



Hydro Tasmania
the renewable energy business

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Manager, MCE Secretariat,
Department of Industry, Tourism and Resources,
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Submission by email. : MCEMarketReform@industry.gov.au

**Regulatory Impact Statement - COAG Commitment to Separate
Generation and Transmission – Supplementary Submission**

Dear Sir/Madam,

Further to our submission of 9 November, we understand from a telephone call from your office that there may have been a policy intent to include MNSPs in the proposed prohibition. It is our view that this proposal in respect of MNSPs is ill founded for the reasons set out below.

This submission covers two separate issues. The first is a discussion of why MNSP's should be excluded from the prohibition and the second part discusses the way in which the Basslink arrangements should be protected.

Inclusion of MNSPs in the Prohibition

One of the fundamental principles of the current electricity market is to have a separation of natural monopoly elements from competitive areas. The crux of this issue is consequently whether MNSPs are a "natural monopoly" or "competitive".

However, before discussing this issue, there is a broader policy context. One of the ways in which markets deliver economic efficiency is through innovation. The government's current proposal to include MNSPs in the prohibition will limit the opportunities for innovation in the future as it will exclude a class of owner, who are arguably most likely to invest in an MNSP, from doing so. MNSPs offer investors a different set of risks and rewards to other NEM investments and as such may have specific relevance in some future scenarios. They do provide a transmission owner with additional rights over regulated transmission and this will encourage investment in the NEM.

Some of the potential attractive solutions in the future may include an MNSP to serve Mount Isa and Darwin or to service major geothermal based generation developments in South Australia (recognising that the MNSP would need to run between NEM regions). We submit it is not good policy to eliminate these options for no good reason and inflict the loss of economic efficiency on the market and the consumer.

The characteristics of an MNSP are that they receive income from the market and they exist outside of the whole regulatory framework for revenue and price setting for regulated transmission. It is consequently very hard to argue that they are a “natural monopoly”.

One of the interesting ways to examine this issue is to assume Murraylink were an MNSP and owned by a SA generator. At times of shortage in SA, Murraylink would probably increase the price of its transport bids to reduce the flow into SA. This may well reduce its income. However, the market impact is no different from the SA generator increasing the price of its offers to the market and consequently reducing the volume for which it is dispatched. If Murraylink were owned independently it may well behave in the same way. In addition, if it is the intent of the proposal to prohibit generator investment in an MNSP, then this would preclude the option of generator funded/controlled additional merchant interconnection, for example between the South Australian region and another NEM region. Whilst no such links are envisaged in the short-term, it seems unwise to limit technical and commercial innovation in this way.

MNSP’s only receive market income and hence the driver on them is completely different to regulated transmission. Specifically, the issues raised in the regulatory impact statement are not relevant to MNSP’s and consequently they should not be included in the prohibition. The major issues are listed below.

Issue (on pages 7 and 8 of RIS)	Relevance to MNSP
Frontier for ACCC	
Refuse/cut/degrade connection	MNSP is seeking a connection agreement so this is not relevant
Downgrade/reduce transportation	This is an appropriate option for an MNSP. Note that Basslink access undertaking requires full technical capacity at all times. Hydro Tasmania has secured load interruptibility which increases the southward capability from about 150MW to 450MW.
Share commercially sensitive information	MNSPs do not receive any such information
ACCC	
Imposing terms for access	MNSP is seeking a connection agreement so this is not relevant
Investment and maintenance decisions	In a non-regulated investment, it is entirely appropriate for an MNSP to have discretion over these decisions

Sharing commercially sensitive information	MNSPs do not receive any such information
Line rating decisions	Decisions impact the MNSP primarily and they are not motivated commercially to do this
Processing connection agreements	MNSP is seeking a connection agreement so this is not relevant

From this analysis, it is clear that the primary reasons for legislating this prohibition are not relevant to MNSPs. Hydro Tasmania believes that unless a clear case can be made that there is a significant problem, the prohibition should be limited to regulated transmission.

Protecting Basslink Arrangements

Basslink is owned by Basslink Proprietary Limited (BPL) which has recently been purchased by City Spring of Singapore. We note your intention to leave intact all current arrangements. The Basslink Services Agreement is a 25 year agreement with an option for extension. With our relatively short experience in the operation of Basslink, there is the possibility that fine tuning of the underlying commercial arrangements could, over time, lead to better outcomes for both parties and potentially for the market. Given the length of the asset life, it is important that future agreements on Basslink should also be excluded from the impact of this legislation. Our proposal would be that the legislation should exclude the Basslink assets from the impact of this legislation whilst it is an MNSP.

If you wish to discuss any aspect of this submission, please feel free to contact the undersigned.

Yours sincerely,



 David Bowker
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 Hydro Tasmania