

20 September 1999

Our ref Robert Nicholson
File no 20799735
Doc no MELC3\99260006.0

Mr Michael Rawstron
General Manager
Regulatory Affairs- Electricity
P.O. Box 1199
DICKSON ACT 2601

By Email & Post

Dear Michael

National Grid International Limited - Proposed Code Changes

We act for National Grid International Limited, one of the preferred proponents selected by the Tasmanian State Government to submit a bid in respect of the Basslink project.

On behalf of National Grid International Limited, we enclose for your consideration a submission in respect of the National Electricity Code changes proposed by NECA arising out of NECA's Transmission and Distribution Pricing Review and in respect of the safe harbour provisions for entrepreneurial interconnectors.

If you have any questions in relation to this submission, please do not hesitate to contact me.

Yours faithfully
FREEHILL HOLLINGDALE & PAGE

Robert Nicholson
Partner

National Grid International Limited

Submission in respect of proposed changes to the National Electricity Code

Transmission and Distribution Pricing Review and Market Network Services

**NATIONAL ELECTRICITY CODE - ARISING FROM THE TRANSMISSION AND
DISTRIBUTION PRICING REVIEW AND AMENDMENTS PROPOSED IN RESPECT
OF MARKET NETWORK SERVICE PROVIDERS**

SUBMISSION BY NATIONAL GRID INTERNATIONAL LIMITED

1 Introduction

This submission is made by National Grid International Limited (**NGIL**) in response to the ACCC's request for submissions regarding the National Electricity Council of Australia's (**NECA**) proposed amendments to the National Electricity Code (**Code**) changes arising in respect of the market network service provider safe harbour provisions and from NECA's transmission and distribution pricing review.

NGIL is a wholly owned subsidiary of National Grid Company (PLC) (**National Grid**). National Grid has been selected by the Tasmanian Government, as one of three tenderers, to submit a bid in respect of the Basslink Project. This project involves the design, construction and operation and maintenance of an electricity interconnector connecting the Tasmanian and Victorian transmission systems. National Grid currently intends to submit a proposal to establish Basslink as an unregulated interconnector and accordingly is interested in the Code changes proposed by NECA and referred to above.

Whilst NGIL has no substantial concern with the proposed Code changes, there are a number of issues which NGIL believes the ACCC should consider. These issues are set out in section 2 below.

If you have any questions in relation to this submission please contact Robert Nicholson at Freehill Hollingdale & Page, Level 48, 101 Collins Street, Melbourne, Victoria.
Email: Robert_Nicholson@fhp.com.au. Phone: (03) 9288 1234. Facsimile: (03) 9288 1567.

2 Proposed Code changes

National Grid requests that the ACCC consider the following issues in respect of the proposed Code changes.

2.1 Clause 5.2.3(h) - Obligations of Network Service Providers

Proposed clause 5.2.3(h) of the Code provides that, within 2 years of market commencement, NECA must develop Code provisions to address the financial risk to a Market Network Service Provider (**MNSP**) arising when any part of its network, which is solely used for the provision of market network services, needs to be augmented to support an augmentation to the national grid approved in an annual planning review.

Comment

An MNSP should not be required to alter or augment any of its equipment other than in accordance with the terms of its connection agreement with the relevant Network Service Provider (NSP) or as otherwise negotiated on a commercial basis. While this principle is reflected in proposed clause 5.2.3(i), clause 5.2.3(h) implies, by referring to the “need” of a MNSP to augment its market network service to support an augmentation to the national grid, it is contemplated that a MNSP could potentially be compelled to modify or augment its network as part of the regulated upgrade process. This should not be accepted. It is akin to a power station owner being directed to expand the capacity of its plant. If augmentations make commercial sense, the MNSP will undertake them.

2.2 Clauses 5.5A(g)(2)(A)&(B) - Use of System Service Charge

Description

Proposed clause 5.5A(g)(2) provides for the negotiation of use of system charges to be paid to or by a MNSP as part of the MNSP's negotiation of its connection agreement.

Comment

NGIL is concerned that, given the new and "entrepreneurial" nature of MNSPs, clearer guidelines (other than a reference to "long run marginal cost") are required to facilitate the negotiation of connection agreements between MNSPs and the relevant Network Service Provider and in particular, the basis upon which use of system charges are to be negotiated.

2.3 Clause 5.6.2(f) - Development of networks within a region

Description

Clause 5.6.2(f) currently provides for a Network Service Provider to consult with affected Code Participants and interested parties on the possible options, including demand and generation options, to address the projected limitations of the relevant transmission system or distribution system.

Comment

NGIL suggests that this clause recognise the presence of entrepreneurial interconnectors in the electricity market and extend this list of options to require a Network Service Provider to also consider implementing a market network service option (though, as noted above, this should not be seen as a right to compel a MNSP to modify or augment its service).

2.4 Clause 5.6.2(k) - Network Options

Description

This clause provides for the implementation of network options by a Network Service Provider.

Comment

NGIL notes that the clause is unclear as to the timing for implementation of these network options and should be redrafted to avoid future confusion.

2.5 Clause 6.4.3B(b) - Allocation of usage component of customer TUOS costs.

Description

This clause provides for allocation of the aggregate annual revenue requirement for Customer transmission use of system services to connection points "other than to connection points with Market Network Service Providers (as Market Network Service Providers pay negotiated use of system charges under clause 5.5(g)(2).)".

Comment

The clause makes reference to the payment of a negotiated use of system charge under clause "5.5(g)(2)". This appears to be incorrect. It would appear that reference should be made to clause "5.5A(g)(2)".

The words "as Market Network Service Providers pay negotiated use of system charges under clause 5.5[A](g)(2)" may imply that a MNSP is expected to pay some form of use of system charge, rather than such a charge being the subject of negotiation. NGIL requests that these words be deleted.

2.6 Clause 6.4.3B(d) - Allocation of usage component of customer TUOS costs

Description

This clause provides for the allocation of the aggregate annual revenue requirement for Customer transmission use of system service to "interconnection points" which export power.

Comment

The clause refers to "interconnection points". There appears to be no such term defined in Chapter 10. In any event, NGIL queries the intended effect of this clause and is concerned that it not imply MNSPs pay TUOS over and above that negotiated through connection agreements. This should be clarified.

2.7 Clause 6.7.4(2) - Financial transfers between Transmission Network Service Providers

Description

Proposed clause 6.7.4(2) provides for the allocation of Customer TUOS usage charges, common service charges and charges for entry and exit services to connection points of MNSPs.

Comment

This clause should be amended to make clear that (consistent with clause 5.5A(g)(2)) a MNSP pays only negotiated use of system charges and not Customer TUOS usage or common service charges.

2.8 Clause 4 of Schedule 6.3 - Negotiated Use of System Price Relative to the Reference Node

Description

This clause provides for the determination of long run marginal costs for transmission networks.

Comment

The clause appears to suggest that use of system charges payable by a MNSP are calculated on the basis of long run marginal cost from regional reference node to regional reference node, though MNSPs are not entitled to the full spot price differences between the two RRNs. If this is to be the basis for calculation of use of system charges the MNSP ought to be entitled to a proportion of the intra-regional settlement surplus in both regions.