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27 April 2001

Ref.

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

Dear Mr Rawstron

Network Pricing and Market Network Service Provider Draft Determination

I am writing with regard to the Commission's draft determination on network pricing and market network service providers. Enertrade endorses the views expressed in the National Generator Forum's recent submission to the Commission.

The Commission ought to have regard to the implications for price signals of the National Electricity Code Administrator's (NECA's) review of the scope for integrating the energy market and network services in considering future arrangements for network pricing. The electricity industry is complex, and to treat these major elements in isolation is to invite distorted market outcomes. Additionally in respect of price signals, it is of some concern that the Commission is dismissive of existing location signalling to generation investors. The risks of being constrained off and of new regions being created are significant drivers for future investors, especially now that all but one of the jurisdictions' Code derogations affecting the numbers of regions have expired.

Enertrade considers the Commission's notion of pricing symmetry across industry sectors to be inequitable. The principles in the draft determination do not provide that generators and customers are to receive symmetrical levels of network service. Generators may be constrained off through network failures without compensation, and network service providers are not obligated to augment the network to resolve chronic network problems suffered by generators. On the other hand, market customers enjoy much higher levels of network service than do generators, including augmentations for reliability.

A corollary of this point is that the establishment of some form of property right to network access should be incorporated into the Commission's principles. I acknowledge that this will be a major task that will need to identify sound means of improving network service providers' capacities to manage commercial risk. However, a property rights regime should facilitate new network investment by those who would

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benefit and minimise the risks of inter-regional trade. This would offer benefits to both the industry and to consumers that should not be ignored, particularly given the growing disquiet about the market's capacity to deliver timely new generation and network capacity to maintain reliability of supply.

Of additional concern is that generators, if they are to pay a usage charge, will seek to recover these costs through the spot market. This will inevitably lead to an under or over recovery of costs by generators, as the spot price for energy is set by the marginally priced generator. Secondly, the Commission's proposal will lead to the spot market being a mix of energy and transmission prices, without anyone – including potential investors trying to decide when or where to invest - able to discern one from the other with precision. This mixing of signals is particularly unusual as the proposed mechanism for pricing transmission congestion envisages transmission prices rising in advance of any shortage of transmission capacity. To impose this charge on the generation market would seem bizarre given that a forward looking capacity payment foreshadowing a shortage in generation capacity is not, nor ever has been, a part of the Code. I ask the Commission to assess these concerns, as potential exists to cause harm to the market and to economic reform.

Enertrade looks forward to the Commission's consideration of these issues.

Yours sincerely

A handwritten signature in black ink, which appears to read "Malcolm Whalley". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Malcolm Whalley
ENERGY RISK MANAGER

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