The Regulatory Test – Competition Benefits

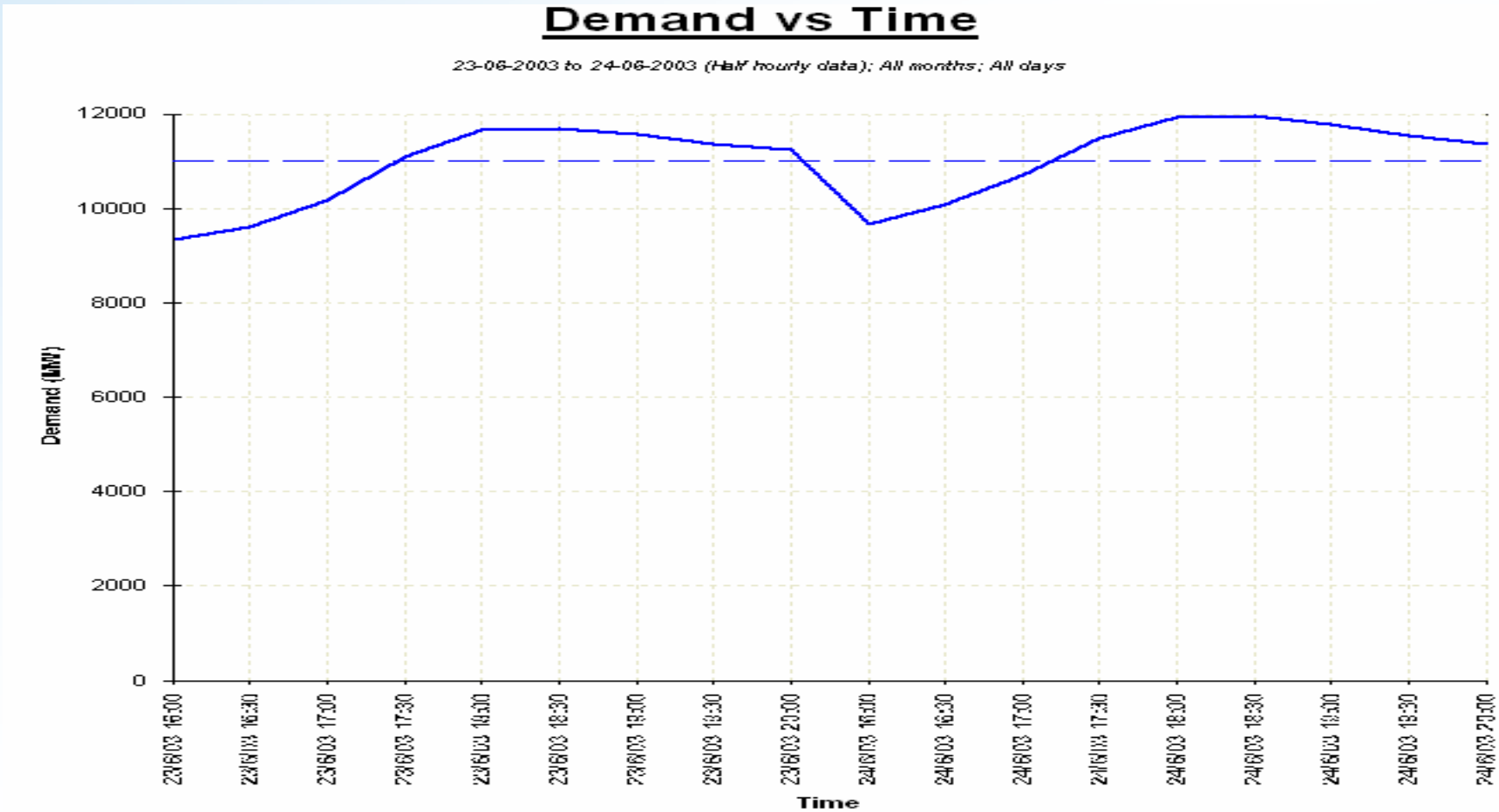
ACCC Market and Competition Benefits Test Forum

