Submission to the AER on Electranet Revenue Draft Determination 2013/14 to 2017/18

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The views expressed in this document do not necessarily reflect the views of the Consumer Advocacy Panel or the Australian Energy Market Commission.

EXECUTIVE SUMMARY

This document is the EUAA's submission to the AER in relation to the AER's determination of the regulated revenues for Electranet over the period 2013/14 to 2017/18.

Our members have significant electrical demand in South Australia. Transmission charges, whilst not the largest element in their bills, does matter to them. Our members have had to suffer very large price increases in South Australia over the last decade. ElectraNet's revised revenue proposal would result in prices increasing about 5% above 2011/12 levels, by 2017/18.[1] For the reasons set out in this submission we do not support Electranet's proposal (or their revised proposal) for higher expenditure.

The AER's Draft Decision will result in average transmission prices increasing from $21.04 per megawatt hour (MWh) in 2013/14 to $23.31 /MWh in 2017/18 (in 2012$), an increase of 11 percent over the 5 year regulatory period[2]. However, prices decrease in the first year of the regulatory period from $24.35 / MWh in 2012/13 to $21.04/MWh in 2013/14, so that over the full period from 2012/13 to 2017/18 prices are expected to reduce slightly in real terms. Actual price changes will depend on demand – the AER set allowed revenues and hence lower demand will result in high prices (in order to recover the regulated revenue).

While we agree with the direction of the AER's Draft Decision we believe the AER should go further than it has in order to deliver a decision that meets the long term interests of energy users.

Our assessment is that Electranet's performance in terms of the level of operating expenditure, non-load capital expenditure and load driven capital expenditure compares unfavourably with that of its peers. Electranet also seems to have a long track record of forecasting demand to be significantly higher than it has actually turned out to be. Indeed the level of error in 2012 seems to be around 50%. This is a substantial error and suggests that, assuming Electranet built its network to meet its demand projections this would have resulted in significantly greater capacity than is needed.

Indeed, this is reflected Electranet's regulated asset base, per MWh transported, which is higher than that of all transmission network service providers in the NEM. Prima facie, therefore, we question the need for continued significant capital expenditure as Electranet has proposed. Some specific comments we have in relation to the AER's Draft Decision on capex are as follows:

[1] Based on AEMO's low energy growth forecast from the 2012 Electricity Statement of Opportunities (ESOO).

[2] Based on AEMO's low energy growth forecast from the 2012 Electricity Statement of Opportunities (ESOO).

- We do not think the argument that there is an asymmetric risk to under-forecast capex is valid. The system of revenue cap regulation provides Electranet with strong incentives to over-estimate its expenditure. Accordingly we can see no merit in allowances for conjectured asymmetric under-estimation risks.

- The AER's consultants expressed considerable doubt about the need for, or accuracy of, the expenditure on SA Water's replacement assets. This is a substantial proportion of Electranet's capex and so we suggest it be treated as a contingent project so that proper consideration can be given to the need for this project.

- We do not think Electranet's case for substantially higher expenditure on easements can be justified, taking account of expected negligible demand growth, and Electranet's track record of actual expenditure on easements during the current regulatory period.

On Electranet's opex, our analysis shows that Electranet also compares unfavourably with its peers in terms of opex per MWh transported, and the trend of substantially higher opex growth. Our specific comments on the AER's Draft Decision in this area is as follows:

- We do not believe that escalation of opex to reflect an increase in the value of the RAB can be sustained. It is reasonable, we think, to suggest that opex might rise if the network expands, but RAB changes are not a suitable proxy for network expansion.

- We agree with the AER that the base year for its calculation of opex 2011/12 (as proposed by Electranet) is not appropriate. But similarly we are not necessarily convinced that 2010/11 is better. We suggest the use of an average based on the audited data on opex during the previous regulatory period.

- We agree with the direction of the AER's thinking on condition-assessment opex. However we suggest that off-setting reductions (savings) should equal at least the level of the additional expenditure.

Finally, on service standard incentives, we note that Electranet could achieve additional revenues more than $35m over the coming regulatory period under the market impact incentive. We think this is excessive not least because the incentive does not even represent the economic costs of transmission connection to energy users (or indeed to wholesale market participants). We have therefore recommending adjusting the incentive to correct for this.

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1. Introduction

This document is the EUAA's submission to the AER in relation to the AER's determination of the regulated revenues for Electranet over the period 2013/14 to 2017/18.

Our members have significant electrical demand in South Australia. Transmission charges, whilst not the largest element in their bills, does matter to them. Our members have had to suffer very large price increases in South Australia over the last decade. We therefore do not support Electranet's proposal (or their revised proposal) for higher expenditure, which would result in price rises if not for the reductions in the allowed return as a result of lower risk free rates.

While we agree with the direction of the AER's Draft Decision we believe the AER should go further than it has in order to deliver a decision that meets the long term interests of energy users.

In preparing this submission, we have had regard to Electranet's proposal, the AER's Draft Decision and Electranet's revised proposal. Section 2 of this submission provides some context to Electranet's proposals and the AER's Draft Decision by examining end-user and transmission prices and NEM demand in South Australia. It also compares Electranet's actual and proposed opex and capex to that of its peers. The sections that follow set out our comments on demand forecasts, opex, capex, cost of capital and service standards incentives.

