Wambo
GAS POWER
The Next Generation

Wambo Power Ventures Pty Ltd

A.C.N. 083 762 056
Telephone: (07) 3878 2044
Facsimile: (07) 3878 2055

Metro West Centre
6/620 Moggill Road
PO Box 98
KENMORE QLD 4069

29th April 2004

Mr Sebastian Roberts
General Manager
Regulatory Affairs – Electricity
Australian Competition & Consumer Commission
GPO Box 520J
MELBOURNE VIC 3001

By email: electricity.group@accc.gov.au

Dear Sir,

RE: REGULATORY TEST for NETWORK AUGMENTATIONS

We are pleased to have the opportunity to comment on the ACCC's draft decision: "Review of Regulatory Test for Network Augmentations".

The need for significant refinements to the Regulatory Test (RT) has clearly been established. Wambo Power Ventures (WPV) previously has raised a number of difficulties which the existing RT creates for proponents of non-transmission alternatives to network augmentations. These concerns do not appear to be addressed by the proposed changes to the RT and, further, the proposed changes to the RT would only appear to exacerbate some of these difficulties.

In particular,

(i) WPV and many other NEM participants expressed concern about any devolving to TNSP's of responsibility for applying the RT. It is our opinion that this would be contrary to the essential purpose of the Code in respect of achieving commercial efficiencies and least cost power generation and supply, in respect of the assessment of non-transmission alternatives. It can be no reflection on TNSP's that they should be regarded as neither qualified by regular practice to assess non-transmission alternatives, nor devoid of serious conflict of interest in respect to non-transmission alternatives to network augmentations.

- **WPV does not support the removal from the RT of Note 7 in respect of unregulated generation and demand-side development alternatives.**

(ii) No mechanism appears to exist in either the existing or proposed refined RT for a proposed non-transmission alternative to negotiate firm network support obligations and payments prior to unconditional financial commitments being made in relation to the non-transmission alternative. An obvious example of this is in the development of gas-fired generators, where network support payments to the gas-fired generation proponent at a lower cost than the network reinforcement would represent a small but significant fraction of the power station costs.

- **WPV considers that the RT is quite deficient in not providing for negotiation of firm network support agreements & payments with proponents such as gas-fired generators, prior to final commitment of the alternative to network augmentations.**

(iii) Under the existing RT, the time constraints on new generators offering non-transmission alternatives are confusing, and this would appear to be potentially seriously exacerbated by the proposed refinements to the RT.

- **WPV does not support the removal from the RT of Note 7 in respect of the minimum periods between an announcement of a proposed network augmentation to mitigate a projected supply deficiency and any commitment to the network augmentation where generation or demand-side developments are clearly feasible non-transmission alternatives.**

- **WPV does however support proposals that alternatives to proposed network augmentations should have credible proponents, subject to retaining time constraints and public notice provisions on TNSP's. Such proponents should also have to offer certainty of an alternative solution at a lower assessed cost by no later than the lead-time required by the TNSP to deliver a timely network augmentation solution.**

(iv) WPV and others have also expressed concern at the concentration in the RT calculations on long-term cost-benefit analysis, when gas-fired generators, for example, can often offer most economical terms for deferral of major network reinforcements, such as in the case of the new 330kV Yass-Young transmission line proposed by TransGrid to meet projected supply deficiencies in the Southern Region of NSW. In addition, an analysis of network augmentation benefits beyond five years cannot possibly be but highly speculative as to what generation will be available in the system and in what locations.

- **WPV is concerned at the continuing inadequacies of the RT in assessments against generator alternatives arising from long-term cost-benefit analysis, and especially the disadvantage in comparisons with gas-fired generators which have lead-times of less than 18 months and which can demonstrate a capacity to at least defer network augmentations for significant periods, if not indefinitely, with a network support agreement and payments equivalent to a small fraction of the total power station costs.**

(v) WPV has expressed concern as to ambiguities in the present RT in respect of system savings and efficiencies which are assessable under the RT, such as the benefits derived for electricity consumers generally from mandatory reactive power ancillary services in respect to generation alternatives to network augmentations, and also from enhanced interstate interconnector capability.

- **WPV supports ACCC's proposal to amend the definitions of market benefit and costs so as to clarify what such benefits and costs may be taken into account, and that such a process should be on-going, until participants, including TNSP's, no longer have to deal with definitional ambiguities.**

(vi) WPV had considered that competition benefits derived from improved economic efficiency should be able to be defined for inclusion in the RT, but that this should not apply to wealth transfers, and ACCC has recommended this course. However, the methodology proposed by ACCC is in our view totally unsuitable due to its heavy reliance on subjective assumptions and inputs to models.