28 July 2003

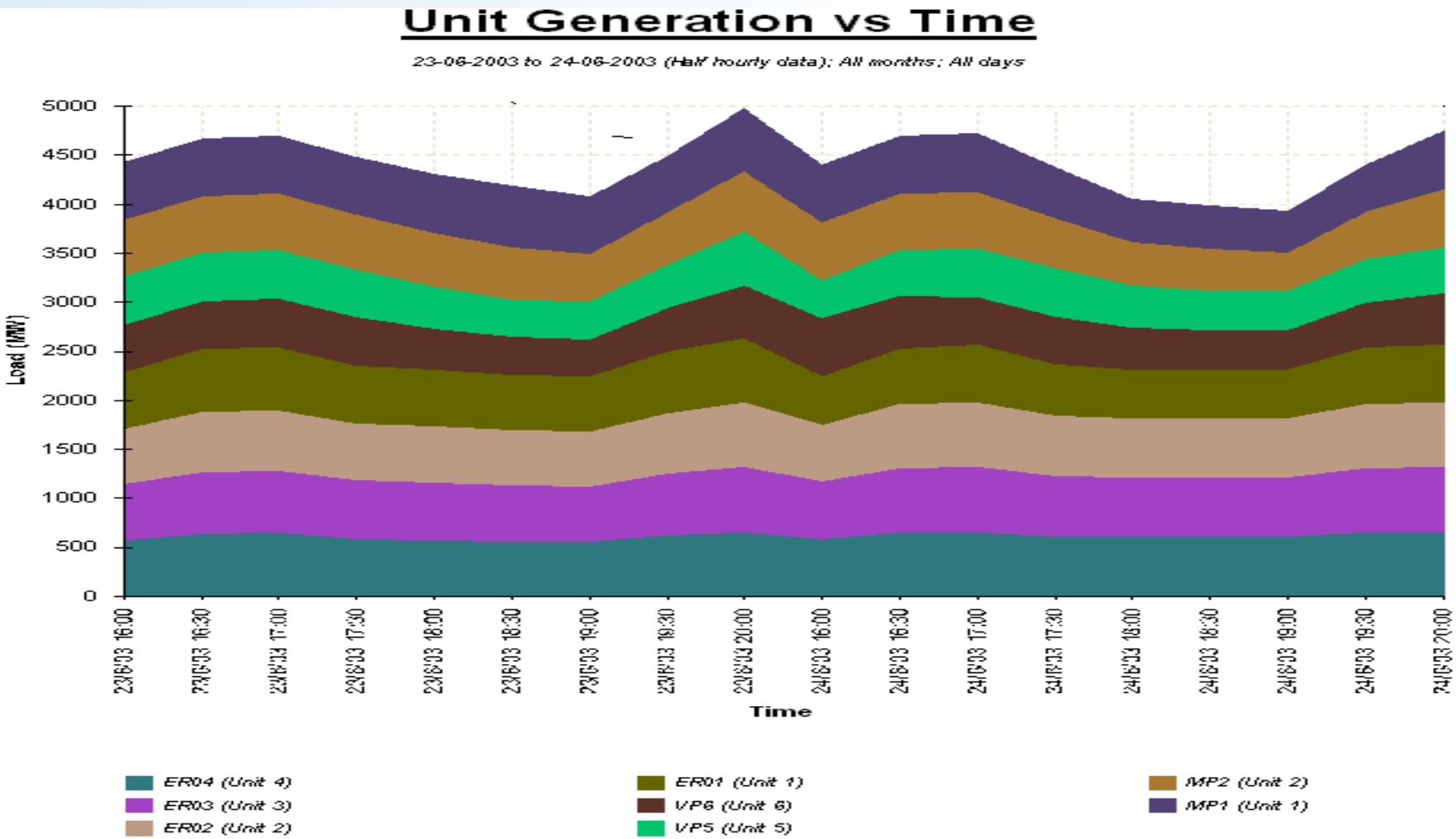
Presented by

ELECTRICITY CONSUMERS COALITION OF SA

The Context (1) – NSW