

30 September 1999

Mr Michael Rawstron
General Manager
Regulatory Affairs-Electricity
ACCC
PO Box 1199
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Dear Michael,

NECA Network Pricing Code Changes

Thank you for the opportunity to comment on the network pricing Code changes submitted by NECA and the subsequent Issues Paper which was released by the Commission on 17 September 1999.

ElectraNet SA's comments are set out below under headings taken from the Commission's Issues Paper.

Who should pay TUOS charges: Existing Network

ElectraNet SA agrees with the NECA review that there would be no demonstrable material net benefit from changing the existing "customer pays" arrangements for the recovery of the sunk costs of the existing networks.

Who should pay TUOS charges: New Investment

The Code changes propose that the costs of new network investments be paid for by the beneficiaries of that investment in proportion to their estimated share of the benefits.

A framework is proposed where, as part of the investment assessment process for large investments (larger than \$10 million), the TNSP would be required to assess and consult on the relative benefits of the investment to individual generators and other network customers.

ElectraNet SA is concerned that the practical implementation of this assessment framework would prove to be complicated, contentious and open to challenge. Contributing factors include:

- Assessment of the relative benefits of an investment may vary widely with changes in daily and seasonal operating conditions, and depending on the market behaviour scenarios considered; and

- Any network investment, which satisfies the regulatory test and hence is considered to be of overall net benefit to the market, will create “winners” and “losers”.

ElectraNet SA agrees with the Commission that the estimated benefits of a new investment may not be stable over time as further network developments take place.

ElectraNet SA is also concerned about the potential for significant delays to be introduced by those who are “losers” or are seeking to avoid the costs of an assessed benefit from a proposed investment; and the consequential delay in delivering the benefits of the investment to end use customers.

ElectraNet SA believes that greater certainty is required in the assessment of the relative benefits of an investment to reduce the possibility of costly disputes. If the proposed framework for new investment is to be implemented, then a more detailed methodology should be established and codified.

ElectraNet SA notes that the proposed framework is at this stage untested and recommends further analysis to consider its application to recent real life examples before a commitment is made to its implementation.

It is unclear whether NECA’s proposals are consistent with the future directions for network pricing, including the possibility of nodal pricing and transmission congestion contracts.

Price negotiation framework

The Commission asks:

Should networks have the ability to negotiate lower service standards than those specified in the Code, in particular in lightly utilised parts of the network where providing N-1 may not provide a net public benefit but where investments proceed on the basis that they are “cost effective”?

ElectraNet SA does not accept that the Code specifies an N-1 reliability standard for all situations. The N-1 standard described in the Code is in relation to the assessment of power system security. The Code accepts the interruption of customer load, if necessary, to satisfy power system security requirements.

ElectraNet SA supports the development of formal reliability service standards such as those proposed in the South Australian Transmission Code, which protect the interests of consumers of electricity, who individually do not have the capacity to negotiate appropriately with the larger network service providers. The South Australian Transmission Code also takes into consideration the characteristics of customer demand and the potential cost to remote communities of providing transmission infrastructure to service their needs.

The proposed South Australian Transmission Code establishes five categories of exit points with reliability standards ranging from no obligation to provide N-1, beyond that necessary to maintain the power system performance and quality of supply standards under the National Electricity Code, to an obligation to provide an N-2 standard. The allocation of existing exit points to these categories has regard to the size of the load, meshed versus radial network, types of customers, the value of lost load, network design, and past investment decisions.

ElectraNet SA supports the proposal that networks should have the ability to negotiate lower service standards or more importantly that customers should be able to negotiate and accept lower service standards. In particular, at a connection point servicing only one consumer, that customer should have the ability to nominate the levels of service required, and pay the charges associated with that arrangement. These negotiations should be subject to the proposed negotiation framework.

Service Standards

ElectraNet SA strongly supports the development of specific service standards for the provision of prescribed services, as described in the South Australian Transmission Code.

ElectraNet SA also supports the proposal that the networks would propose and the regulators would determine these specific and explicit service standards as part of the regulatory review process. This proposal has the flexibility to avoid the “one size fits all” approach that may not recognise the different environments faced by the networks, including factors such as history of network development, geography, climate and load supply characteristics.

ElectraNet SA strongly supports the establishment of agreed reliability service standards at network connection points, which would provide clearer signals for regulated network investment.

ElectraNet SA is concerned about how network service standards are expected to apply to MNSPs.

MNSP Code Changes

A Market Network Service Provider (MNSP) should be considered as a generator – load combination. The Code changes propose that the MNSP pay for the costs of connection, negotiated use of system charges (in relation the supporting network augmentations required), access and compensation costs.

ElectraNet SA believes that, when acting as a load, the MNSP should be treated in the same way as any other load that is connected to the network. We are concerned that the Code changes exempt the MNSP from paying TUOS and common service charges for its use of the existing network (when acting as a load). To do otherwise would appear to be inequitable.

ElectraNet SA is concerned that the regulatory test is not applied to an MNSP investment and hence there is no consideration of its end-use customer impacts such the impact on losses and marginal loss factors (and hence pool prices).

ElectraNet SA also notes the possibility that a MNSP may “entrench” any energy price differential between regions, thereby not allowing consumers in the high price region to gain any significant economic benefits.

Yours sincerely,

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CHIEF EXECUTIVE OFFICER

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