- **WPV does not support the methodology proposed for the measurement of market benefits, nor a contemplation that TNSP's may be relied upon to make judgements on input assumptions in relation to bidding behaviour and market power in the market in any RT assessment which they are managing.**

Negotiation of Firm Network Support Payments by Gas-Fired Generators as Alternative to Network Augmentations

WPV considers that this is one of the greatest deficiencies in the RT, mainly affecting peaking gas-fired generators, which can offer significant locational benefits as well as short lead-time responses. These gas fired generators require a network support agreement prior to construction to be able to offer certainty as to network support which would obviate the need for a network augmentation.
It would appear to WPV that some kind of government or regulatory intervention is presently required to effectively circumvent the strict procedure of the existing RT to effect such an outcome.

In our opinion, the strict adherence to the RT in respect of a gas-fired peaking plant alternative to a transmission augmentation is quite contradictory to the intentions of the Code.

Although this was raised by WPV in the original call for comment on the RT, this deficiency has not received any attention in the current review.

The Code, past and present Governments, and the achievement of a least cost power generation and supply system, all require and demand that the rules of the NEM deliver regional investments which can capture locational economies and deliver least cost and commercially efficient solutions to electricity networks. There should not be an in-built bias against gas-fired generation, which has its greatest opportunity in our opinion for commercial use for power generation in peak/high shoulder power plants.

Strictly market-based gas-fired generators have been difficult to develop profitably in NEM because of the much higher marginal fuel costs compared to coal. Greenhouse abatement incentives by the State Governments and the growing air conditioning power demands have however helped to bridge the gap to commercially viable gas-fired High Shoulder generators.
A more practical procedure for negotiating network support payments for gas-fired generators as an alternative to network reinforcements notified by TNSP's would encourage such gas-fired generators to be located to save or defer the need for certain transmission augmentations, as well as often offering other system benefits, such as at least mandatory reactive power ancillary services at no cost.

Strict adherence to the present RT precludes the negotiation of network support agreements prior to unconditional commitment of the generator. Prior to such commitment, the power station is accounted for at its full capital, fuel and O&M cost, charging this total power station expense to the generation alternative to the transmission reinforcement.

The proposed changes to the RT would only exacerbate this problem, and to an extent that a generator proponent would be unlikely to put any effort into identifying non-transmission solutions where such network support payments, albeit only a small fraction of the power station cost, are necessary for commercial viability. The consequence is that where a commercially viable gas-fired generation development is established, the prospect of network support payments being negotiated after commitment of the power station would be a speculative upside to its investment.

The existing and proposed RT are shown accordingly to neither facilitate location of gas-fired generators taking account of network benefits, nor facilitate the passing on to retailers and electricity customers generator economies derived from network support payments which can be attracted to a committed generator.

Engagement of Consultants to Apply Proposed RT Methodology to "Real World" Examples

WPV understands that ACCC has engaged consultants to undertake methodology to apply the proposed refined RT methodology to designated projects. It is also understood that the consultants may apply the approach to the Yass-Wagga network augmentation proposal of TransGrid.

WPV has for many months been attempting to negotiate some certainty in relation to its proposed Wagga Wagga gas-fired power station attracting network support payments to defer at least for a period TransGrid's proposed new 330kV Yass-Wagga Connector, to mitigate projected supply constraints. This has taken place in a public process initiated by TransGrid in September 2002 strictly in accordance with the letter of the RT.

The project is however now approaching commitment in response to market demand for off-take products as a result of the continuing strong growth in air conditioning power demands. After commitment, the power station should be able to demonstrate a clear least cost alternative to mitigate the projected supply deficiencies in the Southern Region at a small but significant proportion of the power station cost. Such a negotiated network support agreement has not been able to be negotiated prior to a firm commitment to the financing and construction of the power station, and the price of off-take products able to be offered to the market has not been able to reflect this speculative upside.

Despite Wambo Power Ventures appearing to be in a lone voice, we would expect other generators to support the RT deficiencies in these respects in relation to gas-fired generators.

If the consultants intend to conduct the methodology on the proposed Yass-Wagga network augmentation, WPV would welcome the opportunity to co-operate with the Consultants as they undertake such a task. WPV personnel in any of Melbourne, Sydney or Brisbane could be made available to assist the Consultants accordingly.

WPV has no objection to the publication of these comments.

Yours faithfully
Wambo Power Ventures Pty Ltd

Trevor St.Baker
Managing Director