office of the tasmanian energy REGULATOR

Reliability and Network Planning Panel

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Mr Sebastian Roberts
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Australian Competition and Consumer Commission
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Dear Mr Roberts

RE: Discussion Paper – Review of the regulatory test

Thank you for granting the Reliability and Network Planning Panel an extension of time to provide comments on your Discussion Paper – 'Review of the regulatory test'.

The RNPP has considered the issues raised in the Discussion Paper and wishes to make the following comments:

- The RNPP is supportive of the Commission's proposed changes to the Preamble of the Regulatory Test;
- The RNPP supports changing the reference to conditions to be met for assessing reliability augmentations, to also include consideration of relevant legislation or statutory instruments of a participating jurisdiction when undertaking such an augmentation assessment;
- The RNPP supports other amendments that reflect Code changes dealing with:
  - the fact that NEMMCO is no longer responsible for applying the regulatory test to new interconnectors and NSPs are responsible for applying the test themselves.
  - the removal and replacing the distinction between inter and intraregional network augmentations with new large and small network assets;
- On the question whether the current classification between large and small network assets in the code is appropriate, the RNPP is of the view that the threshold should be set by the Commission on the advise of the respective jurisdictional authority, as the network systems in the different jurisdictions have different physical & network characteristics that necessitate different thresholds;

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- The RNPP agrees with the Commission on the criterion to be used when deciding which alternative project should be taken into account in applying the regulatory test; that is the project should:
  - have a clearly identifiable proponent,
  - be a genuine alternative to the project being assessed, (ie, a substitute); and
  - be practicable
- The RNPP endorses the recommendation to include 'examples' of 'market benefits' in the regulatory test as identified in the ROAM Consulting report;
- The RNPP agrees with the Commission recommendation that the following should be identified as examples of source of costs in respect of new network investment:
  - the capital costs incurred prior to commissioning;
  - operating and maintenance costs over the operating life of the project;
  - costs that arise from losses associated with the power flows;
  - ancillary service costs; and
  - the cost of disruption to the NEM for testing of augmentations or upgrades.
- The RNPP endorses the proposal that there should be consistency with NEMMCO criteria for committed projects used in its Statement of Opportunities, and the Commission's proposed criteria for an anticipated project for the purpose of the regulatory test:
- The RNPP endorses the use of a pre-tax real discount rate for the purpose of the regulatory test and that it is appropriate to use either of the two conversion methods mentioned in the Discussion Paper;
- The RNPP wish to point out that there appear to be some confusion in the use of the term 'VoLL' (Value of Lost Load) and how the Regulatory Test makes use of the value that customers place on an increment of reliability improvement, which is linked to imputing a value to the increase in reliability delivered by a particular project proposal. The price cap in the pool was dissociated from the value customers place on lost load and is now aligned with the incentives required to attract new investment in peak period generation[1]. However, the Code continues to refer to the price cap in the pool as VoLL. In the circumstances, the RNPP does not support the 'hard wiring' of a figure of $10,000/MWh. Given the wide variation in the values different customer classes place on a supply outage, the RNPP favours the existing methodology recommended by the ESAA Guidelines for Reliability Assessment Planning (November 1997). These Guidelines use different customer class values of lost load, weighted by the customer class annual electricity consumption affected by the project. The Guidelines recommend network entities determine VoLL values for the respective customer classes in the affected area, or use other relevant values appropriate to their circumstances;
- The RNPP endorses the Commission's proposal to require a NSP disclose the following information in respect of a reliability driven augmentation:
  - cost of the augmentation;
  - whether the augmentation meets Code or jurisdictional objectives;

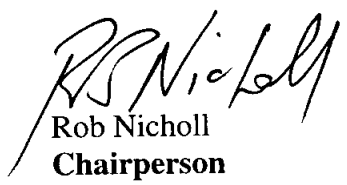
[1] See Reliability Panel Review of the value of lost load – Consultation Paper (December 2002)

- what the current restriction is on the network and why the proposed augmentation is required;
- implications to the system or network if the proposed augmentation does not proceed; and
- the benefits that the augmentation can provide.

- The RNPP shares the Commission's concerns that recognizing competition benefits is likely to have the following impacts and as such suggests that competition benefits should not be included in the Regulatory Test:
  - creating confusion as it would involve difficult assumptions on maintenance scheduling, generator bidding intentions, demand side response programs, etc.;
  - leading to significant increase in the number of disputes and length of time to resolve them; and in turn
  - ultimately cost the end-use customer significantly more in power related charges than would be saved by improved efficiency in resource allocation.

I hope the above comments are useful to the Commission's deliberations regarding possible changes to the Regulatory Test.

Yours sincerely



Rob Nicholl
Chairperson
Reliability and Network Planning Panel

15 April 2003