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18 August 2005

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Email: submissions@aemc.gov.au

Dear Mr Tamblyn

Review of the Electricity Transmission Revenue and Pricing Rules: Scoping Paper

NRG Flinders is party to separate submissions to the above consultation on behalf of the National Generators Forum, and a group of generators operating in South Australia and Victoria. NRG Flinders supports these submissions, and offers the following by way of additional information.

Consistent with the thrust of the above submissions, NRG Flinders believes the review should usefully be confined to areas in which there is demonstrated room for improvement, in the interests of certainty for both TNSPs as investors and the broader market alike.

One such area concerns the apparent anomalies and ambiguities that have arisen in the application of the Modified CRNP framework under the National Electricity Rules (believed to be in use in only one region at present). These include the following:

1. Modified CRNP as an option under Chapter 6 of the NER incorporates both locational pricing and congestion pricing signals. This method can generate perverse outcomes on radial networks where relatively highly utilised lines (ie efficiently used assets) can attract a cost premium, in contrast to relatively lightly loaded (ie underutilised) lines, which face lower charges.

   Leigh Creek is a case in point, and faces the highest known TUOS Usage prices in the NEM – \$836/MW/day and \$657/MW/day at the town and mine respectively. It faces approximately triple the charge of comparable radials, such as the Woomera line, which is understood to be less highly utilised.

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Not only does this distortion penalise efficient network usage, it also provides a perverse signal for users to seek augmentation of the line to increase spare capacity and reduce utilisation. Conversely, any derating of an underutilised line over time increases its congestion pricing signal.

In light of this, the outcomes of congestion pricing under Modified CRNP should perhaps be revisited. Greater consistency in pricing methodologies might also be encouraged across the NEM.

2. The intent of the NER seems to be to limit cost allocation under Modified CRNP to 50% of the annual revenue requirement (with the balance postage stamped). However, the actual wording of the NER is imprecise, and apparently permits a greater level of cost allocation than this.

3. The apparent intent of the NER is to limit annual TUOS Usage price increases to 2% of the average. However, the wording of this provision (NER 6.5.5) acts to prevent downward movements also, which makes little economic sense, and removes any incentive for the network user to make cost efficient decisions.

4. There is no particular ceiling on the actual level of individual TUOS Usage charges. This appears to be an unintended gap in the current framework. A cap based on a multiple of the average (eg 5x or 10x the average) might make sense to contain extreme and perverse outcomes.

5. In theory, a DNSP can contract with an embedded generator to offset a local load and reduce its usage of the transmission network in order to reduce transmission charges. In practice, the TNSP remains entitled to the same annual regulated revenue stream in any event, so will simply recover this elsewhere on the network, primarily from the same DNSP (in South Australia at least) which then ends up paying twice.

NRG Flinders looks forward to further opportunities to contribute to this review. Should you wish to discuss this submission, feel free to contact me on (08) 8372 8726, or Simon Appleby on (08) 8372 8706.

Yours Sincerely

Reza Evans
Manager
Regulation and Market Development