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*Energy Retailers Association  
of Australia Incorporated*

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Presentation to the Regional Boundary  
Forum - 31 March 2004

# High Level ERAA Views

- The transmission sector is in need of review and reform to address areas of inefficiency. Proposed changes should be focused upon giving market signals that drive lowest cost investment for the benefit of customers.

# High Level ERAA Views

- Minimum service quality standards should be applied to TNSPs and incentives/penalties applied to performance levels.
- Mechanisms are needed to provide firm access to transmission and similar principles should be applied at the distribution level to facilitate embedded generation.
- Streamlined planning and approval processes for transmission investment
- Processes should be developed to trigger investment in transmission when market forces have failed to deliver. The interaction of regulated and non-regulated solutions and the risk imposed upon one by the other should be considered within this process.
- The Regulatory Benefits test needs to ensure optimal investment outcomes for the benefit of consumers

# Efficient Dispatch (1)

- ERAA commissioned Creative Energy to deliver a comprehensive review of the different models for locational marginal pricing, including the operation of transmission rights and pricing mechanisms
- This report has been circulated amongst jurisdictions and market participants for educational and discussion purposes
- The report identified some key objectives in order to allow evaluation of the different models:
  - efficient use of the transmission network,
  - ability to manage transmission price risk,
  - efficient development of the transmission network,
  - efficient operation and maintenance of the transmission network,
  - low transaction costs, including both implementation and operation
  - consistency with government policies



## Efficient Dispatch (2)

- 6 Strawmen were developed, based upon the various characteristics displayed in domestic and international electricity markets
- Each strawman was reviewed in the context of whether it met the objectives the ERAA had set for evaluation
- Each ERAA member weighted the objectives and then scored each strawman to come forward with a preference
- From this, an ERAA consensus position was formed

# Efficient Dispatch (3)

- Hogan Heaven
  - Nodal pricing, FTRs, no grand-fathered property rights, current transmission services arrangements
- Policy Pragmatic
  - Nodal pricing for generators, regional pricing for load, FTRs (including grandfathering for existing generators), separation of cost recovery for intra and inter connectors
- Firmer Flowgates
  - Optimised regional model, flowgate mechanism (ie SRA enhanced to provide firmness), beneficiary pays

# Efficient Dispatch (4)

- Congestion Controller
  - UK model of TNSPs taking responsibility for transmission constraint costs
- Merchant Mania
  - Conversion of all current and future transmission to the MNSP model
- Government Gridlock
  - Current NEM model

# Efficient Dispatch (5)

	<i>HH</i>	<i>PP</i>	<i>FF</i>	<i>CC</i>	<i>MM</i>	<i>GG</i>
Static Use	+	-	=	-	-	-
Dynamic Use	+	-	+	-	+	-
Price Risk	-	+	+	+	-	=
Tx Investment	=	=	=	+	++	-
Tx Operation	=	=	+	++	++	=
Transaction (Operations)	-	=	=	-	--	+
Transaction (Implementation)	--	-	=	-	--	=
Shock	=	+	=	-	--	=
<b>Overall Value</b>	<b>-2</b>	<b>-1</b>	<b>+3</b>	<b>-1</b>	<b>-3</b>	<b>-2</b>
<i>Efficiency – overall value</i>	+1	-1	+3	+2	+3	-3
<i>Costs – overall value</i>	-3	0	0	-3	-6	+1
<i>Government Acceptability</i>	-	+	=	+	--	-

# Efficient Dispatch - Consensus View

- Changes to the framework for improving dispatch around constraints must be incremental and minimise market shocks. Appropriate lead-times on change implementation must be employed.
- The ERAA supports NEMMCO undertaking further work to reduce the uncertainty and arbitrary impacts of constraints in the NEM, including taking forward its work on a consistent formulation for network constraints against agreed policy objectives.
- The failure to implement changes to regional structure when Code criteria are met, or to initiate changes to the Code criteria, is leading to significant uncertainty in the market. The ERAA supports the MCE undertaking a review of regional boundaries as a way of addressing constraints and improving locational signals in the NEM. The criteria for revising regions are to be based on sound and clearly defined economic principles and guided by sound and clearly defined policy objectives. Such criteria must be consulted upon and implemented through the Code change process.



# Efficient Dispatch - Consensus View

- The ERAA recommends further development of the SRA structure within the work program on constraint formulation and regional structure.
- The high cost of inter-regional hedges deters electricity trading between regions. The regulatory framework should reduce the underlying physical risks, and increase transparency to enable traders to price the risks more easily.

Note: A minority of ERAA members consider that this position does not progress reforms far enough and support the introduction of nodal pricing for generators.



# Criteria for Evaluation

- Efficiency Benefits (dispatch, investment)
- Price Risks (financial market impacts, liquidity, market power)
- Costs (implementation, transactional)
- Shock (winners and losers)
- Government Acceptability (do all jurisdictions have the same evaluation criteria?)



QUESTIONS??