Demand 23/24 June 03



The Context (2) – NSW Generators 23/24 June 03



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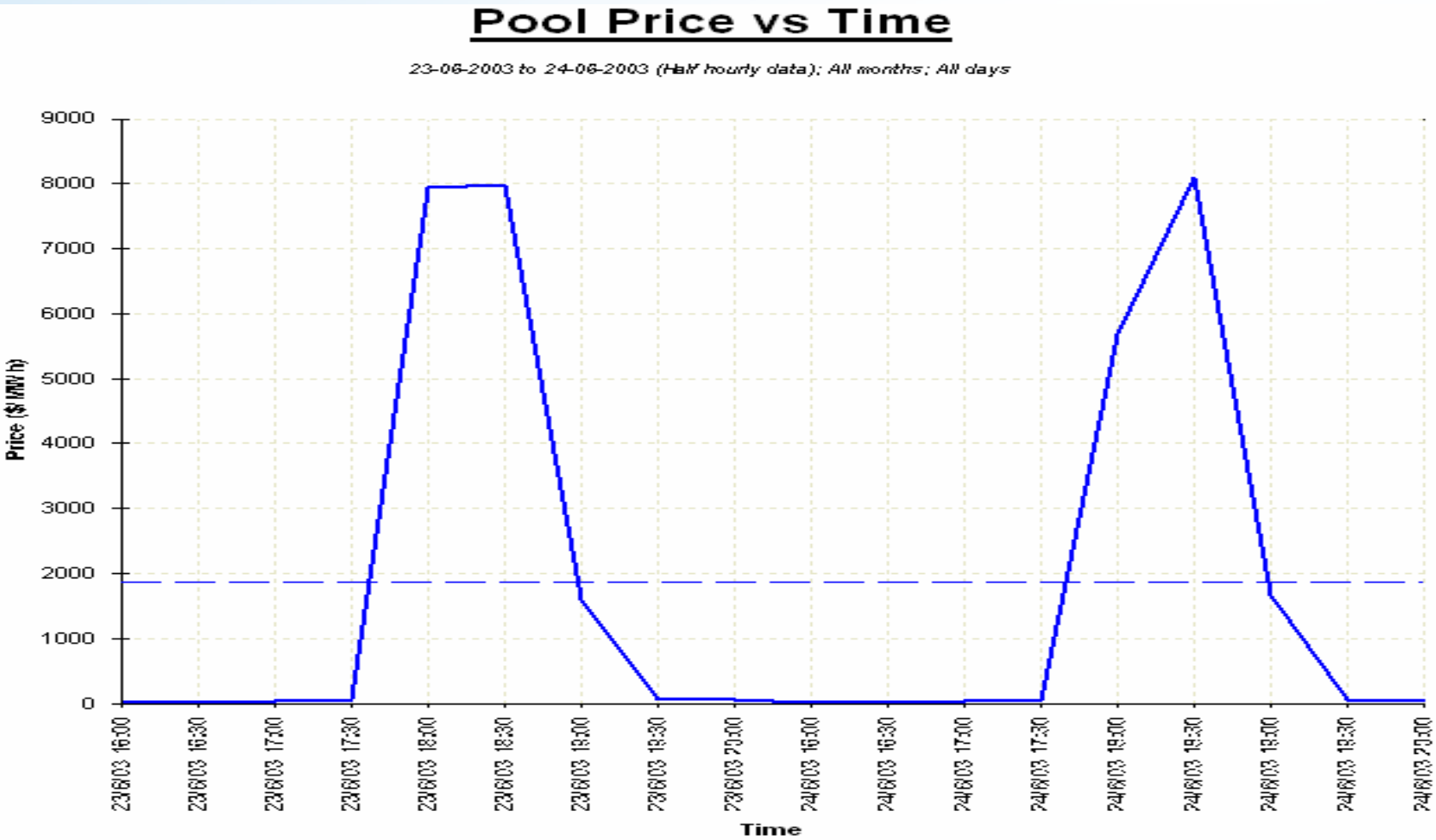
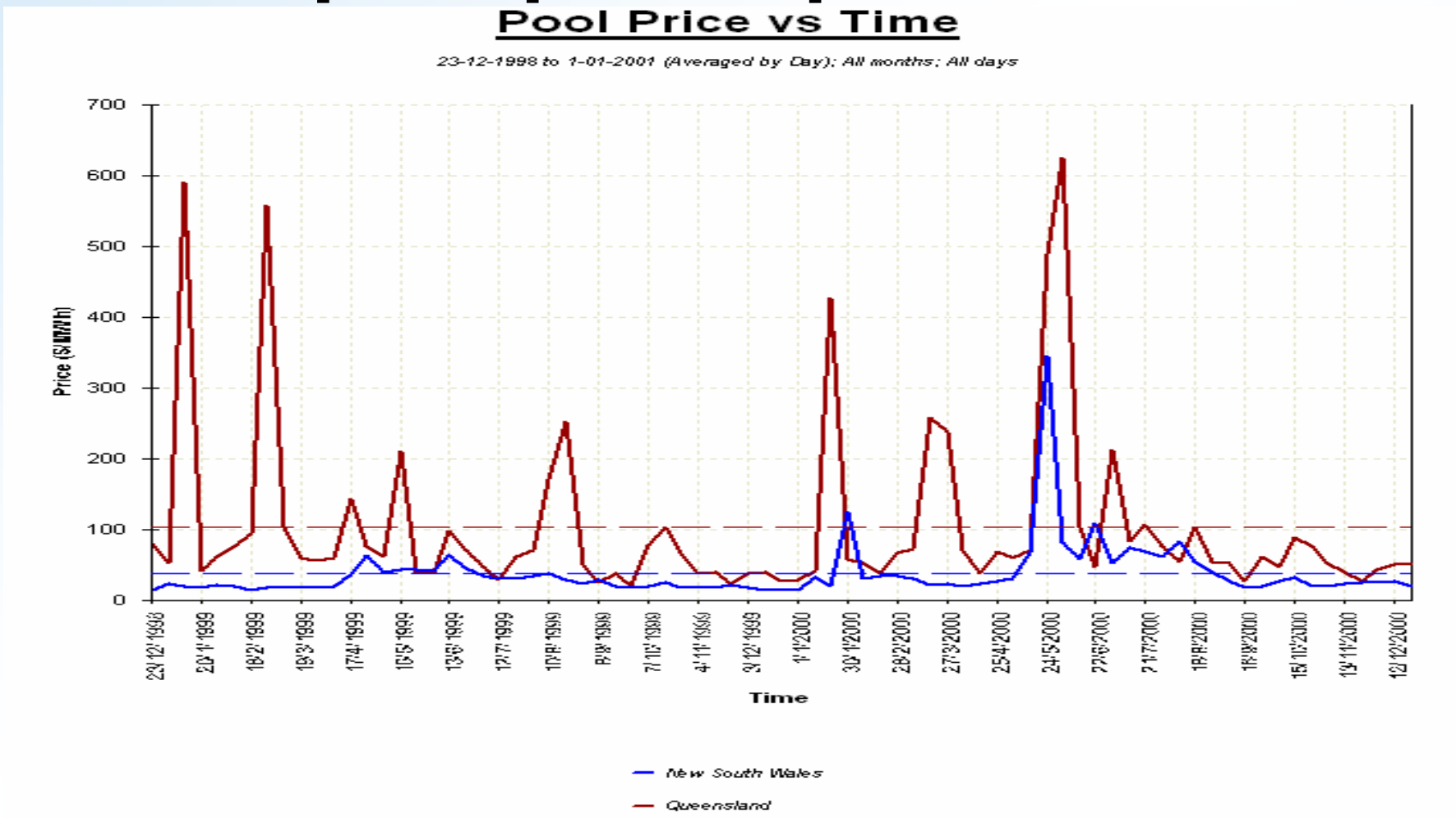
The Context (3) – NSW pool price 23/24 June 03



