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TRUenergy Submission to MCE Rule Change Request: Reform of Regional Boundaries

We apologise for the lateness of this submission.

Summary

TRUenergy is generally supportive of the process that the MCE and AEMC have begun towards the resolution of the long-standing issue of an efficient yet practical form of locational pricing and congestion management. In particular we are interested in the progress of the congestion management review beginning.

We cannot support this rule change request at this time as it pre-empts specific results of that review pre-requisite to the success of a more stable regional boundary regime. We therefore suggest this rule change should be:

- postponed until that review process is completed, or
- considered as part of the review as a potential regional boundary framework.

In the meantime we accept that the current clause 3.5.1 (b) (2) envisaged a market design that is no longer realistic in the current policy context. However 3.5.4 has suspended regional boundary change so there is no urgency to alter the clause prior to the completion of the congestion management review.

We also make several other comments in response to specific issues within the proposed rule change. We suggest that if the rule change is considered within the congestion management review these issues will be adequately dealt with by the AEMC.

Pre-emption of Congestion Management Review Outcomes

The framework of this proposed regional boundary change rule is mostly borrowed from the Charles River Associates (CRA) Regional Structures Report. It is important to recognise that the CRA report proposed stable regional boundaries in concert with a robust congestion management regime. Although a version of that regime has been tested successfully in the snowy region, a clear process for its widespread application does not yet exist. Whilst CRA's conceptual framework is interesting, some key development remains outstanding, including:

- A mechanism for triggering implementation;
- A process for deciding a fair allocation of congestion management contracts, in particular the level of contract capacity;
- The compatibility of a "specific constraint" based regime with NEMMCO's complex library of scenario-based constraints.

These matters will be investigated in the congestion management review. It is possible that that review will conclude against the CRA regime and in favour of commensurately less stable regional boundaries. Or it may develop a different approach entirely for each.

It seems clear that congestion management and regional boundaries must be tackled together, and options for each should be fully explored within that one review. At its conclusion, a congestion regime and regional boundary rule changes should be proposed as one package.

Economic Criteria

TRUenergy recognises that forward-looking, economic based criteria to trigger regional boundary change are conceptually superior to the current backward-looking time-based criterion. Backward-looking criteria are however simple and transparent. The economic measure with a threshold as suggested by CRA will require a technically challenging and controversial modelling activity.

A compromise might be to use a backward looking value-based criteria, based on the accumulated marginal value of constraints.

The \$1m economic benefit hurdle proposed by CRA seems appropriate. Note that a regional boundary change can also be affected via direct rule change application. If the hurdle were unreasonably large, then where a proposal fails to exceed it an affected participant is likely to apply for a rule change application-and this only has to meet the single market objective. Thus a large hurdle will potentially just force participants to use a less well organised process.

These issues could be sensibly considered within the congestion management review.

Participant Proposals

TRUenergy does not support a framework that encourages participant-sponsored applications for regional boundary change. In our opinion, participant proposals will:

- Be unlikely to have been developed with as much expertise as that available to a technical institution;
- Be subject to optimisation with respect to the proponent's position over the market's position;
- Provoke suspicion by competitors that the proposal is in fact sub-optimal, requiring those parties to undertake diligence reviews;
- Be unfair on smaller participants without the resources to prepare a high-quality proposal;
- Cause instability as a greater number of less well developed, potentially conflicting, proposals are presented-each attempting to gain "first-mover advantage";
- Result in an incremental changes to regional boundary which will be less optimal than a co-ordinated decision;
- When coupled with the 5 year recess on unsuccessful change requests, less-well developed proposals result in excessive delays or even provide gaming opportunities for those who oppose boundary change;

- Create a climate of confusion and uncertainty for all participants.

TRUenergy recognises that regional boundaries may be effected by a specific rule, and as any person may propose such a rule participants cannot be excluded from this activity. However presuming the 3.5.2 process is sufficiently robust in identifying and recommending appropriate boundary changes then such rule changes are unlikely to be accepted.

Independent, Annual Assessment

In the absence of a participant-proposal regime we need to carefully consider appropriate bodies that could carry out co-ordinated regional boundary changes and in what timeframe.

We suggest a boundary review process should feed out of the annual ANTS processes. As it is also a forward-looking congestion analysis, it seems practical to embed a regional boundary review in the same process, i.e. annually. We should not fear this frequency: successive iterations of ANTS would presumably begin to indicate a potential for change, and where it is likely to pass the criteria, the sooner it is assessed the better.

We suggest that the ANTS could be required to include a section identifying potential new region boundaries that are likely to pass the economic assessment. Where new boundaries have been identified this would operate as a NEMMCO application under 3.5.2(a), and the AEMC would then go through its review and acceptance role as proposed in 3.5.2.

Lead-times

A notice period is clearly beneficial to assist the management of contract positions. TRUenergy sees 3 years as sufficient for this purpose. Note however that this potentially involves a trade-off against quickly receiving the economic benefits of the change. It could also potentially force participants into proposing specific rule changes to gain relief from an acute situation.

We suggest instead leaving the lead-time open to be determined on a case-by-case basis. Where the economic benefits of a quicker implementation outweigh the harm, then the AEMC (or preferably NEMMCO) could conclude in favour of a shorter period.

Our suggestion has commonalities to the process of transmission augmentation via the ANTS and the regulatory test. Note that transmission augmentations similarly impact commercial contract positions and whilst lead-times benefit participants, in some cases this is outweighed by the need to augment quickly.

Recess

The proposed 5 year recess period following unsuccessful applications should be rejected. We understand the MCE's reasoning to avoid excessively frequent analyses of participant proposals, but this leads to too many opportunities for gaming and

unnecessary delays. If, as we recommend, boundary changes are proposed only as an outworking of ANTS, there is no need for a recess.

LRPP

The description document proposes a long-term process that requires the Last Resort Planning Power (LRPP) to be part of the trigger for AEMC proposal. However the LRPP is to be brought into effect only where material congestion can be resolved through a potentially economic augmentation. In fact regional boundary changes are required where the congestion cannot be resolved by augmentation.

There appears to be no mention of LRPP in the proposed rule so it may be that this error only exists in the description document.

Jurisdictional Veto

The description document describes a process of jurisdictional consultation prior to the recommendation of a regional boundary change that bisects customers in a jurisdiction. Again there appears to be no mention of such in the proposed rule.

It would seem impossible to apply such a principle to the AEMC or to rules proposed by the AEMC as the single market objective seeks to benefit consumers as a general class. By definition the optimal regional boundary change best achieves the market objective regardless of where it falls, and thus any desire to align boundaries with state borders would contravene the objective.

As such the AEMC are not in a position to satisfy the 2003 MCE policy communiqué that recommended jurisdictional boundaries for retail pricing. Mechanisms external to the Rules implemented by jurisdictions are feasible and compliant with the communiqué.

Major Load or Generation Centres

TRUenergy concurs with the proposed definition of a region as “containing one or more major load centres or generation centres or both”. We believe the CRA report erred in suggesting a minimum load quantity within a region as the NEM contains generation centres subject to congestion but without significant customer load.

Drafting

The paragraphs following “where” in 3.5.2 (p) do not seem to flow well in this clause and would appear to be better inserted as a separate clause.

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