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Dr John Tamblyn

Australian Energy Market Commission  
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Dear Dr Tamblyn

### **National Transmission Planning Arrangements**

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Scoping Paper released by the Australian Energy Market Commission (AEMC) in August on the future arrangements for the National Transmission Planner. Stanwell notes that at the Council of Australian Governments (COAG) request, the Ministerial Council on Energy (MCE) has directed the AEMC to conduct a review into the development of a detailed implementation plan for an enhanced national transmission function. This Scoping Paper represents the first stage of the review process.

We understand that the review will encompass three principle tasks:

- development of an implementation plan for the national transmission planning function, including arrangements for the preparation of a 10 year National Transmission Network Development Plan (NTNDP) to be updated annually;
- consideration of the case for simultaneous review and determination of TNSP revenue caps, in place of the current sequential reviews, and
- a revised network planning and consultation process, to replace the current 'Regulatory Test' with an assessment process that amalgamates the reliability and market benefits criteria of the current Test, which involves the broadening of the definition of market benefits.

Stanwell is supportive of the review process being undertaken by the AEMC. In responding to the Scoping Paper, Stanwell does not intend to comment on each of the issues addressed. Rather the primary purpose of this submission is to comment on a number of specific areas relating to the revised network planning and consultation process (new arrangements). These issues specifically relate to:

- Examining options for broadening the definition of market benefits to incorporate wider economic impacts; and
- Providing scope to broaden the application of the new arrangements to projects beyond network augmentations such as reconfigurations.

Document4

## 1. DEFINITION OF MARKET BENEFITS

According to the terms of reference for the review the AEMC, as part of defining a revised network planning and consultation process, is required to broaden the definition of market benefits to include national market benefits. Specifically the AEMC is:

*seeking views on the problems of the current definition of market benefits, or the application of that definition, which lead to a failure to consider broader market benefits.*

As part of the 2006 Energy Market Reform Implementation Group (ERIG) review process, Stanwell provided a number of submissions, which addressed the issue of the Regulatory Test. These submissions raised a number of important issues which Stanwell considers relevant to the concept of national market benefits and are outlined below.

It is commonly recognised that transmission investment exhibits "externalities" in terms of the wider economic benefits or "spillovers" (such as improved international competitiveness), which are not captured within the existing economic framework for transmission. Specifically, Stanwell is of the view that treating the electricity market, for the purposes of considering the economic framework for transmission, as an isolated system (and ignoring its role in the broader economy) fails to take into account these externalities (or spillover) effects. Stanwell considers that it is insufficient to argue that if an externality cannot be measured that it should be excluded from the economic assessment of network investment projects. Further, we questioned whether micro-economics alone is able to capture these broader benefits. Based on the complex nature of electricity, the applicability of traditional micro-economics models requires further testing.

In 2006, Stanwell undertook to formalise this position and engaged ACIL Tasman to assist in considering options for improving the effectiveness of the market benefits limb of the Regulatory Test for transmission investment. In doing so, ACIL Tasman reviewed the rationale for the current criteria and then considered, at a high level, options for the estimation of economy-wide benefits. The ACIL Tasman Report, *Economic Benefits of Interconnection in the National Electricity Market (NEM): Options for Improving the Effectiveness of the Regulatory Test for Transmission Investment* is attached. The key findings of the Report are detailed below:

- The economy-wide benefits from a change in wholesale electricity prices will not be identified within the current partial equilibrium framework of the Regulatory Test.
- Justification for constraining the consideration of benefits within this framework results from the original 1999 Ernst and Young Report to the Australian Competition and Consumer Commission (ACCC). The two reasons put forward to construct the test in this way were:
  - Casting the benefit net too widely will create new measurement problems; and
  - It co-insides with the traditional central planning environment, where planners would undertake 'least-cost planning'.
- The first point refers to the difficulties in measuring what are sometimes called 'second round' or macro-economic effects. These impacts are typically measured (or

at least estimated) to understand the benefits (or costs) of policy changes. In fact these impacts would have been measured in considering the benefits of National Competition Policy and the Micro-economic Reform Agenda of the 1990's of which the National Electricity Market (NEM) was a key policy outcome. Consequently, these effects should not be ignored solely on the basis that they do not fit easily into a utility based least cost planning model.