2. Electranet's submission in context

The AER's Draft Decision will result in average transmission prices increasing from $21.04 per megawatt hour (MWh) in 2013/14 to $23.31 /MWh in 2017/18 (in 2012$), an increase of 11 percent over the 5 year regulatory period[3]. However, prices decrease in the first year of the regulatory period from $24.35 / MWh in 2012/13 to $21.04/MWh in 2013/14, so that over the full period from 2012/13 to 2017/18 prices will reduce in real terms. By contrast ElectraNet's revised revenue proposal would result in prices increasing about 5% above 2011/12 levels, by 2017/18.[4] Actual price changes will depend on demand – the AER set allowed revenues and hence lower demand will result in high prices (in order to recover the regulated revenue).

2.1. South Australian electricity prices

South Australia's household electricity prices are on average the highest in the NEM, and even before the 18% increase from 1 July 2012, were the third highest on average in comparison to 91 other developed countries and regions of the world[5]. Comparative international data on business and industrial users' prices is not available.

This is a very bad outcome. Wholesale prices in the NEM in South Australia have played a part. As shown in Figure 1, the demand-weighted average spot price in South Australia has been higher than in other NEM regions particularly over the period 2008 to 2010, due to the exercise of market power by AGL at its Torrens Island Power Station[6] although there has been much greater spot price convergence since 2011.

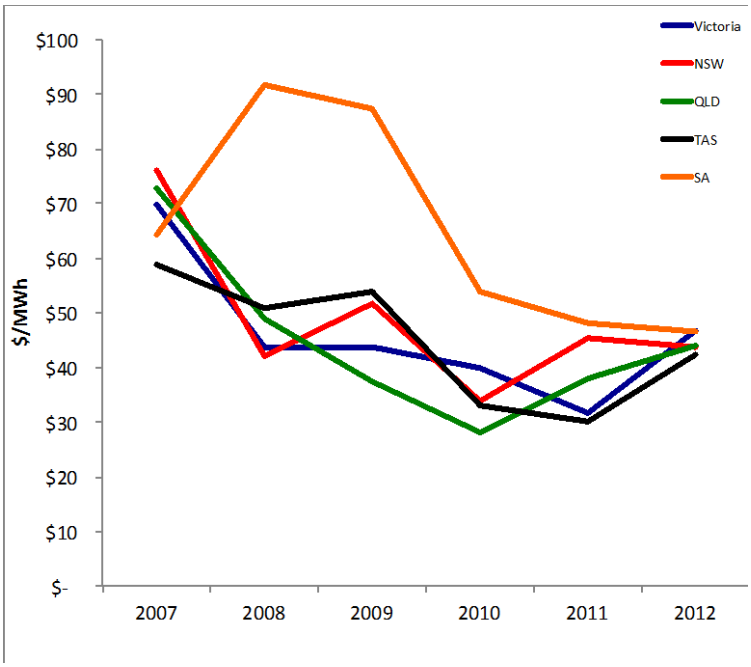
[3] Based on AEMO's low energy growth forecast from the 2012 Electricity Statement of Opportunities (ESOO).

[4] Based on AEMO's low energy growth forecast from the 2012 Electricity Statement of Opportunities (ESOO).

[5] Mountain, B. 2012. *Electricity Prices in Australia: An International Comparison*. A report to the Energy Users Association of Australia.

[6] Mountain, B. 2012. *Market Power in South Australia.* A report to the Energy Users Association of Australia.

Figure 1. Demand-weighted average spot prices in the NEM ($/MWh)



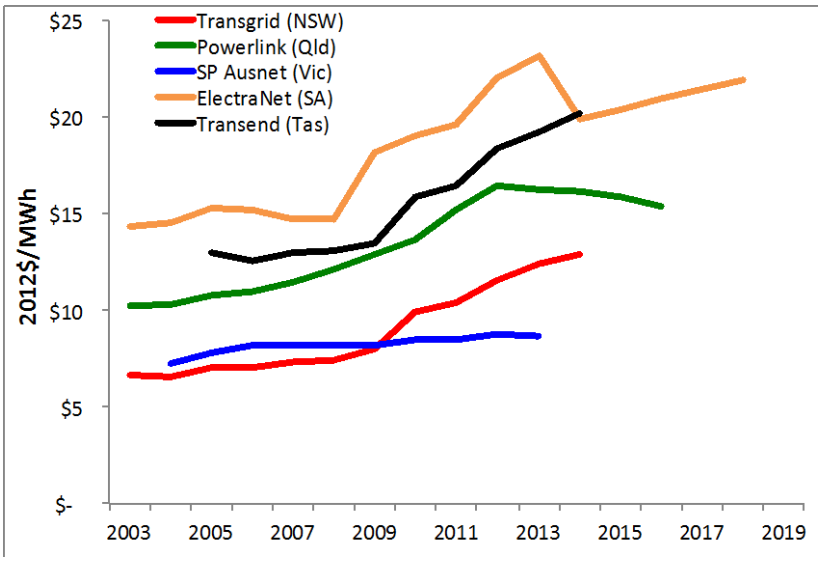
Source: EUAA analysis using metered demand data from NEMReview.

However the biggest factor in end users price rises in South Australia has been the price rise of network service providers, both Networks South Australia and Electranet.

2.2. Transmission network services prices

Electranet has made a contribution to South Australia's unwelcome distinction as the highest price region in the NEM. In 2012 it had the highest price of transmission services per MWh transported of all network service providers in the NEM. The AER's draft decision will reduce the gap in 2013, before prices rise again as shown in Figure 2. The most significant reason for the drop in prices in 2013 is however a reduction in the risk free rate – a factor over which the AER has no control.

