

Contact: Dave Roberts
Tel: (03) 6233 8988 Fax: (03) 6233 5646
Our Ref: amh:010501

Mr M Rawstron
Senior Assistant Commissioner Electricity Group
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Via Facsimile: 02 6243 1260
No. of Pages: 11

Dear Michael

The Basslink Development Board ('the Board') has read the ACCC issues paper with interest and agrees with the key points which have been made, in particular the objective of evolution to a more efficient, competitive and decentralised National Electricity Market.

In facilitating the development of Basslink as a commercial enterprise in the National Electricity Market, the Board, as the advocate of an entrepreneurial project, had to deal with some of the difficulties with the establishment of more efficient and competitive arrangements under the present Code. The comments in this letter are prompted by this situation.

A number of issues in the paper have been raised which we comment on as follows:

- **Are the proposed Code changes sufficient to encourage networks to negotiate and provide generator access services?**

In our view, the arrangements in the Code may be appropriate in principle. However, in practice they will be extremely difficult to apply and will probably lead to disputes. At the heart of the problem is an assumption that "access" can be satisfactorily defined. Our observation is that access can only be defined in simplistic engineering terms at present, e.g. with all transmission elements in service and/or when there is only a very simple transmission network involved, e.g. a radial connection to a large network. Added to this is the question as to how other participants would be constrained off in the event of one party being granted firm access.

In our view, the only real solution to this problem is for the constraints to appear in prices at the relevant node(s) and access to be defined in terms of internodal price differences through measures such as congestion contracts and nodal pricing.

- **Is there sufficient clarity to distinguish between the unregulated generator access services and the regulated generator negotiated use of system service (and any associated assets and revenues)?**

From the above, it can be seen that there is considerable potential for confusion between these concepts unless they can be defined in completely separate terms. Furthermore, we would question why a generator would negotiate use of system services if there was no commitment to provide any evidence or guarantee of service as a result. In our view, all such negotiations should be based on access and it should be up to the Network Service Provider to determine whether augmentations are necessary to secure the access required.

- **Do the interested parties believe that recovering the costs of the existing network from network customers minimises the distortions from recovering such costs?**

In view of the fact that transmission networks facilitate competition in the supply of energy to customers, we believe it is appropriate that customers should pay for the sunk costs.

In general, customers also have a more reliable transmission supply system than generators and as a result they are not as likely to be constrained off with consequential price impacts.

Nevertheless, whoever the sunk costs are recovered from the recovery should be affected equitably to all relevant participants. The concept of allowing any party to negotiate on the basis of price sensitivity invites all parties to become “price sensitive”.

- **Do interested parties believe that NECA proposals introduce more “market like” disciplines into network investment planning processes?**
- **Are NECA’s proposals likely to be consistent with the future directions of network pricing in the NEM (such as nodal pricing and transmission congestion contracts which are the subject of a new review by NECA)?**

We agree that the proposed arrangements may inject more market like principles into the investment planning process. However, at the end of the investment planning process as currently envisaged there is no indication to participants what they may have actually achieved as a result of the negotiation.

If transmission congestion contracts and nodal pricing are expected to become a feature of the NEM, there would then at least be some visible evidence of what has been agreed as a result of the negotiation. We suggest that the network pricing arrangements should move towards this objective as quickly as possible.

In considering the costs which may be allocated to network customers, these need to be considered in three categories, i.e.:

- (i) costs for access;
- (ii) recovery of sunk costs; and
- (iii) provision of common services.

Under the existing market arrangements, network customers have access to the regional reference node, albeit modified by average marginal loss factors. However, they do not suffer the price impacts of any transmission constraints which may arise.

Costs for access (or TUOS usage charges) under the existing and proposed Code provisions are calculated using various deterministic formulae. The move towards a marginal cost based approach may give more market based outcomes but in practice the calculations will still be fairly arbitrary and subject to the assumptions made.

If TUOS usage charges were to be replaced by access charges it would then be relatively easy to define benchmark maximum charges in terms of \$/MW/km or \$/MW for voltage transformation.

Network customers would be much better placed negotiating access charges within such a framework rather than having to consider complex calculations according to arbitrary but nevertheless complex algorithms.

The value of such contracts would be apparent from any intra-regional settlements residues which would be paid to the holders of the relevant contracts. While this would probably only reflect price differences due to marginal loss factors for the time being, if prices at transmission nodes actually reflected the impacts of constraints through adjustments to the price setting rules and/or nodal pricing the value of the contracts would be much more significant.

- **Do the interested parties believe that the proposed Code changes reflect the findings of the NECA review?**

We are not able to comment on all aspects addressed under the NECA review. However, we believe that the Code provisions covering non-regulated interconnectors (Market Network Service Providers) do represent an accurate translation of the relevant NECA review findings. In general, however, we believe that the proposed Code changes relating to network pricing are highly confusing.

In this regard, we wish to point out that unregulated interconnectors under the Code do not pay a usage component calculated according to the three methodologies or a common service charge as you have suggested in the paper. As indicated in clauses 6.4.3B(b), 6.4.4(b) and 5.5(9), Market Network Service Providers only pay negotiated TUOS charges in regard to augmentations required, access charges plus entry/exit charges.

Furthermore, the arrangements for levying network charges and settlement of revenues due to a regulated interconnector appear to be weighted in favour of existing Network Service Providers due to the fact that an independent owner of a regulated interconnector does not have the ability to levy TUOS general charges on any customers.

We have pointed out this in somewhat more detail in our earlier submission, a copy of which is attached.

We would be happy to expand on or clarify any of the points raised in discussions. Please contact me if this is needed.

Yours sincerely

Chris Gillies
Director Basslink Development

30 September 1999

Att