

11 April, 2003

Mr Sebastian Roberts  
A/g General Manager  
Regulatory Affairs - Electricity  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

By email to [electricity.group@acc.gov.au](mailto:electricity.group@acc.gov.au)

Dear Mr Roberts,

### **Review of the regulatory test – Discussion paper**

AGL considers that the ACCC should take the opportunity afforded by the Code changes made by NECA regarding transmission planning to revise the basis of the regulatory test from an economic test to a commercial test. This could be achieved by aligning the regulatory test with the beneficiary pays approach that was introduced into the Code by the network and distributed resources Code changes. The need for this alignment was mentioned by both the National Electricity Distributors Forum and Edison Mission Energy in their comments to the Issues Paper.

If the test were to be recast as a benefits test the process could be:

- define the beneficiaries of the project
- determine the benefits they require and will receive from the project
- compare the proposed projects with all other projects that could reasonably be able to provide the required benefits (may be less than the benefits of the project, but should be at the level required)
- choose the option(s) where the benefits to the beneficiaries are maximised and where those benefits exceed the cost of the option.
- assess the actual benefits achieved at the next regulatory reset:
  - if the benefits are being achieved then the project costings should be confirmed
  - if only a reduced benefit is being achieved the contribution to AARR should be reduced so that the net benefit is positive
- once confirmed or adjusted, the project should not be subject to further optimisation (in line with the Parer recommendation).

This approach would allow:

- any identifiable benefits to be included in the tests, including modelled competition benefits

- removal of the reliability arm of the regulatory test since that would simply be a special case of the more general test where only customers are beneficiaries
- a single approach for new projects and conversion between unregulated and regulated status
- confirmation of modelled outcomes
- removal of optimisation risks (after the initial check of benefits)
- consistency between the test and potential approaches to financial transmission rights.

This approach would also return the regulatory test to what was originally intended in the Code, which was that those that pay the cost of an augmentation should see the net benefit of that augmentation.

Using this approach will also make investment decisions consistent:

- generation investments are made where enough investors see a net benefit in a generation investment either locally or remotely from the demand
- MNSP investment occurs when enough investors see a net benefit in an interconnector investment to bring supply to the demand
- regulated investments are made when the first two approaches fail and a wider group of beneficiaries are required to bring supply to the demand. A positive net benefit for the broader group of beneficiaries is still required.

AGL would recommend that the Commission consider this approach rather than trying to fit a commercial test (improved competition benefits) into an economic test (increased surplus).

If you have any questions regarding the above matters, please contact Alex Cruickshank, Manager NEM Development on (03) 9201 7694 or e-mail [acruicks@agl.com.au](mailto:acruicks@agl.com.au).

Yours sincerely,

*Unsigned electronic copy*

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