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Mr Sebastian Roberts,
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By e-mail: electricity.group@accc.gov.au

Dear Sebastian

REVIEW OF THE REGULATORY TEST FOR NETWORK AUGMENTATIONS

Thank you for the opportunity to comment on the draft decision for the review of the regulatory test for network augmentations. Generally CS Energy supports the proposed changes to the regulatory test, particularly the inclusion of competition benefits in assessing proposed augmentations.

Amendments

CS Energy notes that some commentators believe that the reliability limb of the regulatory test should be removed, requiring that all augmentations pass the market benefits test. We contend that the reliability limb plays a crucial role in the quality of supply to Australians and Australian business. It assists in providing and international competitive advantage. CS Energy has included reliability based transmission investment in our financial models for existing and new generation investment. As such we endorse the Commission's decision to maintain the reliability limb of the test.

We also endorse the Commission's decision to remove the time restrictions in clause 7 or the existing test. The time restrictions discriminate against regulated network investment and can result in a significant loss of market benefits due to investment delays in an environment of increasing electricity demand.

Competition benefits

The National Electricity Market is an energy only market and generators must derive all revenue requirements from market settlements. Models that measure benefits on short run marginal cost SRMC bidding are inappropriate as generators must attempt to recover all costs not just fuel costs. We support the use of realistic bidding assumptions including the impact of market power, as it will more accurately reflect actual outcomes.

Whilst the Commission's proposed changes go some way to including benefits of competition they fall short of assessing all benefits such as those identified in the quote from Professor Littlechild's presentation in the report. We note also the Ministerial Council on Energy's requirement that the "full economic benefits of competition" be included in the regulatory test. The commission has stated that whilst these additional benefits may exist they do not see a workable process for including them. Our view is that there should be some leeway in the economic assessment to consider these additional benefits. It can be a simple arrangement such as increasing the benefits by a fixed factor (eg 10%) or a sliding factor determined through one of the alternate approaches such as the HHI index. As long as the methodology is well defined it will provide regulatory certainty for investment in generation.

We endorse the Commission's intention of engaging a consultant to apply the proposed market modelling approach to proposed augmentations being considered by Transmission Network Service Providers to check the appropriateness of the method. The results should be made publicly available.

Nothing in this submission is considered confidential.

Yours sincerely

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