PNS
The Right Connection

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Mr Sebastian Roberts
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Australian Competition and Consumer Commission
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By e-mail: electricity.group@accc.gov.au

Dear Sir,

ACCC Electricity Communication 020 – SA Transmission Service Prices

Thank you for the opportunity to provide comments on the request by ElectraNet SA for approval to re-calculate and publish new transmission services prices for the South Australian region in the event that Murraylink is converted to a prescribed service.

If Murraylink is converted to a prescribed service then it will be entitled to obtain regulated revenue for the provision of those prescribed services. Murraylink connects between the regions of South Australia and Victoria and has assets located within both of these regions. As a minority transmission network service provider (TNSP) in these regions it is logical that Murraylink's regulated charges are collected by the principal TNSP in those regions, that is ElectraNet SA and VENCorp, and suitable provisions for this are included in the National Electricity Code (C6.3.2).

Whether or not it is appropriate to re-calculate network charges should depend on two factors, the amount of revenue to be recovered, and the timing of the conversion of Murraylink to a regulated service.

The fact that there has been no allowance included in the regulated revenues of either VENCorp or ElectraNet for a Murraylink prescribed service would support the argument that the conversion of Murraylink would constitute a significant change to the use of the regulated transmission system and hence warrant a review of the allocation and recalculation of the associated charges, if the Murraylink revenue allocation is considered material.

However, there is considerable cost and inconvenience to the market and electricity consumers associated with a change in electricity charges and these should be minimised if possible. To that end it would make sense to delay any date of conversion to correspond with the normal regulatory price setting date (1 July each financial year). An alternative would be to delay the recovery of Murraylink's regulated revenues for the initial period up to the price setting date and over-recover this amount in subsequent regulatory years. Power Network Strategies considers that these options should be examined as an alternative to an immediate review and recalculation of prices.

In examining the revenue recovery procedures to be followed should Murraylink convert to a prescribed service, several other issues worthy of consideration arise. These are discussed in the following paragraphs.

Allocation of Revenues between Regions

Murraylink connects between the NEM regions of South Australia and Victoria and has assets installed in both regions, with the majority of these being installed in Victoria. If Murraylink is converted to a prescribed service, it will be entitled to obtain regulated revenue for these assets.

The ACCC's preliminary finding regarding the conversion of Murraylink was to permit conversion but to assign a value to Murraylink based upon the augmentation that in the ACCC's view would have passed the regulatory test. In effect, the regulated revenue that would be provided to Murraylink would not be representative of the assets Murraylink has installed. It is therefore unclear exactly how the Murraylink regulated revenue would be allocated between the regions.

Under clause C6.19 all regulated interconnectors are subject to the transmission service regulation and pricing arrangements of part B and part C of Chapter 6 of the Code. This price allocation is based upon the value of the asset involved in each of the relevant service categories (connection, use of system, and common service).

The principles for allocating Murraylink's regulated charges between the connecting regions need to be established with appropriate consultation with potentially affected Code Participants and interested parties before any price recalculation is undertaken.

Additional Cost to Market

Murraylink is presently operating in the NEM as a Market Network Service Provider (MNSP). The investment decision for Murraylink was undertaken by its owners on an entrepreneurial basis, which presumably encapsulated any potential commercial risks facing the project.

ElectraNet has calculated a forecast annual revenue for Murraylink operating as an MNSP of between $4 M - $6 M per annum based on actual despatch patterns and pool price differences. It is possible that Murraylink's actual revenues will be somewhat less than this when loss factors and electrical losses on Murraylink itself are accounted for. The revenues Murraylink are currently earning would seem to be a fair market appraisal of the value of the services Murraylink is presently providing.

The electronics that control Murraylink are a source of electrical loss even when Murraylink is not transferring power. To overcome the cost of these losses it is probable that Murraylink is "turned off" when it is not scheduled for despatch. This suggests that there are no latent or inadvertent benefits being supplied to the market as a result of Murraylink's presence as manual intervention would needed both to return Murraylink to service and to adjust its power output in response to network contingencies.

If Murraylink is determined to be a prescribed service then the costs associated with its operation will need to be adequately accounted for.

In its preliminary finding the ACCC determined an annual regulated revenue of between $12 M and $14 M was appropriate. In effect, the ACCC's preliminarily view would have the electricity consumers provide Murraylink with an additional $8 M to $10 M in revenue for what appears to be no tangible gain at this point in time.

Loss Factors Altering with Time

Loss factors in the NEM are presently calculated on the basis of historical usage patterns. Given the lack of historical data concerning the operation of Murraylink and its location at the extremities of the main power systems of Victoria and South Australia, it is quite possible that the loss factors associated with Murraylink will alter considerable as actual usage data becomes available.

It is therefore feasible that the loss factors associated with Murraylink will increase in the future and this may further reduce the market benefit being provided by Murraylink.

SNI/Unbundled SNI

The recent Victorian Supreme Court decision ruled that NEMMCo was in error in not considering Unbundled SNI (USNI) when undertaking its assessment to determine if SNI would pass the market benefits test. Similarly, Murraylink and the ACCC have not considered either SNI or USNI when undertaking the market benefits regulatory test to determine the regulatory cost to be assigned to Murraylink. This seems highly inconsistent given it was Murraylinks owners that took this matter into the courts in the first instance.

The net market benefit associated with USNI will be highly dependent on the regulatory cost assigned to Murraylink which is part of the present ACCC process. It would seem at odds with the SNI Supreme Court decision that the ACCC undertake a regulatory test for Murraylink that excludes both SNI and UNSI. All three developments should be considered at this time to ensure the maximum net market benefit is obtained.

Process of Conversion

From the calculations undertaken by ElectraNet and from the outcome of the ACCC's preliminary view the opportunity to gain additional revenue from conversion to a prescribed service would appear to provide an incentive to Murraylinks owners. However, this is in conflict to the NECA working group principles that state that the process of conversion should not shield MNSP's from normal commercial risks.

The process being followed by the ACCC appears to be one of belatedly undertaking a consultation process and belatedly applying the regulatory test to Murraylink.

By definition the Murraylink assets would be a Large Network Asset under the NEC. Clause C5.6.6 of the Code outlines the process for establishing a new Large Network Asset in the NEM. An important step that must be undertaken for an Interconnector is a technical evaluation of the proposal by IRPC which would include defining its capability.

There has been considerable debate surrounding the actual capability of Murraylink when determining the market benefit it provides and it must be asked why has this significant step been omitted by the ACCC?

The regulatory test promulgated by the ACCC requires timing of development to be optimised so that it maximises the benefit to the market.

Murraylink connects to the SA and Victorian regions of NEM and as such effectively provides increased capacity between those regions in a similar manner that an augmentation of the existing SA –Victoria interconnector would.

However, based on present usage and constraint statistics an augmentation of the SA-Victoria link would not appear warranted nor would it pass the regulatory test at this point in time. It would not seem that sufficient work has been undertaken to optimise the timing of the proposed conversion of Murraylink to a prescribed service in order to maximise the net benefit to the market and to determine if in fact conversion is justifiable at this time.

This aspect is consistent with NEMMCo Statement of Opportunities that treats SA and Victoria as a combined region in the NEM. The work undertaken by NEMMCo indicates that additional capacity into this combined region is needed almost immediately while additional interconnector capacity between South Australia and Victoria is not needed at present.

Should you require any further details on this submission please do not hesitate to contact me.

Yours truly,

Robbert A Stam
Managing Director