Figure 2 Average price of transmission services in the NEM (2012$ per MWh)



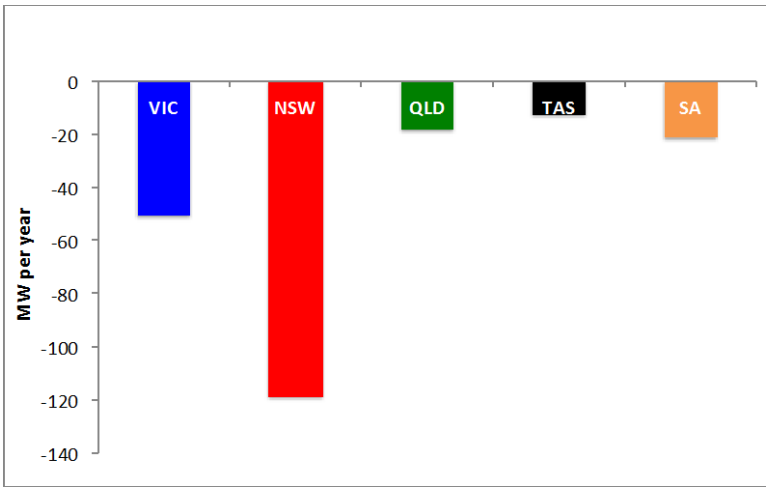
Source: EUAA analysis of AER and ACCC regulatory determinations

2.3. Peak and average demand

What is the broad context to Electranet's application? Electranet provides two services. It collects electrical current from grid-connected generators and delivers it to distributors and a small handful of end users that are connected to the high voltage transmission system. It also designs and operates a transmission system that is needed to meet the expected peak demand. So, how has the average and peak demand changed? Figure 3 shows the trend rates[7] of decline in average demand from 2007 to 2012. In South Australia over this period, average demand has declined by around 20 MW year-on-year. As a proportion of the annual average demand in South Australia this is the most rapid rate of decline of all NEM regions.

[7] The gradient of the linear regression of annual data.

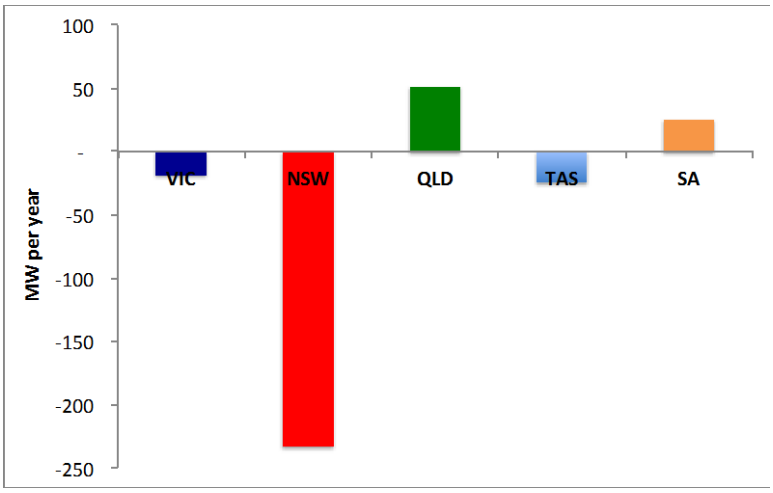
Figure 3. Trend rate of decline in average demand 2007 to 2012



Source: EUAA analysis using metered demand data from NEMReview.

Figure 4 shows the trend rate of growth/decline in annual peak (NEM) demand over the period from 2007 to 2012. It shows that as a trend rate, peak demand has risen in South Australia by 25 MW per year.

Figure 4. Trend rate of growth/decline in annual peak NEM demand 2007 to 2012



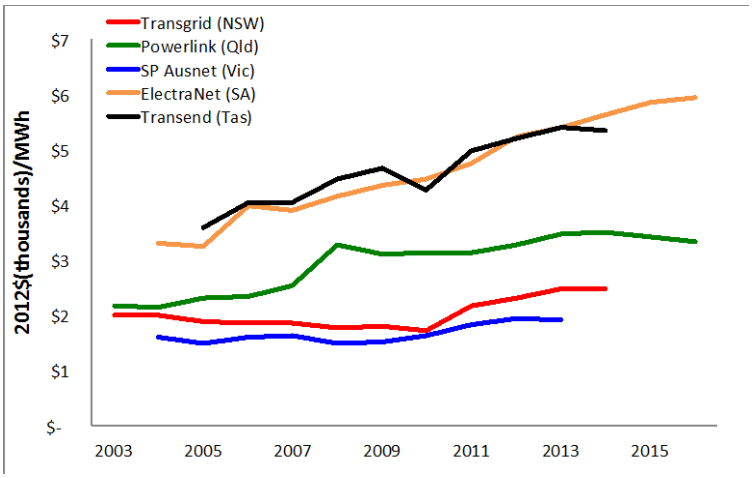
Source: EUAA analysis using metered demand data from NEMReview.

The observations to draw from these data is that over the last six years the demand for the services provided by Electranet, is at best declining slowly (average demand) or growing slowly (peak demand).

2.4. Opex

How does the level of opex and its growth by Electranet compare to its peers in the NEM? Figure 5 shows the latest available data on actual opex, and regulatory allowances where actual data is not available for all TNSPs operating in the NEM. It shows that per MWh transported, Electranet has the highest level of operating expenditure of all the TNSPs in the NEM. The data on opex for Electranet from 2013 is the AER's draft decision and shows that the gap between Electranet has grown wider relative to Powerlink and also relative to the other TNSPs unless the AER approves substantial increases in the level of their expenditure in future.

