

24 February 2006

Ref.

Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Emailed to: submissions@aemc.gov.au

Dear Sir/Madam

**National Electricity Amendment (Reform of the Regulatory Test Principles) Rule
2005**

Thank you for the opportunity to present Enertrade's views on the National Electricity Amendment (Reform of the Regulatory Test Principles) Rule 2005.

Enertrade owns and operates the Barcaldine power station and purchases electricity from privately-owned power stations through Power Purchase Agreements, which it trades into the National Electricity Market (NEM).

Transmission plays a central role in the operation of the NEM and can impact upon other sectors in the energy market. With respect to the generation sector, wholesale energy prices and generator investment decisions can be significantly influenced by transmission investment.

From a whole-of-market perspective, Enertrade considers that the *Regulatory Test* is an imperfect tool. The *Regulatory Test* only evaluates the efficiency of regulated investment projects proposed by a TNSP, rather than identifying the most efficient investment or combination of investments to meet demand and reliability expectations. The *Regulatory Test* presupposes the existence of surplus generation elsewhere in the

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National Electricity Market and this cost should be included in assessing the costs of the transmission alternative.

Given the current regulatory design, Enertrade considers that the proper formulation and application of the *Regulatory Test* is a key element in seeking to meet the National Electricity Market objective.

To achieve an efficient market, it is essential that increasing demand is met by the most efficient investment projects. With respect to the *Regulatory Test*, this can only be achieved through the application of a competitively neutral method of assessing alternative projects.

To ensure there is no bias in favour of one particular form of technology and to promote confidence in the *Regulatory Test*, its application must be transparent and predictable.

Enertrade considers that principles outlining the broad parameters of the *Regulatory Test* and guidelines which clarify its application can deliver greater transparency and predictability and result in more efficient outcomes.

Principles & Guidelines

The National Electricity Market objective is to promote efficient investment in, and efficient use of, electricity services for the long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity and the reliability, safety and security of the national electricity system.

Under the *Regulatory Test*, efficiency demands that alternative non-network options are assessed and the most efficient project proceeds. The *Regulatory Test* should not result in regulated options pre-empting or crowding-out market based solutions.

Enertrade supports the principle that the *Regulatory Test* must ensure all genuine and practicable alternative options to proposed new transmission network investment are evaluated by a network service provider without bias. This requires greater external



direction through principles and guidelines to ensure more certain, less discretionary outcomes.

First, greater clarification is required with respect to ‘practicable’ and ‘genuine’ alternatives. If these terms are narrowly interpreted this could artificially raise the barriers for considering alternative options and could result in an inefficient outcome. A common understanding of these terms is required to ensure consistent application of the *Regulatory Test*.

Second, Enertrade considers that there is a need for greater clarity and consistency with respect to a number of the parameters used in comparing and assessing network investments against non-network alternatives including:

- *the relevant timeframes for comparing investments* – the ability to consistently apply the Regulatory Test requires clarity in respect of the investment analysis process. Enertrade supports greater clarity in respect of the methodology for undertaking the financial analysis of alternative options including the timeframes over which they are assessed.
- *reliability requirements* – the physical characteristics of alternative options, including their inherent reliability, are by nature different. There needs to be greater clarity and certainty with respect to how these differences are accounted for and assessed when determining whether alternative options meet reliability requirements. Further, the methodology adopted by network service providers to determine whether an investment option (in particular a generation or demand-side option) meets its reliability obligations (either under its performance standards linked to the technical requirements of Schedule 5.1 or in applicable regulatory instruments) should be made more explicit.
- *classification of costs and benefits* – Enertrade supports the proposal for the guidelines to include the classes of possible costs and benefits and the permitted methods for their calculation. Greater clarity is also required in respect of the treatment of items such as network support payments. In this



regard, Enertrade supports costs being calculated with reference to the market rather than to the network service provider and that wealth transfers are explicitly excluded.

Enertrade also strongly supports a consultative process in the development of the guidelines akin to the processes adopted by the Australian Energy Market Commission with respect to proposed Rule changes. This should ensure the guidelines identify all relevant issues and result in greater clarity for investors in all options.

Conclusion

In summary, Enertrade strongly supports the intent of the proposed Rule change to provide greater clarity for the application of the *Regulatory Test*.

Given the significant impact transmission investment can have on the generation sector, Enertrade supports a strong emphasis on the principles of competitive neutrality and transparency and predictability. This will help ensure the most efficient outcome for the National Electricity Market.

Enertrade considers, however, that there is a need for further clarity and consistency with respect to a number of the parameters used in comparing and assessing network investments against non-network alternatives.

Given the potential impact of the proposed guidelines, Enertrade also strongly supports a consultative process as part of their development.

Yours sincerely

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