



SUBMISSION TO ACCC FOR MATTER UNDER CONSIDERATION

Stage 1 of Integrating the Energy Market and Network Services

May 2002

1. Introduction

NECA has lodged application for authorisation of National Electricity Code changes to implement the conclusions and recommendations of NECA's stage 1 report into the scope for integrating the energy market and network services.

Powerlink has the following comments on the inclusion of these changes to the access code. Our comments can be grouped as follows:

- The proposed performance framework
- The outage information required to be published
- Loss factors

2. Performance framework

Powerlink supports the general principles of better aligned accountability leading to optimisation of the capability of the grid for market participants and consumers. Such accountability should also lead to changes in behaviour of TNSPs with consequent reduced market impacts from transmission outages.

While supporting the framework Powerlink objects to the proposed Code changes giving NECA responsibility for determining the performance framework for transmission network service providers. NECA is creating a function for itself which is not envisaged by its role as stated in the Code, and duplicates the regulatory functions of the ACCC.

Powerlink considers that performance measurement is a role of the ACCC, the economic regulator of transmission entities. The proposed clause 3.7B conflicts directly with the current process underway whereby the ACCC is establishing performance standards under the Statement of Regulatory Principles. There is an obvious 'mismatch' in regulation and governance for NECA to develop, publish and maintain a framework for measuring the performance of TNSPs independently of the one being developed by the ACCC. NECA have indicated that they will coordinate the development of this framework with any performance standards being developed by the ACCC. The proposed code changes however, only require "*consistency with existing performance measures and incentive schemes that apply to some or all Transmission Network Service Providers.*" Powerlink considers this to be inadequate to achieve the appropriate linkage with the economic regulation of the provision of transmission services.

Powerlink strongly objects to any separation between economic regulation and the development of a performance framework taking into account market impacts. There should be a single point of accountability for transmission network performance. There must also be a clear link between pricing and service provision (it is critical that the regulated prices reflect the services that are required to be delivered). This is currently lacking in the NECA code change proposals.

Powerlink's view is that the most appropriate way for transmission performance measures and incentives to be developed is for this role to rest solely with the ACCC where the appropriate balance between costs and benefits can be assessed. Inclusion of performance standards without consideration of the costs and benefits may lead to perverse outcomes where the costs of achieving a particular standard vastly outweighs the benefit that arises from it.

A single set of performance measures will also avoid duplication of resources on the part of transmission entities which would otherwise have to comply with multiple, possibly conflicting, performance frameworks. A single source of performance regulation would also allow much more efficient use of resources by NECA, the ACCC, and Code Participants. Most importantly, however, it provides for effective integration of all of the components (including both price and service) which comprise the outcomes which regulators and market participants require that TNSPs deliver.

3. Publishing outage information

Powerlink supports the principle behind the Code Change proposals to increase the level of information available to market participants about transmission system availability.

However, we believe that NECA has overlooked many of the concerns expressed in response to its earlier consultation. Much of the information required to be provided, such as every intra regional outage, may not actually be useful to market participants in assisting them to predict market outcomes. There are also significant issues with the practicality and implementation of the proposals for publication of information about planned outages. To comply with the Code changes in their current form would necessitate a significant change in current systems for information management as well as significant additional resource commitment. It is Powerlink's view that effective compliance with the full scope of the changes is not possible within the proposed timeframes.

The Code changes should be modified to:

- Initially only require TNSPs to provide information on outages that have an interregional impact. All submissions from interested parties, and the RIEMNS report itself, focus on interregional issues. This is clearly the area of most interest to market participants and has the most impact on being able to forecast market outcomes. It is therefore suggested that the first stage of information provision focus on providing inter-regional information, which would be of most value to the majority of market participants. A second stage to provide information on the impact of intra regional outages could be added later subject to it being confirmed that the benefits to participants outweigh the costs of implementation (on the part of both TNSPs and NEMMCO). In this context it should be noted that there are many more outages which have no inter regional impacts than those which do.

