultimately be borne by consumers either in the form of unnecessarily high electricity prices or through the detrimental effect upon reliability of supply should the lack of investment continue.

BPL believes that the proposed introduction of usage charges for generators and MNSP raises other related market issues. For example, the effect of a capacity based charge will mean that those who specialise in delivering energy to meet extreme demands (such as peaking plant), will have to recover their increased operating costs during these short periods. The consequence will be that peak energy prices in the market will rise and pool prices may become more volatile. BPL questions whether this is a desirable effect.

The concept of generators and MNSP's paying for transmission access also raises the question of what access they are getting for their money. This issue has already received some discussion under the title "property rights" although no conclusion has been reached. BPL is concerned that the nature of the current processes for progressing Code changes and regulatory approvals are such that the long-term direction of market reforms is not clearly articulated.

Other Pricing Signals in the NEM

It is not clear how the ACCC's modified CRNP approach will take into account other pricing signals from the spot market. This uncertainty needs to be addressed specifically in the context of MNSPs. The Basslink interconnector will effectively relieve the (currently) infinite transmission constraint between Victoria and Tasmania. It will also act to defer other transmission augmentations on the mainland which might otherwise be necessary to ensure security and reliability of supply. In this sense BPL is responding to the current market signals for new investment to reduce the constraints and therefore price divergence between regions.

The ACCC proposal would seem likely to disadvantage an interconnector like Basslink in these circumstances. BPL urges the ACCC/NECA to give appropriate consideration to how these benefits are taken into account in the application of the high level principles. It would be totally inappropriate if the very market benefits underpinning the rationale for the investment were taken away immediately the investment is undertaken.

Firm price Option

The ACCC has put forward a proposal that the TNSPs should offer a five year fixed price transmission usage charge as an option to a charge which will be recalculated and vary from year to year. It is understood that the purpose of this option is to create a vehicle by which market participants can remove uncertainty over the level of TuoS charges to which they might become liable. However, BPL believes that such an arrangement will be difficult to specify and to apply. Unless the arrangements can be specified very clearly, we would be concerned that participants opting for fixed price arrangements might only end up subsidising those on variable price terms. The following questions are examples of those which would need to be addressed in specifying a viable fixed price option: How would fixed price arrangements be taken into account by the TNSP's in recalculating variable charges from year to year? Who bears the risk of the fixed price revenue leading to an under or over recovery in regulated revenue for the TNSP? Would the volume of fixed revenues be made publicly available?

Form of Access Undertaking

The Code does not currently require an MNSP to permit connection to or to augment any part of its network used solely for the provision of market network services, pending the development of provisions to address the financial risk to an MNSP if its network needs to be augmented to support an augmentation to the national grid

(clause 5.2.3(i)). Accordingly, whilst the Code does not currently require MNSPs to offer physical access, it may in the future. The access undertaking should be seen as an instrument to ensure that MNSPs will allow physical access or augmentation to their links, at such time that the Code provisions are modified to require MNSPs to do so.

BPL considers that the National Electricity Code is already explicit about the form of access undertaking required from Network Service Providers, of which MNSPs are a sub-category. The pro-forma undertaking is exhibited at Schedule 5.8 to the Code and requires the proponent to provide access to its network in accordance with any relevant provisions in the Code, applicable regulatory instruments and good industry practice. BPL sees no reason to depart from the pro-forma access undertaking set out in the Code.

The ability of an MNSP to bid its link and earn its revenue through the operation of the Market Rules prescribed in Chapter 3 of the Code is entirely analogous to the behaviour of a generator. It would be inappropriate to place restrictions on the bidding behaviour of the MNSP beyond those which apply to generators. To do so would undermine the whole philosophy of entrepreneurial links providing a source of direct competition to generators. This would not preclude, of course, the ACCC reviewing anti-competitive bidding behaviour by an MNSP (in the same way that the ACCC has recently raised concerns about anti-competitive bidding behaviour by generators).

In so far as the MNSP is connecting two regions of the NEM together, then any competition issues associated with the prevailing market arrangements in either region are addressed through the established procedures by which the jurisdictions participate in the NEM. BPL points out that the MNSP does not have control over the competition arrangements applicable to the regional jurisdictions, including issues such as the role out of retail contestability. Accordingly it would be inappropriate for the ACCC to seek to impose any conditions on MNSP's (either through modified access undertakings or through other conditions) in an attempt to address concerns regarding the underlying competition issues within regional jurisdictions.

Finally, it is not clear to BPL whose interests the access undertaking, even if it does cover Chapter 3 of the Code in some way, protects. If, in response to market conditions, a 2-way link is built connecting 2 regions in the NEM, competition in those regions will be enhanced. However, the construction of the link does not (and was never intended to) guarantee, for example, that a generator in one region will be able to sell its electricity into the other region. This will depend on the bidding behaviour of other generators and the MNSP that owns the link (as well as whether the link is physically available) and the dispatch instructions given by NEMMCO in accordance with Chapter 3 of the Code. Just as a generator connected to a TNSP's network is not guaranteed "firm" access within a region, an MNSP link should not be seen to grant firm access to the generators located in the linked regions.

Information Disclosure, Service Standards and Negotiable Services

BPL welcomes the ACCC's recommendations on these topics. In particular BPL welcomes the ACCC's proposals with regard to information disclosure and widening

the application of the intended negotiating framework. BPL also suggests that such a framework is equally appropriate for circumstances in which an applicant wishes to negotiate lower (rather than higher) levels of service. Provided there is no material detriment to other participants, the Code should permit the possibility that new entrants might establish connection arrangements prescribing lower as well as higher levels of service.

Conclusion

In light of the concerns raised above, Basslink Pty Ltd is not yet able to support a change to the present charging and access arrangements for MNSPs.