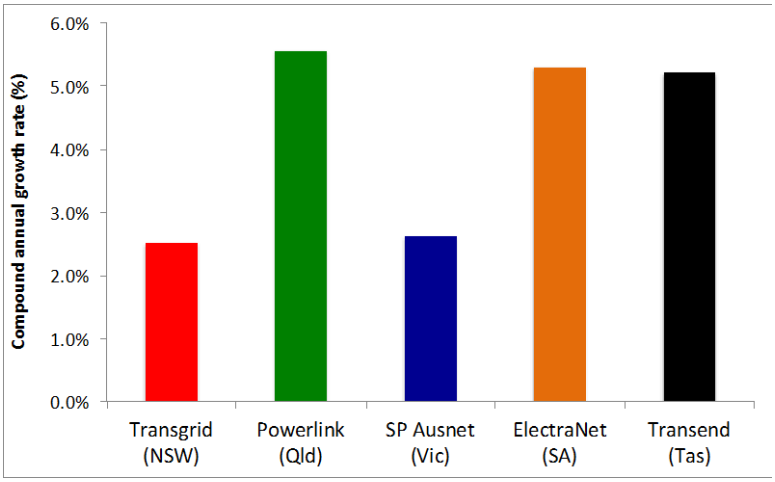
Figure 5. Opex per MWh of transmission network service providers in the NEM



Source: EUAA analysis of AER and ACCC regulatory determinations

Figure 6 shows the compound annual growth rate in opex since 2005 of TNSPs in the NEM, using the same data as show in Figure 6. It shows that as a compound annual growth rate, based on the AER's decision Electranet will have increased opex by a little over 5% per year, only a little bit slower than Powerlink.

Figure 6. Opex compound annual growth rate since 2005[8]



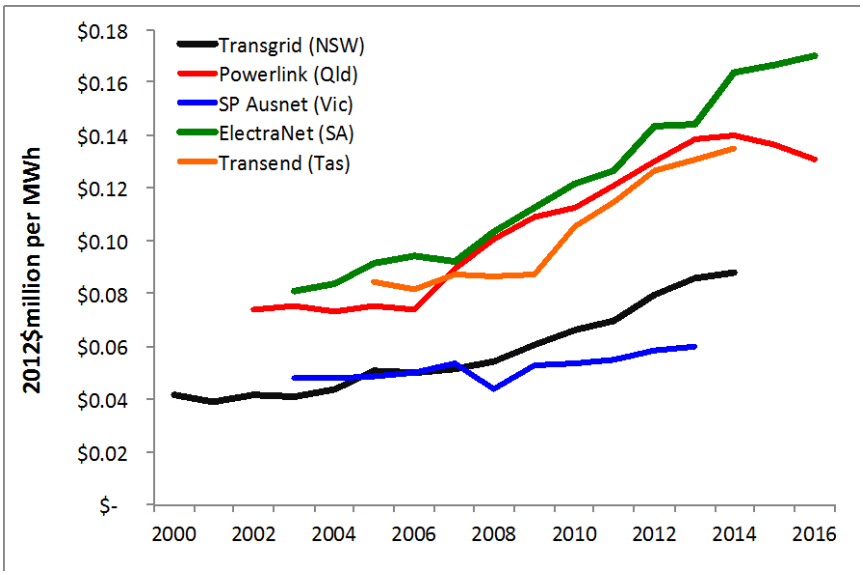
Source: EUAA analysis of AER and ACCC regulatory determinations

2.5. Capex

Capital expenditure results in an expansion of the regulated asset base (RAB). Figure 7 shows the change in RAB per MWh transported in the NEM, and uses the projection of Electranet's RAB based on the AER's Draft Decision. It shows that Electranet has a RAB that has grown around 2.5 times from 2003 to 2018. It already has a significantly larger asset base per MWh than any of the other TNSPs, and unless the AER allows significantly greater expenditure for other NSPs, Electranet's RAB per MWh transported will continue to be the highest in the NEM.

[8] Calculation in constant 2012$. Takes account of most recent data on actual opex, or regulatory allowances where actual data not available. Data for TransGrid and Transend to 2014, SP Ausnet to 2015, Powerlink to 2016 and Electranet (using AER's Draft Decision) to 2018.

Figure 7. Growth in the RAB per MWh transported

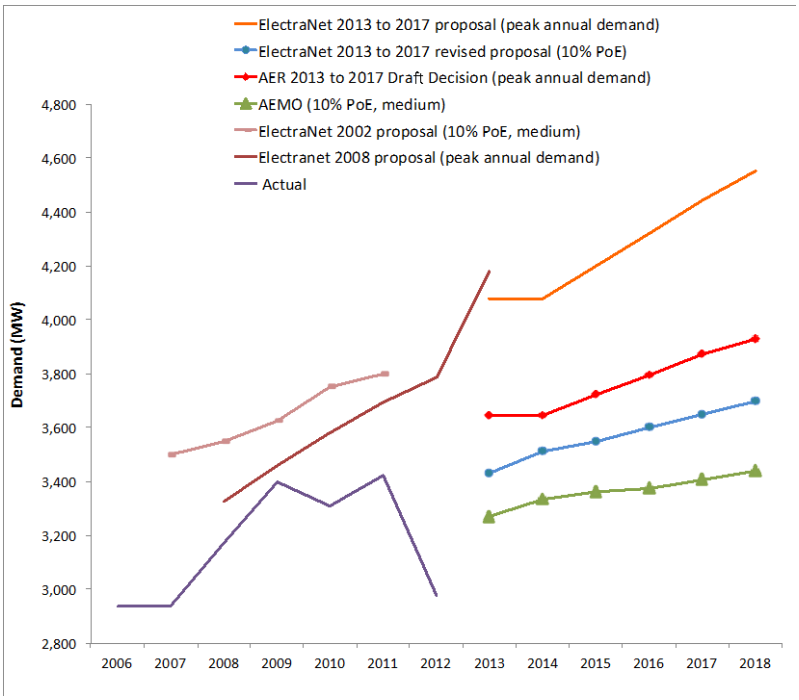


Source: EUAA analysis of AER and ACCC regulatory determinations

3. Comment on demand forecasts

We have examined the demand forecast that Electranet has made, and compared it to the AER's Draft Decision, and previous forecasts that Electranet has produced. The results are shown in Figure 8 below.

