

ELECTRICITY TRANSMISSION NETWORK owners

Transmission Network Replacement and Reconfiguration

Response to Stanwell Corporation Rule Proposal

31 August 2006



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1. Introduction

The Electricity Transmission Network Owners' Forum (ETNOF) welcomes this opportunity to comment on the rule change proposal made by Stanwell Corporation (Stanwell) in respect to transmission network replacement and reconfiguration. ETNOF's response takes into consideration both Stanwell's original proposal, submitted to the Australian Energy Market Commission (AEMC) on 17 May 2006, and its subsequent submission to the AEMC of 10 July 2006.

Stanwell's rule change proposal effectively comprises three key propositions as follows:

1. that Transmission Network Service Providers (TNSPs) be required to evaluate replacements and reconfigurations under the regulatory test;
2. that consultation obligations be expanded to include limited consultation for network replacements and reconfigurations in addition to network augmentations; and
3. that compensation be payable to market participants where they will incur a cost or forgo revenue as a result of a network replacement or reconfiguration¹ and that compensation be included in the evaluation under the regulatory test.

Specific observations and comments on Stanwell's proposal and ETNOF's conclusions are presented below.

2. Expansion of the Regulatory Test and Public Consultation

A major component of Stanwell's rule change proposal is seeking to have the regulatory framework applying to network augmentations extended to both network replacements and reconfigurations. In responding to this proposal ETNOF considers that there needs to be a clear distinction between network replacement and network reconfiguration.

2.1 Network Replacement

Network replacement can clearly be distinguished from network reconfiguration, and network augmentation, as the capital works are necessary to ensure the continued provision of pre-existing transmission services. Assets are generally replaced when they are no longer able to reliably, safely and efficiently continue to provide the required level of network service, or satisfy environmental requirements.

The general principle is that replacement of network assets occurs on a "like for like" basis, using modern day equivalent equipment, accepting that benefits may arise with improvements in technology. Where replacement work is conducted in conjunction with a network augmentation, a regulatory test and public consultation is undertaken for the augmentation works, as required by the National Electricity Rules, which will account for any

¹ The proposed rule provides for the Transmission Network Service Provider to recover the costs of such compensation through a pass-through rule, thereby transferring the costs to the consumer.

network changes that arise. Consequently, asset replacement works should have no impact on participants and as a result there is no reason to change the regulatory framework.

As network replacement is concerned with ensuring the continued provision of pre-existing transmission services, the present arrangements for approval of expenditure are appropriate. Replacement capital expenditure is currently subject to review by the AER in determining a revenue cap for the TNSP, and is subject to regulatory incentives aimed at encouraging efficient expenditure. Furthermore, such expenditure is subject to normal project approval and governance procedures within the business.

It is unclear how a public consultation process in relation to these replacements would further promote “efficient network planning decisions”. On the contrary, this would result in a considerable additional regulatory burden upon the TNSP, thereby increasing compliance costs which the end-user would ultimately fund through higher transmission charges.

There is the additional concern that it would be impractical to apply the public consultation process to the large number of replacement projects that are anticipated. The transmission network in Australia expanded rapidly during the 1960s and 1970s to meet rapidly growing demand for electricity. As a result, many parts of the network are now approaching the end of their technical and economic life, and require replacement. These network replacement projects predominantly relate to the replacement of substation primary plant and secondary systems as equipment becomes unreliable or obsolete.

For the reasons discussed above, ETNOF believes that this element of Stanwell’s proposal does not enhance the National Electricity Market (NEM) objective, and therefore should be rejected by the AEMC.

2.2 Network Reconfiguration

Unlike network replacements, network reconfigurations are comparatively rare and are the result of detailed network planning and economic assessments to optimise the efficiency of the electricity network. As cited by Stanwell, this has occurred in North Queensland. Powerlink has assets which are at the end of their technical life and are in need of replacement. As part of considering the scope of the replacement, Powerlink considered its other obligations in terms of supplying load. Powerlink assessed that a different network configuration will meet its obligations at a lower cost to consumers than “like for like” replacement.