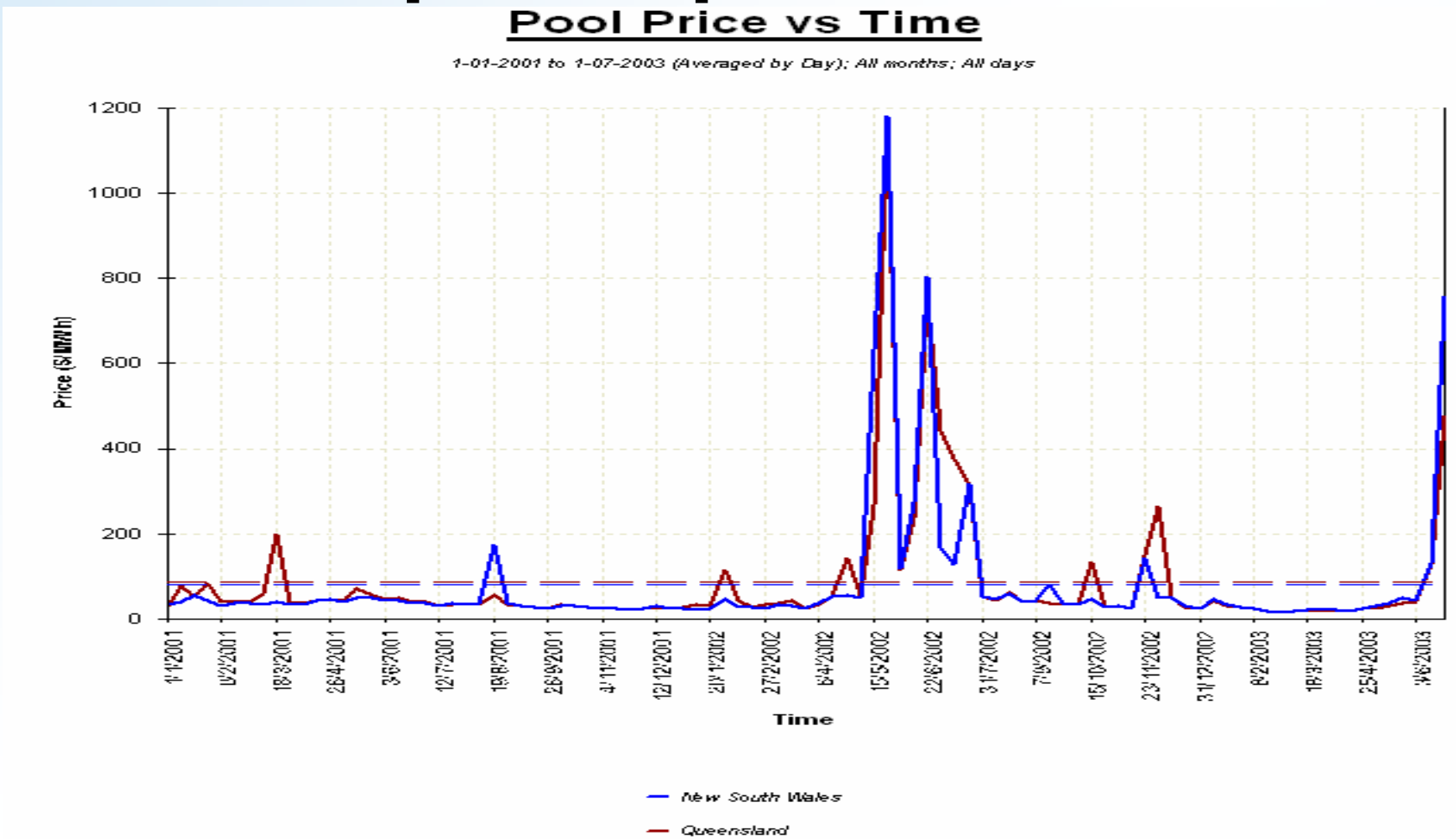
What did this do?

