

8 May 2002

Mr Michael Rawstron
General Manager
Regulatory Affairs-Electricity
Australian Competition and Consumer Commission
PO BOX 1199
Electricity.group@accc.gov.au

Re: Stage 1 of integrating the energy market and network services

Dear Mr Rawstron,

Origin Energy welcomes the opportunity to comment on the Code change applications before the Australian Competition and Consumer Commission (ACCC), lodged by the National Code Administrator (NECA) in respect of stage 1 of integrating the energy market and network services (RIEMNS).

Origin support the Code changes to:

1. extend and refine the settlement residue auction arrangements;
2. move towards firmer access across interconnectors using a three-stage process.

However at this stage we do not support the Code change to:

3. move toward the introduction of forward loss factors.

In relation to point two; while Origin may quibble with the speed of the review process - given that Transmission Network Service Providers (TNSPs) still do not appear to have a clearly specified and flexible mechanism for scheduling outages - we nevertheless believe the review process is headed in the right direction.

Therefore Origin considers that the Code changes relating to these first two points should be authorised by the ACCC.

However, Origin has concerns with the proposed move by NECA toward forward-looking loss factors.

While in principle forward estimates of loss factors, as opposed to estimates based on actual values in the previous year, may send better locational and investment signals and are therefore more likely to result in behaviour that acts to minimise such losses, in practice these benefits may not be realised.

A key problem is that forward loss factors are only calculated up to 12 months into the future, while the timeframe for investment is much longer than 12 months. Therefore, the investment decision is in part based on the investor's assessment of transmission losses over a much longer term. In this context it is unlikely that 12-month forward estimates of losses are any more useful in locational and investment decisions than estimates based on the previous 12-months.

However, the weakness of forward factors is their inherent uncertainty, as they require calculation of future variables such as demand, network augmentations, new generation and generator bidding behaviour, which cannot be known for certain *ex ante*.

Given that electricity markets are highly dynamic with load and dispatch varying every 5 minutes, estimating such variables even over a relatively short timeframe of 12 months is not a trivial exercise. In support of this fact Origin urges the ACCC to examine NEMMCO's track record in forecasting demand, particularly 12 months into the future.

In the context of the apparent weaknesses outlined above Origin is unconvinced that the introduction of forward-looking loss factors will generate significant net benefits to the market.

We therefore cannot support the authorisation of this Code change proposal at this time.

If you have any questions regarding this submission please do not hesitate to contact Con van Kemenade on (02) 9220 6278.

Yours Faithfully,

Mark R. Landis



Manager, Wholesale Regulation
(03) 9652 5569 - mark.landis@originenergy.com.au