



26 February 2003

Mr. Sebastian Roberts
A/g General Manager
Regulatory Affairs – Electricity
GPO Box 520 J
MELBOURNE VIC 3001

by email: electricity.group@acc.gov.au

Dear Sebastian,

Response to Murray Transmission Company – Application for a Conversion to a Prescribed Service: Issues Paper”

Please find Edison Mission Energy Australia Limited’s comments in regard to the consultation on MTC’s application for Conversion to a prescribed service.

Yours faithfully

Terry Killen
Manager Pool Trading and Regulation
Edison Mission Energy
03 9696 6477

Comments by Edison Mission Energy Australia Limited on MTC's application to become a Prescribed Service: Issues Paper

Edison Mission Energy Australia Pty. Ltd. (EMEAL) has reviewed the documents associated with this application and provides the following comments.

Switching

The key principles of Network Pricing under the code, detailed in clause 6.1.1 (b) are to:

- (1) promote competition in the provision of network services wherever practicable;
- (2) facilitate a commercial environment which is transparent and stable, and which does not discriminate between users of network services; and
- (3) regulate the non-competitive market for network services in a way which seeks the same outcomes as those achieved in competitive markets.

¹

These clauses show that the intent of the regulatory environment for transmission is to promote competition through creating an environment in regulated transmission that would be expected to occur in a competitive market environment. Clearly the most effective way to promote competition is to ensure that competitive elements of the market are not encouraged to eschew competition and return to regulation. The Code does not contemplate regulated elements returning to a regulated environment and neither should the ACCC.

In the event that the ACCC were to approve the conversion of the interconnector to regulated status, the ACCC must be cognisant of how it will deal with future applications by interconnectors to convert from regulated to unregulated and vice versa. It could even eventuate that interconnectors regularly seek to convert from one to the other depending on whether the market is short transmission capacity or has a surplus. The result would be continued gaming of the status by interconnectors to maximise the arbitrage opportunities between regulated and unregulated status.

In the event that the ACCC sanctions such behaviour by approving the regulated status of MTC, the ACCC would introduce another issue into the market. Market based Transmission Network Service Providers would have an advantage over other wholesale market participants. For example, once a power station is built, the owners do not have the option to gain a regulated income if events prove that they are not attracting the returns that their due diligence process indicated. Yet the MNSP would have this option. This would distort the playing field in favour of transmission over generation and could result in significant losses of efficiency that will ultimately be felt and funded by end users.

The Regulatory test

The Regulatory test defines market benefit as:

*"the total net benefits of the proposed augmentation to all those who produce, distribute and consume electricity in the National Electricity Market. That is, the increase in consumers' and producers' surplus or another measure that can be demonstrated to produce ..."*²

¹ NEM Code clause 6.1.1 (b)

² Regulatory test for New Interconnectors and Network augmentations – ACCC 15 December 1999

As the interconnector is already in place and is operational, it is no longer proposed interconnector, but rather, already exists. Hence there is no economic benefit from converting this interconnector to regulated status. As the interconnector already exists (and by definition the consumer/producer surplus already exists) switching the interconnector to regulated status has no net economic benefit (no demonstrable change in consumer/producer surplus). Hence EMEAL are of the view that the ACCC should either deny the application by MTC or alternatively approve it with a capitalised value of \$0.

Other Comments

In the event that the ACCC approves the change of status we have the following additional comments.

Costs

MTC has indicated that it would bear the costs of some necessary augmentation (\$8.97 M) necessary in order to allow the conversion. In the event of the conversion being allowed, any overrun on these costs should be borne by MTC in the conversion process and factored into the cost base when calculating the regulated income.

Capacity

EMEAL also note that there seems to be some doubt expressed in the PB associated review as to what the capacity of the interconnector is actually likely to be. Whilst MTC has claimed 220MW, the PB report is indicating a range of 110MW to 180MW from Victoria to NSW and 95 -100 MW from SA to Victoria, depending on system dynamics/configuration and uncertainty on whether unacceptable voltage depression or collapse in the state grid region of Victoria might occur for transfers of greater than 180MW.³

Any transfer that is approved by the ACCC should be conditional upon further dynamic studies being carried out in consultation with VENCORP in order to determine if the 220MW transfer capability claimed is achievable (as proposed in the PB Associates paper). This would then provide a more accurate assessment of the transfer capability.

It would be preferable that any conversion did not take place until this issue is resolved. However if the conversion were to take place earlier, then the lower capacity values should be used in calculating the regulated revenues. Further, whilst MTC are seeking a locked in regulatory period to 31 December 2012, we believe that the review period should be no different to any other regulated transmission element; i.e. 5 years.

³ PB Associates - Transfer Capability Review pp 35