

Our Ref: D06/20229

2 May 2006

Dr John Tamblyn
Chairman
Australian Energy Market Commission
By email: submissions@aemc.gov.au

Dear Dr Tamblyn

Re: Issues Paper – Congestion Management Review

Thank you for the opportunity to comment on the matters raised in the Issues Paper – Congestion Management Review.

Transend believes that there are a number of points that should be made as part of the review and provides the following comments in this regard.

- Transend understands that a stated policy indicates that a staged approach to congestion management in the NEM should be developed as follows:
 1. manage material constraints on an interim basis initially;
 2. relieve enduring material constraints where economically justifiable; and
 3. initiate a region boundary change where congestion persists and no investment is forthcoming.
- It is important that the market benefit leg of the regulatory test and the management of constraints must align so that the regulatory test can be undertaken without ambiguity and that its application reflects market outcomes.
- There is a need to distinguish between insufficient investment leading to constraints and operational decisions and associated incentives that can give rise to constraints. Network owners must be in a position to maintain assets.
- Constraints on generation dispatch are a consequence of efficient power system design.

- Constraint equation violation factors are a tool to arrive at a dispatch – it is generally accepted that demand is met even though power system security may be compromised.
- In circumstances where a generator is constrained on due to network constraints and cannot set the pool price then it could receive its bid price on that portion of the incremental generation that would not otherwise have been dispatched if not for the constraint. Similarly, if a load bids to be interrupted and that offering cannot set the pool price, then the load could receive its bid price if interrupted.

The issue then arises as to how NEMMCO would provide funds under these circumstances. The interplay between NEMMCO direction powers and constraint management could be considered in this context. This is proposed as generator bidding behaviour would be an important input into the market benefit test.

- Mechanisms should aim to achieve generation dispatch that reflects the outcomes of nodal pricing without the need to move to nodal pricing.
- It should be noted that bidding is a dispatch mechanism with the objective of managing contract exposures or getting volume. It is questionable whether offering behaviour is based on the short run marginal cost (SRMC) of generation, whatever the SRMC may be. Dispatch in the NEM is a co-optimisation process between the energy market and the market ancillary services, being frequency control. This places another layer of non-network related constraints that can give rise to counter price flows.
- A key concern is that all risks should rest with the party best able to manage them. This covers both that the risk occurs and the consequences of the risk. TNSPs have control of planned outages but have little or no control over the consequences. There are some constraints over which TNSPs have no operational control, they have influence only in the longer term through investment.
- Clarification is required regarding the Network Control Ancillary Services (NCAS) procured by NEMMCO under contract. These NCAS relate to ensuring that there are sufficient sources of reactive power available so that the power system can withstand credible contingency events and prevent voltage collapse. This is quite distinct from services for the regulation of voltage. These are generally provided by TNSP assets or through connection agreement access standards. The dispatch of these voltage regulation services is coordinated between the TNSPs and NEMMCO. The model of TNSPs being responsible for “designing” the power system and NEMMCO ensuring its secure operation would see TNSPs ensuring sufficient voltage regulation services are available through connection agreements or asset investment. This is distinct from network support services contracts, either generation dispatch or demand side management, that are standard tools used by TNSPs to manage constraints.

Should you have any queries in relation to this response please contact Michael Sward, Regulatory Analyst on 03 6274 3964 or email michael.sward@transend.com.au.

Yours sincerely

[by email]

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