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Sebastian Roberts
Acting General Manager
Regulatory Affairs - Electricity
PO Box 1199
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Via email: electricity.group@accc.gov.au

Dear Mr Roberts,

We read with interest the draft service standard guidelines published by the ACCC on 28 May 2003. The implementation and enforcement of consistent service standards for transmission network service providers (TNSPs) will clearly have a positive impact for all National Electricity Market participants and ultimately electricity consumers.

The draft guidelines go some way towards establishing appropriate service standards, and provide for an introductory level of performance incentives for TNSPs. The ACCC notes that it has been unable to fulfil its objective of providing performance incentives that are linked to market outcomes.

The failure of the draft service standards guidelines to propose performance incentives linked to market outcomes will mean the current disconnection between market outcomes and TNSP performance will continue. The cost of this disconnection to energy consumers has been considerable and far exceeds the proposed performance incentive of 1% of TNSP revenue.

A recent example of TNSPs behaviour negatively impacting the market occurred on 4 December 2002 and illustrates the ongoing cost to energy consumers. As a result of incorrect information following a network outage NEMMCO continued to restrict southward flows on QNI and Directlink. High prices were experienced in QLD and there was a significant accumulation of negative residues. There were 7 instances during this period that led to a spot price 3 times greater than the weekly average of \$373.96MWh (itself the highest weekly average in QLD since market start). These prices were also between 5 and 84 times higher than the 12 hour forecast price. NEMMCO has prepared a detailed market report of this incident (document 20021204_scadaissue_external_v4.doc).

The ACCC does not need to demonstrate the direct link between an individual event and TNSP behaviour to introduce market-linked performance incentives as stated in the draft

guidelines. TNSPs provide the mechanism for transporting electricity from generators to customers, therefore there is an obvious link between TNSP behaviour and market outcomes, without the “wire” there would be no market. As part of an efficient regulatory regime the ACCC must provide an appropriately scaled market incentive to ensure TNSP behaviour is consistent with the needs of the market.

To avoid the difficulties cited in the draft guidelines, we recommend the ACCC consider the use of financial options based on the price separation between different locations. This solution can be implemented using the current regional structure, but is flexible enough to work with other market configurations. Financial options will also be consistent with Financial Transmission Rights should they be introduced in the National Electricity Market.

Importantly financial options can be implemented in a manner that keeps the TNSPs financially neutral. Scaled appropriately, they will ensure each TNSP has the incentive to manage their networks to minimise the consequential market impacts.

We look forward to seeing this financial options actively considered by the ACCC before the finalisation of the Service Standard Guidelines. Should you have any questions regarding this submission please contact me on (02) 9518 4522.

Sincerely,

A handwritten signature in black ink, appearing to be 'GD' with a stylized flourish extending downwards.

Greg Denton
Director