

29 September 2003

Mr Sebastian Roberts  
General Manager  
Regulatory Affairs - Electricity  
Australian Competition and Consumer Commission  
GPO Box 520J  
MELBOURNE VIC 3001

Dear Mr Roberts

### **Murraylink Conversion to Regulated Status – Variation of Transmission Service Prices**

Thank you for the opportunity to comment on the request by ElectraNet to recalculate the cost allocation of transmission services in the event that Murraylink conversion to regulated status is approved.

ETSA Utilities concurs that ElectraNet SA needs to recalculate the cost allocation of transmission services for Murraylink. The line to Berri from Waterloo was originally a South Australian transmission spur. Following Murraylink's construction and probable conversion to regulated status, the line will become part of the interconnected NSW/Victoria/South Australia transmission system. Closer alignment of ElectraNet SA prices at Berri with those at North-West Bend and Vencorp's prices at Red Cliffs would be a likely, desirable outcome.

ETSA Utilities encourages ElectraNet SA and the ACCC to consider two other matters as part of the cost allocation recalculation exercise:

1. Cost allocation and pricing to locations supplied by radial lines, including the treatment of generation support at those locations; and
2. Shifting from the use of agreed capacity as the sole component of TUoS Usage charges.

### **Radial Line Supply Prices**

ETSA Utilities has undertaken an analysis of locational transmission service pricing. The attached map in Appendix 1 shows the average TUoS Usage annual price per kW for various locations throughout South Eastern Australia. The price structures used by each TNSP varies, so we have made some assumptions about load characteristics to enable a common, comparable set of annual capacity prices to be derived.

Appendix 1 shows the equivalent TUoS Usage annual capacity charge (\$/kW pa) across the NEM system. It demonstrates that there is reasonable alignment of prices at borders between TNSP's and that prices tend to increase as the distance from major generation sources increases.

Appendix 2 shows the average price per kW per annum for transmission services at various exit points within South Australia. This diagram shows a greater degree of variation in the price for transmission services at exit points, particularly along radial transmission lines.

The major points highlighted by the Appendices are:

- There is a high degree of coincidence between the prices applicable to the state capital cities and to those locations in close proximity to major generation capacity.
- The prices applicable at Portland (VIC) and Mt Gambier (SA) are also comparable given the relative distances from the major generation sources.
- There is a large discrepancy between Berri (SA) and Red Cliffs (VIC) despite the comparable distance from the generation source or the major transmission network. This may be addressed by the cost reallocation exercise proposed.
- There is a marked increase in price at the extremities of the South Australian network when compared to other jurisdictions. For example, contrast the equivalent annual capacity charges derived by ETSA Utilities for Pt Lincoln (SA) \$183/kW pa and Leigh Creek (SA) \$327/kW pa with Broken Hill (NSW) \$43/kW pa and Cairns (QLD) \$56/kW pa.
- There are also large increases in price for relatively short distances from the major supply network through South Australia. For example compare Mt Gambier \$19/kW pa with Millicent \$33/kW pa, North West Bend \$35/kW pa to Berri \$58/kW pa, Ardrossan \$43/kW pa to Dalrymple \$108/kW pa, Yadnarie \$53/kW pa to Pt Lincoln \$183/kW pa (versus \$65/kW pa to Wudinna). An extreme example occurs at Leigh Creek, where a price difference of \$86/kW pa applies over the space of a few kilometres (Leigh Creek Coalfield \$241/kW pa versus Leigh Creek South \$327/kW pa). These price differentials do not seem to apply elsewhere in the NEM.

We are not aware of why or how these pricing differences arise. The process applied is certainly not transparent, despite the significant impact that the price range has had in South Australia. These points imply inconsistencies in the derivation of transmission service prices across the TNSP's.

These locational transmission pricing signals have been directly applied to all transmission-connected customers and to major distribution system customers (above 10MW and/or above 40 GWh pa). Over time, it is likely that other smaller distribution connected customers will receive these locational charges following reviews by the ACCC and Jurisdictional Regulators. Most customers currently pay prices ranging from \$100/MWh through to \$200/MWh, depending on the energy price they can access and the distribution price applicable to their connection. A typical TUoS Usage charge of \$20/kW pa for a customer with a 40% load factor is equivalent to about \$6/MWh. By contrast, at \$180/kW pa charge, the equivalent price becomes

\$51/MWh. This would imply an end price-increase of about 25% for many customers, with increases of 50% for some. For customers with a load factor of 20%, the price increases would double. ETSA Utilities considers that detailed scrutiny of the cost allocation process and final pricing should be required from the TNSP and ACCC before such price increases are applied to customers. ElectraNet SA and the ACCC should take the opportunity to review these prices as part of the Murraylink cost allocation exercise.

### **Use of Agreed Capacity to apply TUoS Usage**

ETSA Utilities believes that ElectraNet should reconsider the structure of transmission service prices. There is currently total reliance on TUOS Usage Capacity Price to signal the price difference between the exit points. This has two effects which reduce incentives for customers to seek embedded generation and demand management options.

Under current arrangements, ETSA Utilities is now passing the ElectraNet price signal through to major distribution customers. There is no incentive for these customers to try to reduce their actual capacity during the year below that agreed. However, there is a severe, extreme penalty that can be applied if the customer exceeds the agreed capacity. With a revenue cap arrangement now in place for ElectraNet SA, ETSA Utilities considers that pricing arrangements should be amended to encourage those customers to manage both their actual and agreed demands.

ETSA Utilities is also required to pass-through savings in avoided TUoS to embedded generators. There is debate about the real contribution of some embedded generation to the reduction in need for transmission (eg windfarms, PV systems). However, irrespective of that debate, it is difficult to pass-through any saving when a pre-agreed change in capacity is required, and the threat of severe penalties apply in the event that the embedded generation cannot operate at the very time of system peak. The outcomes in South Australia for embedded generation are quite different to those in other jurisdictions. Currently, South Australian embedded generators cannot receive avoided TUoS, as they cannot enable ETSA Utilities to reduce TUOS Usage charges. If the South Australian arrangements are appropriate, then the embedded generation avoided TUoS requirements of the NEC have effectively been made redundant in this state.

**Summary**

ETSA Utilities supports ElectraNet's request to recalculate the cost allocation of transmission services in South Australia following the conversion of Murraylink to regulated status.

ETSA Utilities encourages the ACCC and ElectraNet SA to review the range of prices applicable in South Australia, particularly on the radial parts of the transmission network. ETSA Utilities also encourages ElectraNet SA to review the use of capacity as the sole basis for allocating TUoS Usage charges.

If you wish to discuss any aspect of this submission please contact Mr Grant Cox, Regulation and Compliance Manager on 8404 5012.

Yours sincerely

Eric Lindner  
GENERAL MANAGER CORPORATE AFFAIRS & COMPANY SECRETARY  
*ElectraNet-Murraylink Sept 2003*