- Over eight half hour periods between 5.30 pm and 7.30 pm on 23 June and 24 June, the NSW pool price increased by nearly $180m
- These two excursions caused the NSW annual pool price to rise by over $2/MWh
- Bardak (July 2003) has assessed that for the NEM in 2002, nearly 30% of the annual pool price is attributed to price excursions above $250/MWh – notional highest SRMP generator
- Only 40% of these price spikes occurred <u>within</u> the range of 90-100% of peak demand

The Context (4) – NSW & Qld pool prices pre QNI



The Context (5) – NSW & Qld pool prices post QNI

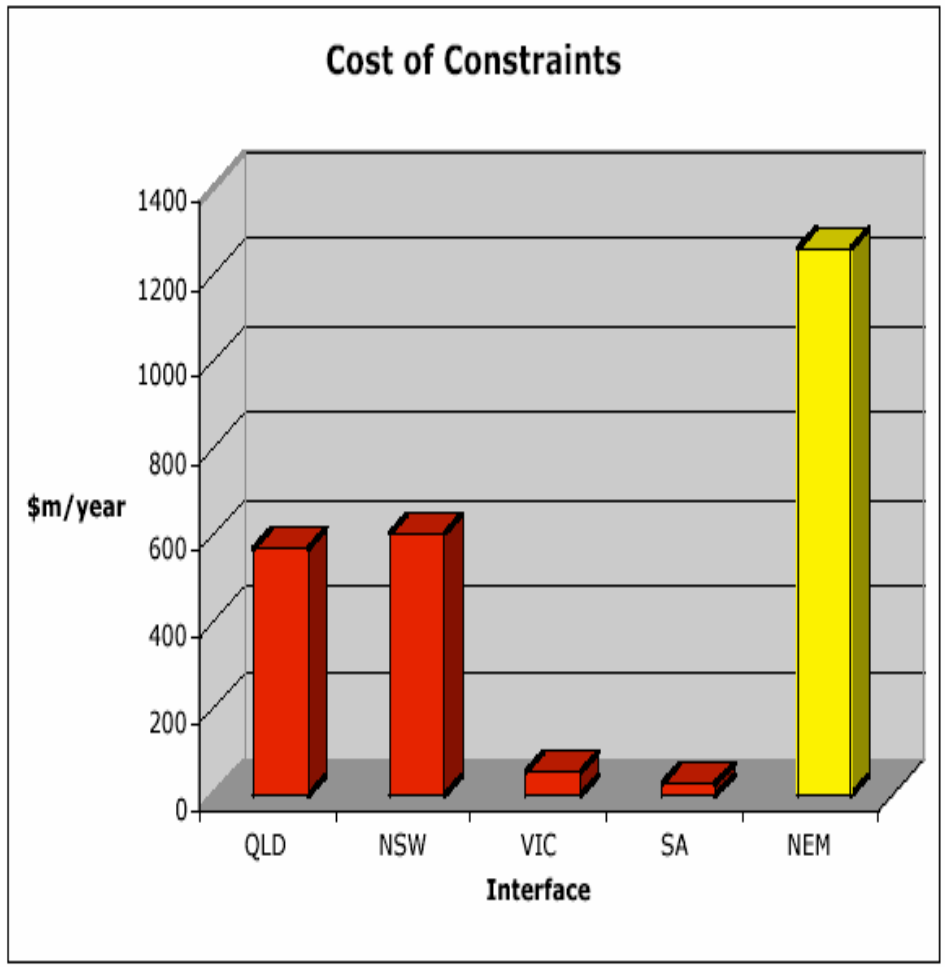


Vive la difference!

- Pre QNI the pool price difference NSW-Qld averaged >$60/MWh
- Post QNI the pool price difference NSW-Qld averaged ~$10/MWh
- Bardak (July 2001) avers the QNI benefit to Qld consumers recovered the cost of QNI in less than 12 months

The cost of constraints

- Pareto (July 2003) has calculated the cost of constraints since NEM commenced as ~$1290m pa (EUAA/EAG for Advocacy Panel)
- Bardak (July 2003) assessed the regional cost of inter-regional constraints in 2002 as totaling ~$1200m



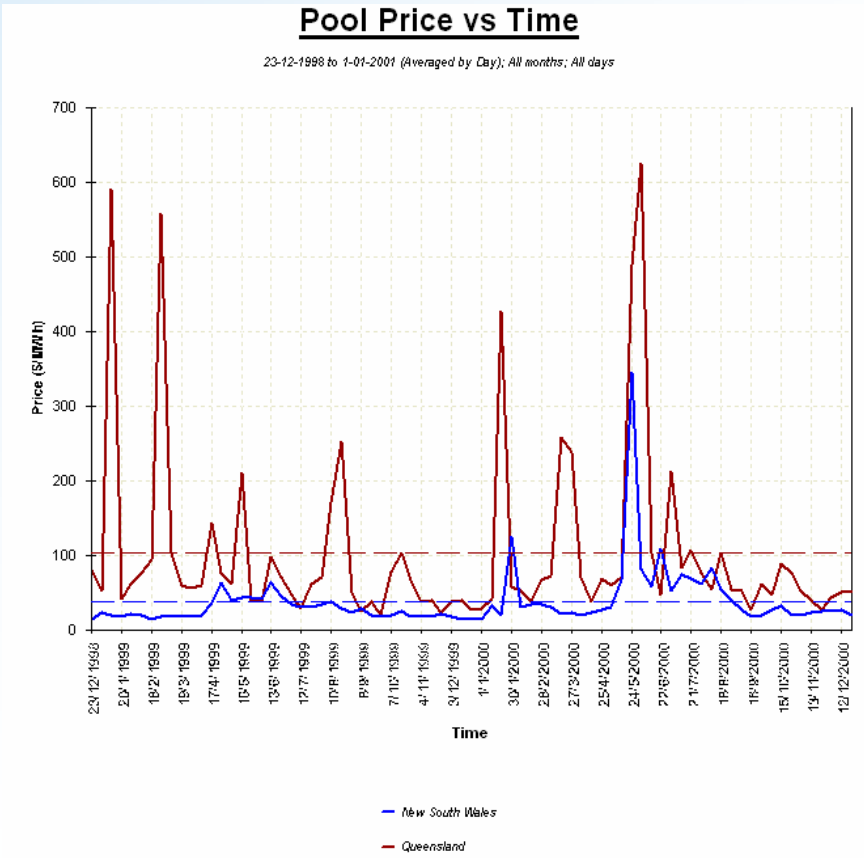
But there's more!

