

**Australian Competition
&
Consumer Commission**

Authorisation of the National Electricity Code:
Applications for authorisation: A90783, A90784 and A90785

PRE-DETERMINATION CONFERENCE

19 July 2001

**Australian Competition and Consumer Commission Offices
CANBERRA AND MELBOURNE**

Minutes

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Rod Shogren, a Commissioner with the Australian Competition and Consumer Commission (the Commission) chaired the conference.

The conference commenced at 4:10pm Thursday 19 July 2001.

OPENING REMARKS: *The Electricity Markets Research Institute (EMRI)*

EMRI contended that distribution networks are under both State and Commission jurisdiction and that while the Commission's draft determination was authorised under part VII of the Trade Practices Act (TPA), the Commission should also consider the ramifications under part IIIA of the TPA.

EMRI contended that due to distribution services being provided by monopolies, customers have difficulty in accessing information, there is lopsided bargaining power and it is difficult to resolve disputes.

EMRI noted the Productivity Commission's concerns that Part IV of the TPA is not a viable stand-alone mechanism in preventing anti-competitive conduct and stated that with full retail competition and more customers, part IV of the TPA is not customer focussed enough. EMRI submitted that under a Part IIIA declaration process both economic efficiency and the public interest should be taken into account.

EMRI argued that with averaged transmission loss factors (TLFs) that result from allowing virtual transmission nodes (VTNs), the retail arm of the distribution network service provider (DNSP) may gain favoured setting of losses attributed to franchise customers' line losses that its retail arm has to absorb. It also believed that there is a need for public scrutiny and that there is already significant blurring and distortion as settlements are based on deemed values and a very large number of meters are read only every 3 months. EMRI's view was that it was not desirable to further complicate the process, but if it was to be allowed there should be adequate safeguards.

EMRI stated that the Commission should expand its conditions of authorisation to include:

- Require distributors to publish loss factors for all VTNs in conjunction with loss factors for contributing transmission connection points (TCPs) as derived by NEMMCO;
- Each DNSP required to publish the methodology used to determine the required number of VTNs, their respective area of application and the calculation process to derive the applicable loss factor;
- On an application made by a customer or prospective customer, the DNSP be required to produce the actual working how the applicable VTN loss factor was calculated from the relevant loss factors provided by NEMMCO;
- Where the disputed issue at stake is higher than the monetary threshold set for the Industry Ombudsman Scheme, there be an effective dispute resolution process (as is normally found in effective access regimes); and

- NEMMCO be required to do an annual reconciliation of total losses from VTNs and directly allocated transmission losses versus the total transmission losses allocated to that distribution system - as part of the annual setting of transmission losses.

EMRI had concerns that the Code change proposals based only on Sydney's urban environment where transmission losses were small, was not appropriate and did not take into account the distortionary effects in rural areas such as Horsham in Victoria, where small customers are burdened with a disproportionately higher share of transmission losses than what is equitable.

EnergyAustralia

EnergyAustralia contended that DNSPs cannot fully comply with the Code as it currently stands and provided further evidence that the intended introduction of a VTN in an urban (Sydney) area would have a negligible customer impact. EnergyAustralia stated that the Code changes only deal with TLFs and not distribution loss factors (DLFs) and that the TLF calculation remains with NEMMCO and the DLF calculation remains with the DNSPs.

EnergyAustralia submitted that the jurisdictional regulator would give the approval for the proposed grouping of TCPs and NEMMCO would do the calculation of the VTN loss factors.

EnergyAustralia stated that given that the TCP cannot be assigned accurately then the reconciliation of outcomes under the virtual TCP proposal and existing arrangements is not possible as there is no "correct" set of data available against which to base comparisons.

CONCLUSION:

The Chair stated that the PDC provided a useful discussion of the issues and that the Commission's final determination outlining its analysis and views would be released in the near future.

The Chair indicated that submissions on the Commission's draft determination would close on 27 July 2001.

The pre-determination conference ended at 4.30pm, Thursday 19 May 2001.