Figure 8. Electranet demand: actuals to 2012 and forecasts to 2018



Source: EUAA analysis of AER and ACCC regulatory determinations and network service provider proposals

Figure 8 shows that Electranet's initial 2013 to 2017 proposal was essentially a continuation of the rapid demand growth projections that it made in its previous two revenue control periods. Electranet's revised demand projections were significantly lower (800-900 MW) than their initial proposal, although the two projections are not directly comparable since the former is a projection of peak demand, while the latter is a projection of demand that has a 10% probability of exceedence.

These comparisons show that Electranet seems to have had a long history of projecting demand to be significantly higher than it has turned out to be. The error (difference between forecast and actual demand) in 2012 was about 1,700 MW i.e. projected peak demand was about 50% higher than actual peak demand in 2012. The error in 2013 is yet to be known, but may well prove to be significantly higher than this.

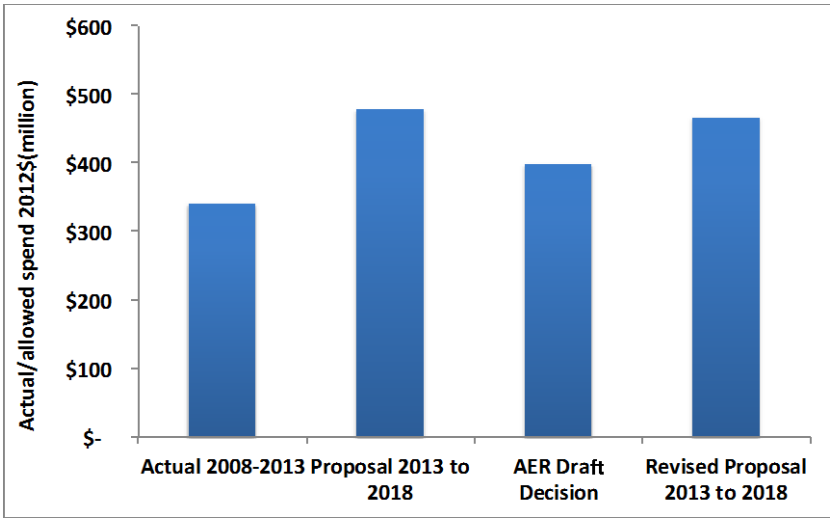
Electranet's revised proposal demand forecast is significantly lower, but still substantially above – for all years of the regulatory control period - the level of actual peak demand.

We accept that it is difficult to relate demand projections to capital expenditure. Our main concern is that, as we noted earlier, as a trend rate, peak demand has grown by around 25 MW per year in South Australia. Electranet has historically forecast much higher rates of demand growth and presuming it believed its forecasts, will have the augmented capacity of its network accordingly. This therefore suggests that there is significant spare capacity on the Electranet network. We would have expected that this would have resulted in significantly lower capital expenditure in future whereas this is not the case based on Electranet's proposal and the AER's Draft Decision. We take this point in more detail in our discussion on capex.

4. Comment on allowances for Opex

We noted in Section 2 that Electranet's opex per MWh transported is the highest in the NEM. To some degree this may be explained by scale economies – a relatively large network in South Australia in comparison to the volume of energy through-put. However, Electranet's opex has also grown very strongly relative to other TNSPs. This, along with declining average demand is resulting in higher operational charges per MWh delivered. Against this context, Electranet has sought a significant expansion in opex, and although their revised proposal is lower than their initial proposal, the gap is small. This is summarised in Figure 9 below.

Figure 9. Electranet opex: actuals, proposals and draft decision



Source: EUAA analysis of AER and ACCC regulatory determinations

We support many aspects of the AER's Draft Decision on opex, although there are few issues that we suggest might be revised.

Opex escalation based on the change in the RAB

We do not think that opex should be escalated based on RAB escalation. Electranet has proposed relatively low expenditure on network augmentation and relatively much more asset replacement. During the regulatory period, the RAB will therefore be expanding as a result mainly of asset replacements. In general new assets will have a lower maintenance and operational expenditure requirement than the old assets that they replace. This should therefore result in a decrease in the allowance for opex, not an increase.

To the extent that any allowance is to be made for increased opex as a result of increased network capacity, we suggest that the AER develops on index that accounts for changes in network length and transformation capacity.

Condition assessment opex

We support the AER's approach to the substantial increase in opex to account for expenditure that Electranet has proposed, to improve its field maintenance / condition assessment systems. Electranet has not taken account of the savings that such higher expenditure will deliver, rather it has alluded to savings arising, possibly, in future regulatory periods.

We suggest this is unrealistic. If our members sought approval for such large increases in their operating costs, they can be expected to have to justify it by demonstrating savings that exceed the cost of the investment. Electranet has not done this. Noting again, the evidence of comparatively high operating costs and sustained increases to-date, we can not support further substantial increases in the absence of off-setting savings of at least the level of the increase attributable to the investment in field maintenance / condition assessment systems.