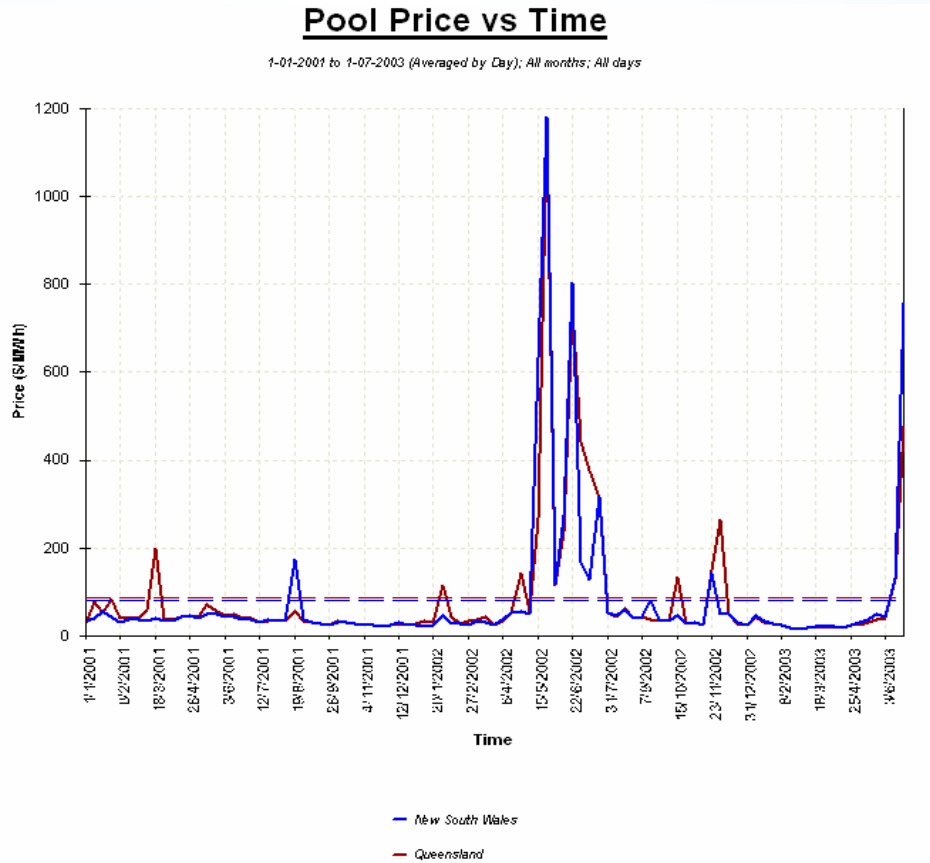
- The ancillary service savings are significant too
- To import to Tas at 300MW, Basslink needs to find more ancillary services than Hydro Tasmania can provide, forcing industry to contribute by shutting down
- Directlink and Murraylink have not helped because they take the pool price difference to pay for the investment

=> Increased free flowing interconnection between regions puts downward pressure on costs to consumers

The impact of excessive volatility

- See the volatility in Qld pre and post QNI!



