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# Regulatory issues

## Decisions made on electricity pricing

### Draft determination issued on network pricing

On 12 December 2000 the Commission issued its draft determination of changes to the network pricing arrangements in the National Electricity Code. The decision followed a review of the code's network pricing arrangements that was conducted by the National Electricity Code Administrator (NECA).

The code's network pricing arrangements are a key component of the National Electricity Market (NEM) design. They affect the code's ability to deliver public benefits through efficient use of and investment in network assets, as well as through optimal electricity production and consumption decisions. In assessing the changes put forward by NECA, the Commission considered there was a range of issues that would detract from the public benefits the changes would provide. Two of these issues were the beneficiary-pays system for funding new network investments and the transmission-usage charge, which was based on three methods and was to be payable by customers only. The Commission's draft determination requires the deletion of the beneficiary-pays system and the application of transmission-usage pricing to all network users, depending on whether they add to or relieve congestion. The Commission considered that such a significant change was required to ensure the code's network pricing arrangements delivered the required public benefits.

Other important changes to the code include improved information disclosure requirements placed on network businesses, the ability for transmission-network service providers to recover the cost of discounts from other customers and the introduction of rules that will allow market network service providers to participate in the NEM.

The Commission held a pre-determination conference on the draft determination on 15 March 2001. The minutes from the conference will be made available on the Commission's website. Interested parties had until 12 April to lodge submissions with the Commission. The Commission's final determination will take into account the issues raised at the pre-determination conference together with those raised in the additional submissions.

Copies of the Commission's draft determination are available on its website at <http://www.accc.gov.au> or from Ms Maxine Helming on telephone (02) 6243 1246.

### VoLL code changes authorised

On 20 December 2000 the Commission released its final determination authorising code changes to increase the price cap for spot prices in the market from \$5000 to \$10 000. The determination also approved the introduction of a negative price floor for spot prices, changes to the cumulative price threshold and the introduction of new capacity mechanisms.

VoLL (value of lost load) is a cap on regional reference prices in the NEM. Currently, when determination of dispatch prices would otherwise result in a dispatch price greater than VoLL at any regional reference node, the dispatch price at that regional reference node must be reduced to VoLL. The level of VoLL therefore represents the maximum spot price for wholesale electricity in the NEM and is currently set at \$5000/MWh. The price of electricity most often sits between \$20/MWh and \$60/MWh.

The NECA proposed to increase VoLL in two steps — to \$10 000/MWh in September 2001 and to \$20 000/MWh in April 2002. NECA also proposed to impose a cap on the market price if the cumulative effect of high spot prices exceeds a threshold level of \$300 000.

The Commission acknowledged that the proposed increase in VoLL would provide public benefit, as it would encourage investment in peaking capacity when demand peaks occur for only a few hours a year (as currently in Victoria). However, the Commission did not consider that the other major public benefit argued by NECA — that VoLL provides the incentive for reliability of supply through improved demand-side response — has been demonstrated. Therefore, the Commission did not believe that an increase in VoLL to \$20 000/MWh delivers sufficient public benefit to outweigh the anti-competitive detriments noted above.

Accordingly the Commission proposed to limit the increase in VoLL in the short term to \$10 000/MWh. It considered that this would provide an additional incentive to promote investment in peaking plant(s) while capping risk in the market at a level lower than that proposed. The Commission also proposed to delay increasing VoLL to \$10 000/MWh until April 2002 to allow market participants sufficient lead-time for the necessary arrangements to accommodate the increase in risk.

The Commission further proposed to reduce the cumulative price threshold to \$150 000 rather than \$300 000 as proposed by NECA thus reducing the risk of market participants being exposed to prolonged periods at high prices.

Copies of the Commission's determination are available on its website or from Ms Maxine Helmling on telephone (02) 6243 1246.

### **Regulation of Queensland transmission networks**

From 1 January 2002 the Commission, in accordance with its responsibilities under the code, will begin to regulate the Queensland transmission network, Powerlink.

On 14 February 2001 the Commission received Powerlink's application outlining its proposed revenue cap. To help the Commission consider Powerlink's application, it engaged PB Associates to review the assumptions, methodology and findings contained in a 1999 report on Powerlink's asset base. It also asked PB Associates to analyse and comment on Powerlink's proposed capital expenditure, operating expenditure and service standards.

The Commission invited interested parties to lodge submissions on issues raised in the application by Friday 30 March 2001.

On 15 March 2001 the Commission extended the closing date for submissions to 12 April 2001 to provide interested parties sufficient time to comment on PB Associates' asset valuation, capital expenditure, operating expenditure and service standards consultancies.

The Commission anticipates releasing a draft decision in June 2001. The Commission will then invite interested parties to comment on the draft decision before making its final decision.

A copy of Powerlink's application and PB Associates' reports are available on the Commission's website.

### **Regulation of Snowy Mountains Hydro-Electric Authority**

On 6 February 2001 the Commission, at the request of the members of the Snowy Mountains Council and in accordance with its responsibilities under the code, released a revenue cap decision for the Snowy Mountains Hydro-Electric Authority's transmission assets.

The decision outlines the maximum revenue that may be earned by the SMHEA for the five-year period ending 30 June 2004.

The Commission set a revenue cap that decreased slightly from \$10.79 million to \$10.66 million over the regulatory period. The decision is based on an opening asset base of \$62.45 million and a post-tax nominal return on equity of 11.20 per cent. The post-tax nominal return on equity is lower than in other recent Commission decisions because of the prevailing market conditions.

A copy of the final decision is available on the Commission's website.

### **Regulation of South Australian transmission network**

On 1 January 2001 the Commission began regulation of the South Australian transmission network, ElectraNet SA.

The revenue cap and transmission network prices for ElectraNet are outlined in the South Australian Electricity Pricing Order (EPO).

The EPO was established before the privatisation of the electricity assets and, therefore, until 1 January 2003 the Commission's role is limited to administering transmission-related functions under the EPO. The Commission will not become responsible for setting ElectraNet's revenue cap until 1 January 2003.

The Commission has three broad responsibilities under the EPO. These are to:

- ensure that ElectraNet complies with the initial tariffs specified in the EPO;
- assess any application by ElectraNet for altering tariffs or proposing new tariffs; and
- assess any applications by ElectraNet to pass through additional charges or rebates.

In accordance with the last of these responsibilities, ElectraNet submitted an application on 12 January 2001 for a net negative pass-through discount of approximately \$18.1 million for its regulated transmission charges for the six-month period from 1 January 2001 to 30 June 2001. The pass-through amount relates to a settlements residue event and network event as outlined in chapter 6 of the EPO.

On 6 February 2001 the Commission approved ElectraNet's pass-through application.

A copy of ElectraNet's application is available on the Commission's website.