



# ***Major Energy Users Inc.***

27 May 2013

Mr Anthony Bell  
Director  
Australian Energy Regulator  
GPO Box 520 Melbourne Vic 3001

By email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

Dear Mr Bell

## **RIT-T Augmentation of Heywood Interconnector**

The Major Energy Users (MEU) welcomes the opportunity to provide its comments regarding the RIT-T review by the AER regarding the proposed augmentation of the Heywood interconnector between Victoria and SA.

The MEU has observed with considerable interest the development and analysis for the proposal to increase electricity flows between Victoria and SA. The MEU has been extremely concerned that the constraints in the networks providing flow of power between the two States (Heywood and Murraylink) have resulted in generators (particularly the Torrens Island Power Station – TIPS – owned by AGL) being able to exercise market power and drive spot prices up to the market price cap frequently and for significant periods of time.

In the period between 2008 and 2011, the MEU saw considerable financial harm to consumers in SA as a result of this exercise of market power by TIPS which resulted in the MEU seeking a rule change to address the issue. Because of this, the MEU was, and remains, a strong supporter of augmenting the Heywood Interconnector as a means to reduce this market power.

In more recent times, we have seen a different approach in market power being exercised by AGL through it being the largest retailer in SA combined with being the largest dispatchable generator (TIPS) and being a major provider of SA's wind power. AGL's market power has been increased by the closure of Playford power station, the scheduled closure of Northern Power Station for the six winter months. The recent decision by International Power to operate its Pelican Point generation at half capacity has further exacerbated this issue.

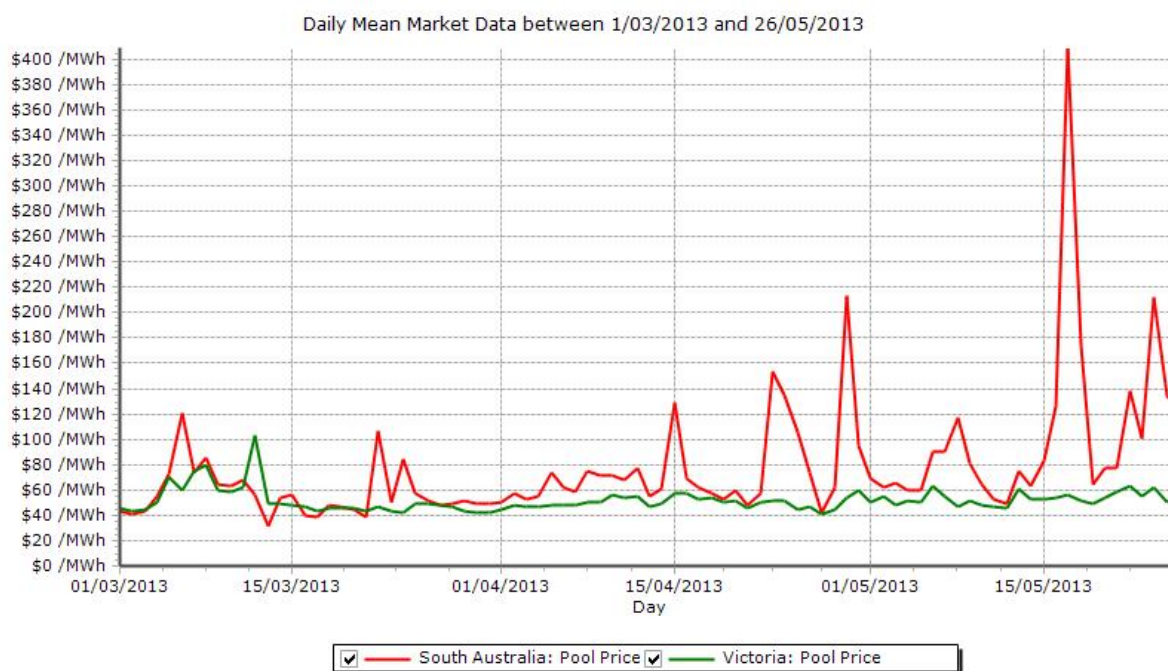
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The MEU noted with interest the view put by EnerNOC that it could provide a demand side response to equate to the benefits of an augmentation of Heywood and therefore a demand side response should be considered as a preferred option. As a matter of principle, the MEU supports the strong involvement by users in providing demand side responses to limit unnecessary investment in networks; a number of MEU members (and others) have operated as a demand side response to limit their usage of power at times of high spot prices – load shedding by large users is appropriate when spot prices are very high as the benefits received replicate the costs involved in load shedding.

We have reviewed the comments by EnerNOC and the response to the EnerNOC comments provided by ElectraNet/AEMO. The issue raised by EnerNOC has validity when assessing the reasons why load shedding might be cost effective, although there is insufficient information provided to determine whether the prices implied by EnerNOC reflect the actual costs incurred by consumers. In the absence of better information, the MEU considers that care has to be taken by the AER when assessing demand side offers.

However, recent pricing approaches by generators in SA have resulted in the spot market exhibiting higher prices than would be expected in a fully competitive market but at a level that would not result in a clear case that load shedding is financially feasible. An example of this can be seen in the following chart which shows the daily average spot prices in SA and Victoria since 1 March 2013. Here the SA price has been impacted by market power issues noted above with the Victorian price reflecting competitive market prices.



Source: NEM Review using AEMO market data

Our SA members exposed to the spot market have been very much in two minds about whether the costs of load shedding with spot prices at this level are balanced by the savings they would get by doing so. This implies that spot prices significantly above the competitive level but low enough that cost recovery is not feasible, are unlikely to be managed by demand side responsiveness. In contrast, increasing capacity at Heywood is likely to keep prices nearer the “competitive” level for greater periods of time.

In the absence of better information from EnerNOC that the likely load shedding that could result is commercially viable at even modestly high spot prices (eg in excess of weekly average prices at 2-3 times above a competitive market price), it would appear to the MEU that augmenting Heywood interconnector as proposed by the RIT-T under examination<sup>1</sup> is an appropriate and sensible solution to the problem identified.

We are also concerned by the views expressed by both EnerNOC and ElectraNet/AEMO in that the focus of their debate seems to lie with whether the proposals meet the requirements of the rules and guidelines rather than address what is in the long term interests of consumers. The new approach of the AER in its Better Regulation process has changed from previous mechanistic approaches and therefore we would expect that the AER will address its review based on what is in the best interests of consumers.

Should you wish to discuss the MEU views expressed in this response in more detail please contact the undersigned at [davidheadberry@bigpond.com](mailto:davidheadberry@bigpond.com) or on (03) 5962 3225

Yours faithfully



David Headberry  
Public Officer

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<sup>1</sup> Option 1b to add a third transformer at Heywood, increase compensation on ElectraNet's 275 kV transmission line and carry out reconfiguration of the ElectraNet 132 kV transmission system around its lower South East network