Opex efficiency factors

The AER has decided a 2.5% efficiency adjustment to the trend of Electranet's historic expenditure. We note that Electranet is "deeply concerned" about this. In its revised proposal it suggests that such adjustments are contrary to the incentive regime that the AER is required to implement. We disagree with Electranet's response. The issue here is what level of efficiency improvement should be expected as a matter of course, and what should be expected to result from above-average effort. The AER's 2.5% adjustment is, we consider, too low. After inflation, expected at 2.5%, Electranet's real opex will essentially remain constant. By comparison, across the Australian economy real productivity improvements of 1-2% can be expected as a matter of course, with significantly greater improvements expected and achieved in various industries for long periods. In other words, just to keep up with the base level of productivity improvement across the economy, the AER's opex efficiency factor should be in the range of 3.5% to 4.5%, not 2.5%.

We suggest that opex efficiency improvements greater than a reasonable expectation of the economy-wide improvement in productivity should be reflected in the AER's opex efficiency factor. The incentive scheme operated by the AER should only reward Electranet for improvements beyond a reasonable base level. Accordingly we propose that the AER increase its opex efficiency factor from 3.5% to 4.5%.

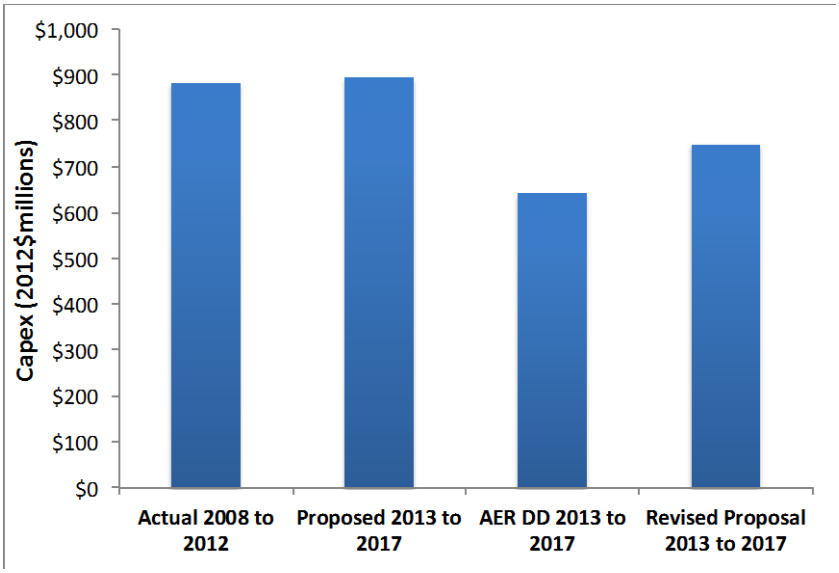
Choice of base year

We agree with the AER that Electranet's proposed base year 2011-12 is not appropriate. However, we are not convinced that 2010/11 is necessarily the right answer either. We suggest that the AER averages the opex for all years in the current regulatory period for which audited actual data is available, in setting the base year for the opex allowance for the next control period. Electranet's annual opex seems to exhibit some significant inter-annual variance and the choice of an average of the outcome in the regulatory period would seem to be an appropriate way to deal with this uncertainty.

5. Comments on allowance for capex

Electranet's total actual opex compared to its proposal, revised proposal and the AER's Draft Decision is set out in Figure 10.

Figure 10. Actual, proposed and Draft Decision capex



Source: EUAA analysis of Electranet proposals and AER Draft Decision

In the rest of this section we set out some of our comments on the proposals and the Draft Decision.

Cost estimation risk factors

We disagree with the AER's allowance for any upward adjustment to take account of what Electranet calls "cost estimation risk". Electranet's arguments on this is based on a report by Evans and Peck, to the effect that there is an asymmetric risk (outturn costs are more likely to be higher than lower). The Evans and Peck analysis is just an assertion – there is no reliable evidence that project costs, as defined at a particular point and after taking account of changes in specification, changes in project scope and so on are likely to turn out to be asymmetrically higher rather than lower.

On the other hand, the regulatory control provides Electranet very powerful incentives to over-inflate their expenditure projections in their proposals to the AER. To the extent to which they are able to convince the AER to allow higher expenditure than they need, they benefit from this financially. This is a very real incentive and is likely to more than neutralise any possibility that outturn costs will be higher rather than lower.

Accordingly we cannot support the AER's decision to make an allowance for "cost estimation" risk.

SA Water replacement assets

ElectraNet has proposed $398 million for replacement capex up from $237.4 million during the current period (an increase of 68% from the current period). The AER draft decision provides $261 million, an increase of 10.2% from ElectraNet's expenditure in the current period. Approximately 31% (or $123.4 million) of the total replacement capex comes from the replacement of substations supplying electricity to SA Water's pumping stations .

The AER has included the full amount of the upgrade into ElectraNet's proposed replacement capex despite some serious concerns expressed by its consultants.

EMCa expressed concern that only a high level concept planning and cost estimation had been implemented and that the documentation provided by ElectraNet did not have condition assessment reports supporting ElectraNet's beliefs (EMCa report p. 95). EMCa also stated that they had concerns over the "reasonableness of the expenditure in the timeframe and the lack of justification, including options and risk assessment, relevant to the level of the proposed expenditure." (p. 95). They also had issues with the age profile of some of ElectraNet's assets, EMCa stated that overall the age profile of the substations assets was relatively young, despite the existence of older transformers (p. 112).

EMCa could not conclude that the pumping station replacement capex represented efficient costs and the AER should not accept those costs as part of the capex proposal without a justified business case (p. 96). The National Electricity Rules (NER 6A.6.7(c)) state that the AER cannot accept costs that are inefficient.

Given the concerns expressed by its consultants, we suggest that the AER should not accept the $124 million replacement of the substations and the AER should review its draft decision accordingly.