ETNOF understands that, in the example cited by Stanwell, the initial element of the reconfiguration, i.e. the proposed replacement of the Kareeya – Innisfail transmission line with a new transmission line between Tully and Innisfail, has been public knowledge since 1998. ETNOF further understands that Powerlink advised Stanwell of the second element of the proposed network reconfiguration, i.e. the removal of the Kareeya – Tully line, in 2004 and that the reconfiguration will not impact the Kareeya power station before 2012.

In these relatively rare circumstances, ETNOF recognises and acknowledges the need to provide adequate notice of any network reconfiguration that affects customer access to the transmission network (whether generator or consumer), to allow the affected party to manage any potential impacts upon their business activities. Consequently, it is ETNOF’s view that only network reconfigurations should be considered under this proposal.

The Stanwell proposal also places the obligation on the TNSP to identify all affected parties and to assess the likely impact upon their financial position. This is impractical, if not impossible, as any financial impact upon a market participant will depend on their contractual obligations which a TNSP would not be party to. It is, therefore, inappropriate to require a

TNSP to assess the likely impact upon a market participant. If anything, TNSPs should only have an obligation to notify participants, most appropriately through existing arrangements such as the Annual Planning Report. Affected participants can then identify themselves to the TNSP.

ETNOF notes the modified proposal that Stanwell included in its submission of 10 July 2006 and recognises that this provides a practical way forward with respect to network reconfigurations.

3. Compensation for Generators

The Stanwell rule change proposal recommends that compensation be payable to generators where they will incur a cost or forego revenue as a result of a network replacement or reconfiguration. Stanwell suggests that these changes are required to ensure that “the costs incurred or profit foregone by generators as a result of network replacement and reconfiguration is recognised and compensation is payable as a result, in order to ensure that efficient investment is not deterred”.

ETNOF recognises that a TNSP would be revenue neutral in the event of the adoption of the proposed compensation mechanism for generators provided that such compensation payments were allowed under TNSP cost pass-through arrangements.

However, ETNOF observes that, contrary to its stated objective, the lack of detail in the proposed rule change introduces far more investment uncertainty than it removes. The amount of compensation to be paid would be highly subjective, as it would presume the outcome of market mechanisms, such as the future contracting of ancillary services. Ancillary services are contracted periodically through a tender process for a defined period. Therefore, it is not possible to determine with any certainty the level of lost income that a generator would require compensation for under such a regime. This creates a situation where the payments made are likely to be subjective and open to considerable dispute, potentially adding further regulatory compliance costs on the TNSP that would ultimately be borne by end-use consumers.

Furthermore, it is a fundamental principle of the market that access to the transmission network is provided on a non-firm basis; indeed the market provides no firm transmission rights to any participant. Contrary to this principle, the Stanwell proposal provides an implied property right which ETNOF believes would be better and more fully considered as part of the AEMC congestion management review.

In the event of a compensation mechanism being implemented as a result of the current Stanwell proposal, ETNOF would strongly support a requirement for the AER to develop and publish guidelines specifying important matters, such as the conditions under which compensation is payable, how the level of compensation should be calculated and confirming that all compensation payments, and costs incurred in determining the payments, are recoverable under TNSP cost pass-through arrangements.

4. Conclusions

Upon reviewing the proposed rule change, ETNOF believes that:

- Network replacement is predominantly undertaken on a “like for like” basis and there is no impact upon participants in these circumstances. It is wholly inappropriate that network replacements be considered under this proposal.

- Network reconfigurations, although rare, may affect participants. Therefore, notification of reconfigurations is appropriate through existing information provision mechanisms to enable an existing participant that may be affected by a proposed change to manage its commercial position. However, it is impractical for the TNSP to identify all parties who may be financially impacted by a network reconfiguration.
- The proposal to require public consultation on the application of the regulatory test for all network replacements and reconfigurations would impose a significant additional regulatory compliance burden upon TNSPs, with no additional benefit to end-users. The cost of this additional burden would be borne by end-users through regulated charges.
- Although a TNSP would be revenue neutral under the proposed compensation mechanism for generators, the proposal will impose an impractical, convoluted and subjective process in determining the net effect of a network reconfiguration. This also amounts to a form of transmission property right that is better addressed as part of the current AEMC congestion management review.