- Notwithstanding this point, macro-economic impacts are difficult to measure. General equilibrium modelling was initially developed to estimate the impacts on macro-economic variables such as the terms-of-trade.
- In terms of its application to the micro-economic question of the Regulatory Test, general equilibrium modeling is unlikely to have the appropriate resolution to generate reliable estimates of the changes associated with small network augmentations and as such it could only be realistically applied to large transmission investments. As a result, (and notwithstanding the costs associated with this type of modelling), it would not be practical to include this type of macro modelling in the Regulatory Test framework.
- ACIL Tasman suggest that a more indirect approach to the incorporation of wider economic benefits within the Regulatory Test might be more appropriate. While not specifically examined in the Report, ACIL Tasman have provide insight into the focus of future studies in this area including using relationships and/or multipliers from a general equilibrium model to make estimates of the second round effects from changes captured in the existing partial equilibrium analysis framework.

On this basis, Stanwell considers that there is a case for examining options for the new network and consultation process to incorporate wider economic benefits and this issue should be identified as a key consideration in the next phase of the review.

## **2. SCOPE OF THE APPLICATION OF THE REGULATORY TEST (OR ALTERNATIVE).**

As the AEMC is aware, in May 2006 Stanwell proposed the establishment of a framework in the Rules which would take into account the impact of network reconfiguration on network users who have reasonably relied on the existing configuration of the network in making investment decisions. Specifically the proposal would result in:

- More transparent decisions regarding reconfigurations of transmission networks to promote efficient network planning decisions;
- Reduce the risks associated with investments in generation facilities thereby improving incentives for efficient generation investment; and
- The recognition that the costs incurred or profit foregone by generators as a result of network reconfigurations should be compensated to ensure that efficient investments are not deterred.

In part this framework would require that the Regulatory Test be undertaken not only in the context of an augmentation, but also where there is a network reconfiguration. This would ensure that such projects are subject to a transparent economic assessment incorporating the implications for third parties. As a complementary measure the Rule change also proposed the establishment of a formal set of information disclosure requirements for TNSPs' in relation to these investment activities.

On 1 March, the AEMC released its Final Rule Determination, *Transmission network replacement and reconfiguration*. On the issue of the Regulatory Test, the AEMC decided not to accept, at that time the proposal that the Regulatory Test should be applied to reconfiguration projects. However, the AEMC further noted that it was of the

[view] that the issue of possible inefficient replacement and reconfiguration investment due the Regulatory Test only applying to new augmentation investment, a lack of regard by TNSPs for alternative non-network options when considering proposed replacement and reconfiguration investments is worthy of further consideration, but should be the subject of a more focused consultation and assessment process.<sup>1</sup>

In relation to the proposed information disclosure provisions the AEMC has noted,

[requiring] the publication of some information regarding proposed network reconfigurations could be of benefit by improving the information available to the market participants when making operational and investment decisions. However, the AEMC believed that this additional information, and associated potential burden upon TNSPs, should be considered within a Rule change proposal focusing on the information required under the Regulatory Test or the Annual Planning Report process, rather than consequential to the Rule proposed by Stanwell.<sup>2</sup>

On the basis of these statements, Stanwell is strongly of the view that this AEMC review into the development of a detailed implementation plan for that enhanced national transmission function provides the appropriate forum to examine the extension of the Regulatory Test (or an alternative mechanism) to network reconfigurations. Further it also represents an opportunity to review the information disclosure provisions in relation to network reconfigurations investment projects.

Stanwell looks forward to maintaining on-going consultation with the AEMC as it moves to the next stage of developing an Issues Paper on the development of a National Transmission Planner and invites further discussion on the issues raised in this submission.

Yours faithfully



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<sup>1</sup> AEMC, *Transmission network replacement and reconfiguration*, Rule Determination, 1 March 2007, Sydney, p17.

<sup>2</sup> AEMC, *Transmission network replacement and reconfiguration*, Rule Determination, 1 March 2007, Sydney, p27.