

6th May 2013

Mr Nalin Pahalawaththa
Manager System Planning and Analysis
TransGrid
PO Box A1000
Sydney South NSW 2000

Network.analysis@transgrid.com.au

Submission to: Development of the QNI Interconnector – Methodology for Assessing Competition Benefits

Snowy Hydro Limited appreciates the opportunity to respond to this consultation. We support the development of interconnectors where it is economically efficient.

The Consultation Paper raises issues associated with one of the classes of market benefits called competition benefits. In 2004 under the request of the Australian Consumer and Competition Commission, Frontier Economics developed a framework for quantifying interconnection competition benefits. Frontier's approach used a five-step process to calculate the competition benefit by determining the change in demand weighted wholesale pool price and the consumer response between the base case and the augmented transmission case.

Snowy Hydro has analysed in detail Frontier's approach to assessing competition benefits and we believe the approach is theoretically sound and can be implemented on a practical basis.

Snowy Hydro has observed that consumers have become more responsive to electricity prices and hence we believe competition benefits could form a significant component of economic benefits associated with increasing the transfer capability across interconnectors.

The Consultation Paper asks for feedback on whether there are any particular technical or market characteristic of QNI that limits the application of the Frontier's methodology. We believe the credibility associated with the application of this methodology would be heavily dependent on determining realistic bidding behaviour that reflects "how participants are likely to behave in the wholesale spot market over the modelling period". In this regard we advocate an open and transparent process whereby the Proponents of the QNI upgrade engage with Market Participants to derive appropriate bidding behaviour assumptions.

The Consultation Paper seeks feedback on modelling of disorderly bidding and whether alleviating disorderly bidding could form a material component of market benefits.

Disorderly bidding is caused by the presence of binding transmission constraints. We note that a number of independent studies have shown that the economic cost of disorderly bidding is very small (in the order of \$8 million per annum for the entire National Electricity Market). All available evidence shows that significant and material transmission constraints have a short life cycle of 2 to 3 years. With respect to the assessment of QNI we note that

the Calvale-Wurdong constraint would be removed by the augmentation of more transmission build between Calvale and Stanwell which is due for completion in 2014. This is a recent example that supports our view that material binding constraints are transitional. Hence we believe the Proponents of QNI should not explicitly model disorderly bidding as a material component of market benefits as the economic cost is very small and the relevant constraints are transitional in nature.

In summary Snowy Hydro supports assessing competition benefits as a class of market benefits on the condition that assumed bidding behaviour is transparently applied, is credible, and realistically reflects likely behaviour in the wholesale spot market over the modelling period.

Snowy Hydro appreciates the opportunity to respond to this consultation. Please contact me on (02) 9278 1862 if you would like to discuss any issue associated with this submission.

Yours sincerely,



Kevin Ly
Manager, Market Development & Strategy

