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Mr Michael Rawstron
General Manager
Regulatory Affairs – Electricity
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PO Box 1199
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Dear Mr Rawstron

NETWORK PRICING AND MARKET NETWORK SERVICE PROVIDERS DRAFT DETERMINATION

I refer to the ACCC's draft determination of 12 December 2000 on network pricing and market network service providers and the pre-determination conference (PDC) held on 15 March 2001. Treasury and Finance would like to highlight to the Commission a number of issues that we have in regard to the draft determination.

As raised at the PDC, if the ACCC was to consider continuing to proceed along the lines of its draft determination, Treasury and Finance strongly requests that the ACCC undertake modelling to demonstrate the practical implications of the network pricing determination, including the implications for distribution pricing. The release of the results of any modelling should be prior to issuing a final determination, as this information should enable the South Australian Government to determine a position on the ACCC approach.

Treasury and Finance also considers that participants that have made significant investments in the NEM would be extremely interested in understanding the implications of any proposed pricing regime. Indeed, given that the NEM has commenced there are likely to be 'winners' and 'losers' from any changes, hence the importance of both justifying change and indicating the implications of any proposed change.

In relation to distribution pricing, the draft determination includes a requirement for the Code to be amended to require DNSPs, "where practicable", to allocate TUOS prices to distribution users in a way that preserves the economic signalling of the TUOS prices. Treasury and Finance notes that distribution pricing is the responsibility of jurisdictional regulators under the Code and is concerned with the inclusion of this condition of authorisation as part of the determination. If the ACCC was to retain this condition of authorisation, Treasury and Finance requests that the ACCC provide further clarification on what is meant by "where practicable" in this context.

As the ACCC would be aware, economic signals are only useful when consumers are able to react to them. Treasury and Finance considers that it is highly unlikely that small customers would be able adjust their behaviour in response to locational TUOS signals included in DUOS charges (eg by moving from Ceduna to Adelaide). This view is supported by the report into distribution loss factors (DLF) in the NEM undertaken as part of the Review of the Scope for Integrating the Energy Market and Network Services (RIEMNS). The RIEMNS draft report suggested that small customers below 10MW or 40GWh per annum are unlikely to be able to respond to any refined price signals and recommended that postage stamping by voltage level be retained for these small customers (page 46 RIEMNS draft report).

Treasury and Finance therefore recommends that the ACCC clarify the term "where practicable" to mean large customers, such as those greater than 10 MW or 40 GWh per annum, which are able to respond to any economic signal.

However, as the PDC highlighted, in addition to the above there would appear to be a significant number of outstanding issues associated with the draft determination.

Treasury and Finance is particularly concerned with the potential for the ACCC's proposed methodology to result in a useage charge that is extremely volatile from one year to the next.

Rather than just attempting to provide efficient transmission pricing, the ACCC determination appears to be attempting to solve two problems within the one instrument by attempting to implement nodal energy pricing through transmission pricing, which raises the potential for the worst of both systems while not solving either.

As the proposed methodology will incorporate location and congestion signals into TUOS pricing, the current location and congestion signals captured as part of the wholesale energy market must also be taken into account so as to avoid over signalling. However, this causes significant difficulties as the energy market provides real time dynamic short run pricing signals every five minutes while transmission pricing will be set annually.

This increased volatility has the potential to increase risks and uncertainty in the market, thereby blunting the effectiveness of any signals that may be included in the pricing regime. In addition, congestion charging that is fixed annually is unlikely to reflect actual congestion at any particular point in time, thereby reducing economic efficiency through inappropriate pricing signals.

Treasury and Finance is also concerned that any methodology does not adversely impact on the effectiveness of the Settlements Residue Auctions (SRA). Given the tight supply situation in South Australia and the importance of interstate trade in electricity, a less effective SRA is likely to have an adverse impact on contract capacity and therefore the contestable retail market in South Australia.

While Treasury and Finance has not adopted a fixed position in regard to network pricing, it was particularly interested in NECA's view that a refined regional structure would achieve 80% of the benefits of full nodal pricing, which should allow for the implementation of a simpler and more practical network pricing regime.

Accordingly, Treasury and Finance supports the PDC Chairman's view that it would not appear useful to move forward to a final determination on network pricing at this stage and that a more integrated approach is required.

However, it is considered that the ACCC could move forward to a final determination on Market Network Service Providers, as these provisions seem to be less contentious and greater certainty in regard to interconnections would be in the public interest.

Given that network pricing has been under review for a significant period of time, Treasury and Finance would encourage the ACCC and NECA to work closely together on preparing a revised and practical network pricing package for consideration by interested parties, supported by modelling work that is made public prior to any further determination.

Yours sincerely

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