



AUSTRALIAN
Greenhouse
Office

FILE No:

Mr Michael Rawstron
General Manager
Regulatory Affairs
Australian Competition and Consumer Commission
470 Northbourne Avenue
DICKSON ACT 2602

Dear Mr Rawstron

Thank you for the opportunity to comment on the Australian Competition and Consumer Commission (ACCC) Draft Determination on Network Pricing and Market Network Service Providers. As the lead Commonwealth agency on greenhouse matters, the Australian Greenhouse Office (AGO) has a strong interest in the electricity supply industry.

The AGO is seeking an outcome from the transmission and distribution pricing review that places alternatives to network augmentation, such as embedded generation, renewable energy generation, and demand side management, on an equal footing, including by improving the passage of locational signals to all market participants. Also, given the stimulus to demand created by the new Mandatory Renewable Energy Target (MRET) and other greenhouse measures, it is essential that the pricing structure not discriminate against the entry of small renewable generators.

The AGO has previously submitted a paper to the ACCC responding to its assessment of National Electricity Code Administrator's (NECA) network pricing authorisation application. This letter will not reiterate that submission, rather it will seek to elaborate on areas of specific concern to the AGO.

Comments are presented under the headings used in the ACCC Draft Determination.

- 8 MAY 2001

Transmission Network pricing

Part A - TUOS Usage charges

The AGO supports the principles C4.1 to C4.6 of the Draft Determination. The AGO agrees with ACCC's conclusion that generators, market network service providers and customers should be directly exposed to transmission usage price signals.

However, the AGO has some concerns regarding the calculation of the TUOS usage prices (C4.3). If the National Electricity Market Management Company (NEMMCO) is to calculate a 'common pricing method' on the basis of information supplied by relevant Transmission Network Service Providers (TNSPs), does this not provide an incentive to TNSPs to overstate its costs and augmentation options? In order to address the problem of information asymmetry, and improve transparency, it is important that not only the NEMMCO calculation be published but that the information provided by the TNSP be also made public. This will encourage the TNSP to provide accurate information to NEMMCO on its costs and network augmentation options.

As a detailed methodology for the calculation and allocation of the usage charge component of the TUOS charges is not yet available, assessment of benefits and costs of the ACCC's Conditions of Authorisation is difficult. As several participants noted at the ACCC pre-determination conference, it is essential that the methodology for the calculation of TUOS charges be codified prior to authorisation in order for it to be enforceable. The AGO supports this position.

Part B - TUOS General charges

The AGO disagrees with the ACCC's Condition of Authorisation regarding the allocation of TUOS general charges.

The AGO believes that as with the TUOS usage charge all network users should be exposed to the general charge. Allocating general charges to generators will equitably share the costs of the existing network amongst all network users. The AGO concurs with the Murray and Mather argument that the dead-weight loss arising from allocating common costs is minimised if the charges are spread over as broad a base as possible¹. Allocating the general charge to customers only fails to achieve a minimisation of dead-weight loss.

The AGO also considers that the ACCC's analysis of the general charge component of transmission charges does not adequately explore options in relation to the recovery of sunk costs. Theoretically, the recovery of sunk costs via network charges distorts market outcomes. Although the ACCC has

¹ Murr, K and Mather, J, (2000) "Who Should Pay for Ancillary Services". Cited in the ACCC Draft Determination.

proposed that TNSPs levy customer TUOS general charges according to customers' energy consumed in the previous year this may still distort market outcomes, in particular by delaying and hence diminishing the economic reward for investments in end use efficiency. The ACCC should thus explore alternatives to the recovery of sunk costs in order to reduce the impact, on consumption decisions, of sunk cost recovery.

Beneficiaries Pay

The AGO agrees with the principle that all beneficiaries of a new investment in the transmission and distribution network contribute to that investment in proportion to their estimated share of the benefits. However, the AGO also acknowledges the difficulty in accurately identifying who benefits, to what extent and over what period of time.

Information Disclosure

The AGO supports the full unbundling of transmission and distribution charges as outlined in the Draft Determination. The AGO considers that unbundling of charges as per the Conditions of Authorisation C8.1 to C8.8 will enable consumers to make informed consumption decisions while also ensuring smaller customers have access to class-based information.

Embedded generation

Usage Charges

The current proposal under the Draft Determination is that embedded generation receive a full rebate of the TUOS usage charges where it has located within the distribution system and the Distribution Network Service Provider (DNSP) consequently receives a reduction in those charges. The AGO supports this proposal.

General Charges

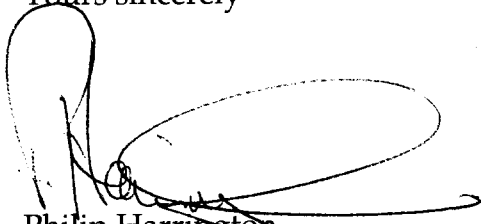
On the issue of general charges, if the ACCC's proposal is implemented as per the Draft Determination, the DNSP will only be charged a TUOS general charge for historic energy consumption. Therefore any reduction in energy demand, as a result of a generator embedding in the distribution network, will have a corresponding reduction in the TUOS general charge paid by the DNSP. In the event of the DNSP over recovering the general charge from its customers, as a result of a generator embedding within the distribution network, the AGO contends that the sum over recovered should be passed on to the embedded generator.

Conclusion

It is in the public interest to ensure that energy is generated and supplied in an economically sustainable manner, with due consideration of the environment. Efficient signalling within the market will allow for alternatives to network and capacity augmentation, such as demand side measures, to occur.

Please do not hesitate to contact me if I can be of any further assistance in relation to the AGO's submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Harrington', with a large, sweeping flourish extending to the right.

Philip Harrington
Senior Executive Manager
Sustainable Energy Group
Australian Greenhouse Office

7 May 01