- Provide for a transition period to provide outage information. Three months from the date of Gazettal is unlikely to be achievable by either TNSPs or NEMMCO given the systems that will be required to be developed to provide the comprehensive information to the market as specified in the proposed code changes. A transition arrangement is essential that allows for the most critical information that will deliver the greatest benefits to be provided first. Provision of other information could follow a phased process as required. Adopting a staged provision of information would allow more complete information to be provided on critical outages, rather than forcing a TNSP to provide large volumes of less comprehensive and relevant information merely in an attempt to comply with the Code.

The other critical area of concern to Powerlink is the potential reliance on the information by market participants and resulting liability which TNSPs may be subject to. It is essential that:

- protection be provided to the TNSPs so that the obligation to publish information does not give rise to a corresponding liability for any decisions other parties take based on that information. This can be achieved by making the limitations and uncertainty of the information very clear in the Code so that market participants are aware of the risks of relying on the information. To this extent, Powerlink welcomes the additional draft changes which clarify that the information provided on outages represents the TNSPs current intentions and best estimates regarding planned outages at the time the information is made available
- the Code changes must explicitly state that TNSPs are not bound to an advised outage program and that the information is subject to change. In utilising the information in their business decisions, market participants must be made fully aware that the planned outage program can be subject to change at short notice, often due to factors outside the control of the TNSPs (eg – weather, NEMMCO system security requirements, changes in market needs etc). It would not be appropriate for a TNSP to have to go ahead with an outage during wet weather only to require another outage at a later time because the work could not be carried out in the rain during the first outage.

In the report from the Code change panel that accompanies the proposed code changes, NECA has indicated that they have received advice that liability to TNSPs will not arise if the information is given in good faith and reflects the TNSPs genuine intentions at the time. However, NECA has not made this advice public and as such has not provided any comfort to TNSPs in this regard. It is further noted that proposed clause 3.7A(a) discusses the basis on which NEMMCO provides information to Market Participants. The proposed code changes put obligations to publish information on outages on both NEMMCO and TNSPs. There is no corresponding clause covering the basis on which TNSPs provide information on outages to Market Participants. Powerlink considers a clause similar to 3.7A(a) should be included for TNSPs.

Powerlink also believes it is necessary for the Code changes to recognise that the provision of information on outages may require additional information systems, or modification / duplication of existing methods of information management and analysis of the impacts of outages for presentation to market participants. While Powerlink considers it appropriate to provide such information, implementation will

take time and resources. Three months from the date of Gazettal of the code changes is not sufficient time to allow such systems to be implemented. Powerlink considers at least six months is required for the development of such systems.

Powerlink also notes that the proposed code changes allocate NEMMCO the same timeframe after Gazettal of the code changes to publish the information NEMMCO is required to provide to the Market Participants. The information required to be published by NEMMCO requires analysis of the information provided by TNSPs and therefore the publishing timeframes must be offset by the amount of time required for NEMMCO to undertake such analysis.

4. Loss factors

The Code changes proposed in relation to loss factors are based around the assumption that the detailed methodology for determining loss factors should not be included in the Code. Rather, principles for determining loss factors will be in the Code and NEMMCO will be required to develop a detailed methodology in accordance with the code consultation procedures which sits outside the Code.

Powerlink considers this arrangement is inappropriate in relation to loss factors. The Code change panel quotes the success of the Settlement Residue Auction rules, which follow the proposed arrangement of codified principles and detailed rules outside the Code, as an example of how effective and acceptable this arrangement is. Rather than resolving the current confused arrangements governing the calculation of loss factors, as the stated aim, Powerlink considers the proposed arrangements will increase the confusion by requiring interpretation of principles.

It should be noted that Powerlink's revenue is unaffected by loss factors and therefore Powerlink is financially neutral to the manner in which loss factors are determined. However, Powerlink is aware that loss factors have a significant impact on the revenue of all market participants and as such the determination of loss factors can be controversial. Due to their critical importance to market participants it is therefore important that any changes to the methodology for determining them be subject to robust consideration of the costs and benefits arising from such changes.

Consideration of the costs and benefits are not part of the requirements arising from the Code consultation procedures. As a result changes could be implemented under the Code consultation procedures which do not result in a net public benefit. Only the Code authorisation process includes the public benefit test. As such Powerlink reiterates that the detailed methodology for determination of loss factors should be included in the Code itself and not developed outside the Code by application of principles through the Code consultation procedures.