Concerns about the arrangements for prescribed transmission services

Under the current arrangements if a user of the transmission system or group of users request changes to the services for infrastructure that provides prescribed transmission services they would be required to pay for the upgrade. If SA Water had requested a change in service that required the substations to be upgraded then it would incur the cost of the replacement of the substations.

ElectraNet argued that the plant and equipment at the substations were at the end of their technical and economic life and need to be replaced, subsequently the AER sent a letter to SA Water requesting further information and SA Water stated that they had not requested a change in service i.e. they have not requested an upgrade and had no plans to increase the pumping requirements for the pumping stations (SA Water letter from Peter Seltzikis to Warwick Anderson at the AER dated 12 October 2012).

The EUAA shares the concerns expressed by EMCa that the current arrangements for prescribed transmission services are flawed. EMCa state that:

> *The current arrangement for grandfathering and prescribed transmission services disincentivises SA Water from notifying ElectraNet from any change in the services (i.e. pumping stations) that SA Water may require as the current grandfathering arrangements would fall away requiring require SA Water to pay the full cost of change in services.* (p. 96).

EMCa point out that:

> *'Replacement of assets on a like for like basis assumes that the required service for water pumping will not have changes for 100 years (55 years to date plus 45 years future). It is considered that the required service will not have changed over this time. This does not appear to be a reasonable assumption given the development of water dependent consumers in the region.'*

The EUAA is also concerned that there is nothing preventing SA water requesting a service upgrade after the installation of the new substations as it would only be required to pay for any upgrades related to the change in service required by the customer (i.e. avoiding a cost of $123.4 million for a potentially lower cost). We also suspect that SA Water could receive additional benefits from the substation replacement as technology in substations has likely improved from when they were first installed.

We concur with EMCa that the current arrangements need to be reviewed as they have the potential to push costs for changes in services requested by certain customers onto others who will not derive any benefit.

The AER has said it is bound by the Rules and has agreed that this Rule should be reviewed. We agree with the AER and in view of the doubt expressed by the AER's consultants, about this substantial expenditure, we call on the AER not to make any allowance for this capital expenditure in its Draft Decision, but rather to identify this expenditure as a Contingent Project so that it can be reviewed in greater detail during the regulatory period. In the mean time we call on the AER to propose a change to the rules on this issue, as a matter of priority.

Easements

We support the AER's Draft Decision on easements. We note that Electranet has reduced its easement claim in its revised proposal, but we remain unconvinced that the budget that Electranet has sought is reasonable.

In this regard we note that in its last determination, Electranet had applied to spend around $20m on easements in the first three years of the current regulatory period, whereas its records show it has spent just $2.7m. In its submission Electranet has projected that it has spent/ will spend another $27m between 2011 and 2013. We do not find this convincing given their track record of a significant difference between what they have claimed and what they have actually done.

Again, in the context of a network whose demand is growing very slowly, if it all, we fail to see how Electranet's substantial easement expenditure can be justified.

Load driven capex

Electranet's load driven capital expenditure proposal has reduced by $100m to $216m in their revised proposal compared to $316m in their initial proposal. This compares to a reduction in their demand between their initial and revised proposal of about 700 MW. In their revised submission they suggest that load driven capex has reduced by $113m due to their lower revised demand projection. This implies avoided costs of $0.11million per MW.

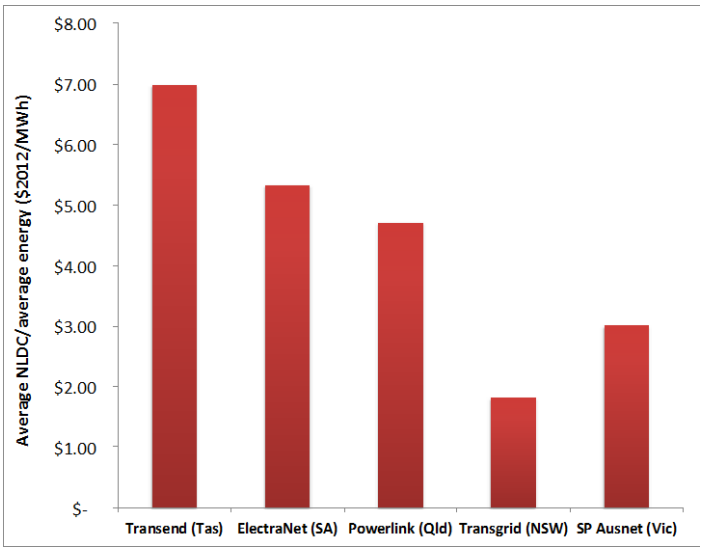
This begs the question: if Electranet's revised proposal was an increase in demand of 700 MW, would they have only sought an additional $100m to meet that demand, or would they have sought substantially more? CME analysed this marginal cost in their report "A comparison of outcomes delivered by electricity transmission network service providers in the National Electricity Market" which is available on our website and was released last year. This found a marginal cost of load driven expenditure of around $0.85m per MW of demand growth, roughly 8 times higher than Electranet has suggested by comparing their initial and revised proposals.

The AER's load driven capex reflects the AER's demand forecasts, which are higher than Electranet's revised forecasts. We call on the AER to revisit this load driven capex allowance to take account of the lower demand forecasts and also the apparent disparity between the marginal avoided cost of lower demand forecasts and the higher marginal additional cost associated with higher demand forecasts.

Non-load driven capex comparisons

Electranet's average non-load driven capex – from 2005 and up to the end of the 2012/13 regulatory period, compared to its peers in shown in Figure 10 below. It shows that Electranet compares poorly to its peers, being the second-highest compared to Transend.

