

21 April 2004

Mr Sebastian Roberts
General Manager
Regulatory Affairs- Electricity
Australian Competition and Consumer Commission
GPO Box 520J
Melbourne Vic 3001

Dear Mr Roberts,

Draft Decision - Review of the Regulatory Test for network augmentations.

Origin appreciates the opportunity to provide some brief comments on the Australian Competition and Consumer Commission's (ACCC) draft decision on the regulatory test.

Origin considers there are fundamental problems with relying solely on a market based framework for investments in transmission. These problems are now well recognised in the literature and include the presence of significant positive and negative network externalities, lumpiness in investment opportunities, the complexity of defining property rights on the network, the inability of private investors to capture the full social benefits of their investment and, finally, the inability of spot or nodal prices to pay for the investment once the investment has been made. This implies the public good nature of transmission and thus the need for a regulatory framework for encouraging the correct level of transmission investment in electricity markets.

In relying on regulation to drive investment it is important that the benefits and costs of transmission investment are accurately captured, and that the process for investment occurs in a timely, unambiguous and unencumbered manner.

In this regard, we support the amendments proposed by the ACCC to clarify the process and application of the regulatory test, particularly in relation to 'committed' and 'alternative' projects.

Origin also supports the removal of biases toward market based investments in the regulatory test. For instance, note 7, which requires 18 months of notice to the market before a regulatory augmentation can be built unnecessarily delays transmission investment in the NEM. This applies to unregulated as well as regulated developments, because proponents of the former can delay proposals in the full knowledge that they will not face competition from regulated proposals for 18 months after a network limitation has been identified. The removal of this note should therefore encourage transmission development in the NEM.

Origin has also revised its 'in principle' views on including competitive benefits in the regulatory test, although our concerns with the complexity of calculating such benefits remain.

Nevertheless, a significant driver for transmission investment is the removal of significant constraints from the network. Constraints reduce the ability of customers and generators

to access the market thereby increasing the level of trading risk, and enhance opportunities for the exercise of market power. It is therefore important that the regulatory test clearly recognises the economic benefits of removing congestion from the network. In this regard, the inclusion of competition benefits provides an additional limb for valuing the economic impact of congestion which has hitherto been missing from the regulatory test. This should lower the hurdle for transmission investments passing the regulatory test to a level more consistent with the full social benefits they can bring to a common carriage network.

Finally, Origin also considers the current regional boundary review provides an excellent opportunity to further integrate the regulatory test with congestion management in the NEM. While the MCE is focused on developing economic criteria for measuring congestion in the NEM and thus justify regional boundary change, it could be argued that this is redundant, given that now with the inclusion of competition benefits, such criteria fully exist under the regulatory test.

In our view it would be inappropriate for separate criteria to be developed under the regional boundary review which would assess the economic value of congestion differently to that of the regulatory test. Of course, the key outcome of following this logic through is that where congestion is significant this could be equivalently addressed through either a regional boundary change or transmission investment.

Origin is inclined to support the latter: a more interconnected network with more predictable transfer capacities would obviate the need for regional change and the consequent problems of regulatory risk, regional fragmentation, market power, and the need for complex and expensive financial arrangements for managing inter-regional basis and regulatory risk.

If you have any questions in relation to this submission please do not hesitate to contact Con van Kemenade on (02) 9220 6278

Yours Sincerely,

Tony Wood
General Manager
Public and Government Affairs