Mr Phillip Weickhardt
Miss Wendy Craik
Electricity Network Inquiry
Productivity Commission
Canberra ACT

Dear Commissioners,

Productivity Commission Issues paper - Electricity Network Regulation

A: Introduction

TRUenergy welcomes the opportunity to comment on the Productivity Commission Issues Paper - Electricity Network Regulation

The Productivity Commission (PC) is undertaking an inquiry into electricity network frameworks, focussing on benchmark arrangements. In addition to this, the inquiry will focus on the effectiveness of the application by network businesses on the current regulatory regime for the evaluation and development of inter regional network capacity in the NEM.

We concentrate our comments on the key issue of the evaluation and development of inter regional network capacity in the NEM. As a result, we will not comment on the benchmarking arrangements that apply to network businesses.

B: Key Issues

Interconnectors are the assets that transmit high voltage power between the jurisdictions in the NEM.

On the whole, TRUenergy has some concerns that the current regulations that apply to interconnectors will not result in the interconnectors been built where it is efficient to do so. The following suggestions should be considered in ensuring that interconnector investment is optimal.

1. **Improving the consistency of the Annual Planning Reports (APRs)**

We support any endeavours to improve the consistency in which TNSPs' APRs are presented, on the basis this will increase the transparency of the planning process, increase the comparative analysis available to stakeholders and ultimately increase the predictability of the investment planning process. All of this should help the process of planning to build an interconnector.

2. **Improving the transparency of the RIT-T**

We consider that any additional transparency in regards to the RIT-T process and documentation will allow market participants to improve their understanding of how TNSPs calculate both the market and competition benefits of an interconnector assessed under the RIT. In addition, it allows generators to better understand non regulated investment options under the RIT-T as well as likely future network developments that impact on generator investment decisions.

3. Capturing all the market benefits in the application of the RIT-T

We are concerned that TNSPs may not be capturing all of the market benefits of augmentations assessed under the RIT-T.

We accept that the RIT-T would capture savings in fuel costs from the dispatch of lower priced generation as a result of a large interconnector. However, the RIT-T fails to capture benefits to market participants from reduced congestion reducing un-hedgable market exposures as a result of that interconnector. This benefit is usually dismissed as a wealth transfer under the RIT-T.

However, we consider that this access certainty for generators should be properly valued in the RIT-T. In our view, we consider that an additional interconnector that provides greater access certainty to market generators should be captured as a market benefit in the RIT-T.

4. Capturing "option value" in a RIT-T application

TRUenergy suggests the AER & the AEMC should develop the concept of "option value" further in the RIT-T. This could help to justify additional interconnectors. .

The RIT-T assists TNSPs identify the option that is likely to maximise the net present value of the benefits of the market compared to a range of alternatives. In addition to this, the RIT-T must also require a TNSP to consider any additional option value, but only to the extent that this benefit has not already been included in other classes of market benefits.

The AEMC provided an example of increasing the capacity of a radial line above the level required by the reliability planning standards to allow for future generators to connect without any future investment. Under this example possible design options might include:

(a) Build the shared network beyond needs
(b) Build the shared network to meet present needs, or
(c) Build the shared network to meet present needs but with the ability to expand quickly and at a lower costs

The AEMC has noted that example (c) be a more beneficial option than (a) even if its aggregate cost is higher, because it has optionality. Option (c) allows the decision to expand to be deferred until the underlying uncertainty is reduced.

5. Improving the co-ordination of the National Transmission Network Development Plan (NTNDP) & the Annual Planning Reviews (APRs)

TRUenergy supports the concept of improved coordination of planning documents and for NEM wide inter-regional planning.

However, we can see that it might be difficult for the NTP and TNSPs to endorse each other's national plan and regional plans, respectively.

Therefore, we request for the AEMC consider the idea of requiring both the TNSPs and the NTP to jointly produce a national transmission plan. By requiring these relevant stakeholders to develop the National Transmission Plan together, it is more likely the NTP will be completed in a timely manner without any disputes. In addition, the local knowledge provided by TNSPs to the development of the NTP will benefit for the input of the local knowledge provided by the TNSPs.

6. Reliability standards of interconnectors

TRUenergy supports the introduction of specific reliability standards for interconnectors.

The requirement to introduce a reliability standard for interconnectors would deliver a certain level of capacity on the interconnectors. As we understand it, the capability of the NEM's interconnectors varies over the long term as system conditions change with load growth, new network augmentations and new generator connections.

Overall, we consider that this will give market participants more transparency and certainly to plan their investment decisions. Whilst we acknowledge that maintaining a level of capacity on the interconnectors could be more costly than implementing other investment options that would meet load reliability standards and /or relieve congestion, on balance, we support this policy as maintaining inter-regional transfer levels promotes wider competition and more informed investment across the supply side of the market.

C: Conclusion

TRUenergy appreciates the opportunity to comment on this Productivity Commission Issues Paper - Electricity Network Regulation.

We support the following proposed improvements to the planning regime and the RIT-T. We think that they might help justify additional interconnectors under the current regulatory arrangements.

We thank the Productivity Commission for its consideration of the issues that we have raised in this submission.

For any questions regarding this submission, please contact Mr. Con Noutso - Regulatory Manager at TRUenergy on Tel: 03 8628 1240

Regards

Con Noutso
Regulatory Manager
TRUenergy