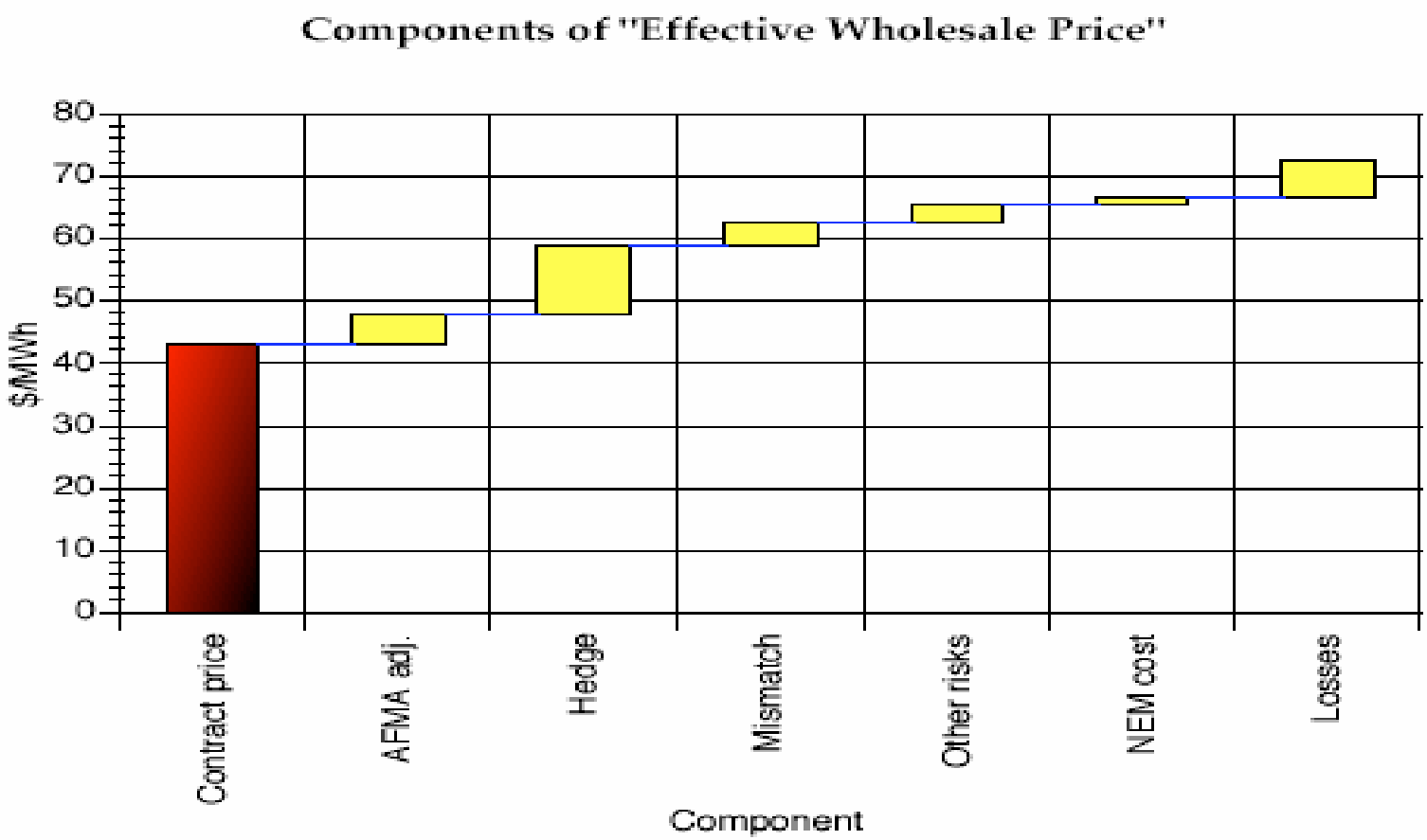


Excessive volatility adds costs to consumers as it -

- Militates against demand side response
- Impedes new investment in generation (particularly base load)
- Impedes (eradicates?) a secondary market
- Increases prudential risks for players
- Requires retailers to add extensive risk mitigation at a major cost to consumers
- Requires generators to add risk mitigation costs to protect unscheduled downtime

The cost of volatility in SA

(Thanks to ESCoSA data and Bardak graphics)



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At the cost of higher (modest?) transmission charges, stronger interconnection will -

- Reduce generator market power (as suggested by Parer)
- Reduce ancillary service costs
- Reduce the cost of constraints (as demonstrated by Bardak and Pareto)
- Reduce the volatility of pool prices resulting in lower retail risk margins and generator risk premiums

=> How can the ACCC *not* take into account the competition benefits of stronger interconnection