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Dear Sir

*Powerlink and ACCC Revenue Cap Issues Prior to 2001 Application*

TransGrid would like to thank both the Australian Consumer and Competition Commission (ACCC) and Powerlink Queensland for the opportunity to participate in this proactive consultation involving important issues in regulated revenue cap determination processes.

In general, TransGrid is supportive of the main thrust of the two discussion papers.

The Powerlink papers highlight the important linkages between the requirements of the National Electricity Code, efficient transmission system operation, transmission investment, and transmission company revenue regulation. In this context, we would concur with Powerlink that revenue setting arrangements set out in the Code do not adequately provide for:

- commercially sound contracts between transmission companies and Grid support generators and demand side management providers;
- workable and clear arrangements for constraint payments by transmission companies to generators.

We would also concur with Powerlink that there is considerable scope for changing a TNSP's Code obligations via the Code change process during the period of a revenue determination. These changes can significantly alter the cost and risk profile of a transmission company inviting the re-opening of revenue determinations.

TransGrid reluctantly accepts that there may be a need to make revenue adjustments during the currency of a revenue determination to accommodate these new responsibilities. The source of this reluctance is a level of commitment to the incentive regulation principles embedded in the Code.

However, it is clear from actions of the National Electricity Code Administrator and proposals emanating from the MSORC process that Code changes are inevitable. As such, processes are required to accommodate consequential changes to TNSP revenue needs. The following process should be considered.

- 1 Establishing a principle that Code change proposals from the Code Change Panel explicitly specify the likely cost and benefit impacts on regulated Code Participants at the time a Code change is forwarded to the ACCC for authorisation.

- 2 Making authorisation of Code change proposals dependent on the proposed Code changes explicitly including mechanisms to adjust the revenue of regulated Code Participants to achieve a commercially neutral outcome. Preferably, this would be a transition path until the next scheduled revenue reset where adjustments would be made in the context of total revenue needs and incentives for efficient delivery of service requirements.

The Statement of Regulatory Principles (SRP) or individual revenue determinations may be able to be used to address these matters in some circumstances. However, the following limitations of this approach need to be recognised:

- The Statement of Regulatory Principles and TNSP Revenue determinations cannot produce outcomes that are inconsistent with the Code.
- Individual revenue determinations only address issues specific to the affected TNSP. For example, to resolve Powerlink's concerns in its revenue determination would not assist TransGrid until its next revenue determination.

In summary, TransGrid supports Powerlink's proposals, in principle, and is enthusiastic about resolving the issues raised, particularly in relation to payments for Grid support, demand side management, and possible procurement of Network Control Ancillary Services. However, we encourage careful consideration of which of the Code Change processes, the SRP or individual revenue determinations are the most appropriate means for ultimately resolving these issues. Additional specific comments are also attached for your consideration.

We trust that these comments will assist in taking these important matters to a much needed resolution. Should any matter raised in this submission require any further clarification, please feel free to contact me on (02) 9284 3434.

Yours sincerely

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## **Attachment – Specific Comments on Powerlink Papers issued October 2000**

**“Forecasting capital expenditure for the Queensland transmission Grid – an approach to deal with a rapidly changing power system”.**

### **1. Forecast Methodology**

TransGrid is sympathetic to the position that Powerlink finds itself in regarding the uncertain future augmentation needs of their transmission system. Their planning environment is characterised by a higher level of generation development and system constraints than presently exists across TransGrid's network. It is understandable that Powerlink is seeking the adoption of a probabilistic approach to capital expenditure.

Accordingly it is considered reasonable for this approach to be accepted by the ACCC as a legitimate approach for determining likely capital expenditure programs. However, this should not be mandated, as it may not be necessary to carry out such an extensive formal planning analysis for more compact and tightly meshed networks than the Powerlink transmission system.

### **2. Process**

In terms of process, in assessing the validity of individual projects and the application of reasonableness checks, TransGrid would like to encourage the idea of using suitably expert consultants and other relevant expert advice from parties agreed to by both the Transmission company involved and the ACCC.

**“Methodology for Incorporating Regulated Contracted Network Services into the Revenue Cap Determination”**

In general TransGrid is supportive of the thrust of Powerlink's proposals in this paper.

While acknowledging the need for cost plus regulation in some circumstances as noted by Powerlink, the principle of incentive regulation needs to be retained to the maximum reasonable extent possible. This could be achieved by only subjecting very specific elements of the determination to cost plus approaches.

## **Specific Issues**

### **1. Grid Support Contracts**

*Alternative to grid augmentations.*

TransGrid supports the need for the clarification of the means by which regulated revenue will be provided to support the establishment of these types of contracts. In our own work we have been keen to ensure that generation and demand side alternatives are treated on the same basis as network options for overcoming transmission system limits. However, the Code, as presently constructed leaves the recovery of revenue in relation to such options unclear.

Matters requiring further consideration include:

- The suitability of a grid support option as the preferred option would be determined by the application of the regulatory test. This test implies that the monies paid to the provider of the support option are sufficient to deliver a regulated rate of return on the investment

involved. This does not necessarily fit comfortably with payments over time out of operating expenditure.

- Present Code arrangements that suggest that Grid support providers should have the benefit of avoided TUOS need to be re-considered. While this is illogical because avoided TUOS may well deliver returns in excess of regulated returns to the support provider, it is nevertheless, the way in which the Code is presently constructed.
- Consideration also needs to be given to how TNSPs manage contract arrangements that span more than the five-year term of a determination. In such cases the assignment of regulatory risk associated with future revenue resets will remain a challenging negotiating point with developing these contracts.

### *Risk Management Support*

TransGrid recognises that in the case for Powerlink, they have far more experience in these areas, as their system is more stressed than TransGrid's. However, we anticipate value in having clear methods for negotiating such support contracts as flow patterns will inevitably change over time in NSW.

Accordingly, we are supportive of the thrust of this proposal.

## **2. Generator Constraint Contracts**

Section 5.5 of the Code requires that Generators and TNSPs negotiate in good faith to reach agreement on access and constraint issues. However, TransGrid does not agree that Powerlink's current proposal will result in the requirements of Section 5.5 of the Code being workable.

The issues associated with access rights are complex and are compounded by the limited ability of TNSPs to unilaterally assure the transfer capability of a shared transmission network serving an interconnected power system. This capability can be affected by dispatch patterns, constraints imposed for system security reasons, and ancillary service provision all of which are outside the control of TNSPs.

Title to shared transmission network access rights is also complicated by the need for shared transmission capacity to be kept separate from control by generators in order to ensure maximum wholesale market competition.

In short, the Powerlink proposals oversimplify what is required to resolve this issue.

## **3. Miscellaneous Contracts and New Code obligations**

As mentioned in our covering letter, TransGrid concurs with Powerlink in that there is considerable scope for changing a TNSP's Code obligations via the Code change process during the period of a revenue determination. These changes can significantly alter the cost and risk profile of a transmission company inviting the re-opening of revenue determinations.

TransGrid reluctantly accepts that there may be a need to make revenue adjustments during the currency of a revenue determination to accommodate these new responsibilities. The source of this reluctance is a level of commitment to the incentive regulation principles embedded in the Code.

However, it is clear from actions of the National Electricity Code Administrator and proposals emanating from the MSORC process that Code changes are inevitable. As such, processes are required to accommodate consequential changes to TNSP revenue needs. The following process should be considered.

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