Figure 11. Average non-load driven capex divided by average energy



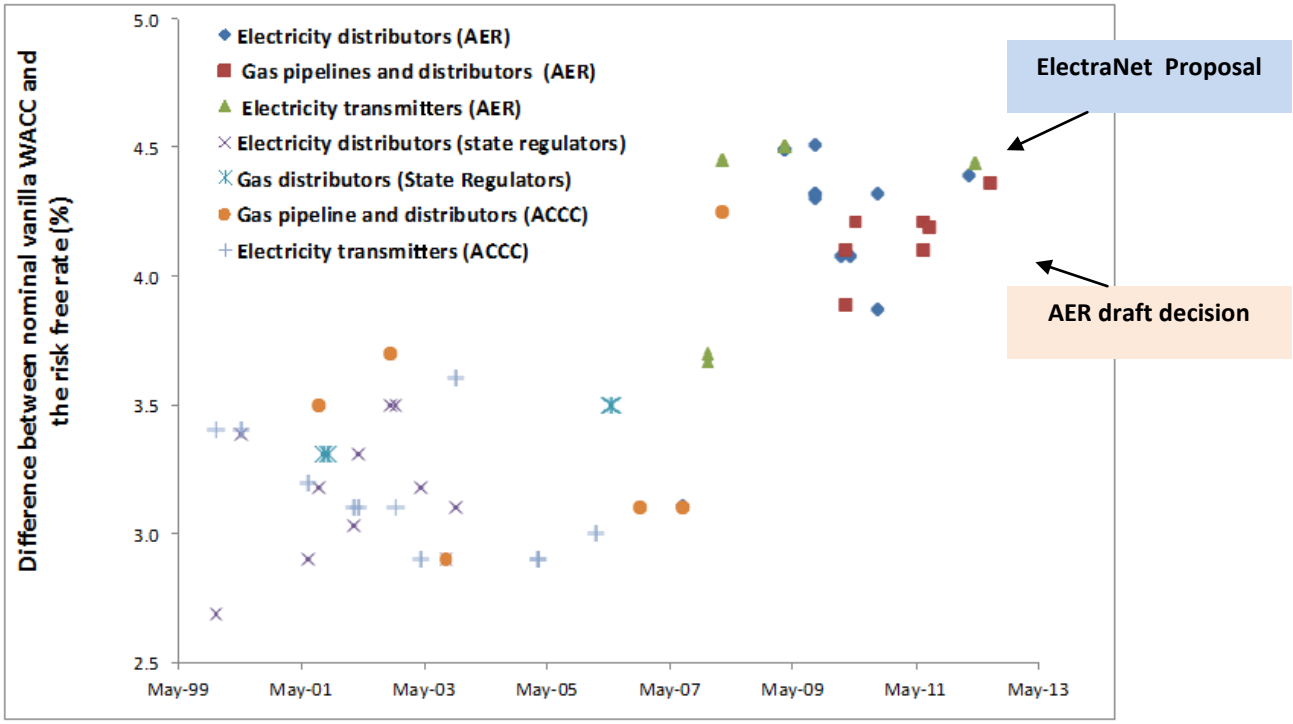
The AER's Draft Decision is to allow Electranet even more non-load driven capex over the coming regulatory period, than it has spent over the previous periods. To the extent that non-load driven capex of its peers does not rise to the same extent, Electranet's non-load driven capex would therefore be even less competitive.

We therefore fully support the AER's reduction of Electranet's non-load driven capex to account for the increase in the opex allowance that Electranet has sought for its condition assessment systems. We question however, why a saving *greater* than the cost is not reflected in the AER's assessment.

6. Comment on cost of capital

The AER's Draft Decision has resulted in a cost of capital that is comparable to the level it has set in recent decisions[9], although at the lower end of the range of these decisions, as shown in Figure 12.

Figure 12. WACC in AER decisions compared to that of other regulators



The AER's draft decision is at the lower end of range of previous AER decisions, but above top end of the range of ACCC / jurisdictional regulator decisions.

We reluctantly support the AER's Draft Decision. With regard to the debt risk premium we note the AER's concern about the extrapolation of the Bloomberg fair value curve, and the Australian Competition Tribunal's recommendation to complete a public consultation process before considering any alternative methods.

As the AER is well aware the EUAA has been critical of the calculation of the debt risk premium in particular. This criticism is now well accepted in the industry. Energy users are continuing to pay a price for this, and the EUAA looks forward to a speedy resolution of this in the development of the AER's cost of capital guidelines.

[9] The comparison is of vanilla WACC less the risk free rate.

7. Comment on service standards incentives

We support the AER's decision on all aspects of the service standard incentive with the exception of the market impact measure. With the market impact incentive, Electranet can earn an additional $34.5m over the regulatory period. To earn this, it simply needs to ensure that the cumulative number of dispatch values who marginal network value exceeds $10/MWh is less than the five year average. We suggest that this is a poorly designed incentive. Marginal value of network constraints ignore the volume of redispatch that might have arisen as a result of the congestion. It is the volume of the redispatch cost, not just a marginal price of 5-minute congestion that matters. The AER's incentive creates a significant risk that Electranet will charge consumers far more than the economic cost of the constraint (or the market value of the constraint to buyers and sellers in the NEM). We appreciate there is no scope to redesign the scheme now, but we suggest as an interim measure that either:

- the percentage of MAR at stake in the market impact measure be reduced from 2% to 0.2%; or
- the incentive sets a much tougher target before additional revenue is awarded. This could be for example by setting a target number of dispatch intervals at a quarter or a third of the current level.