

Dr J Tamblyn
Chair
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

- 5 OCT 2005


Dear Dr Tamblyn

Pursuant to Part 4, Division 4 of the National Electricity Law, the Ministerial Council on Energy (MCE) by written notice, directs the Australian Energy Market Commission (AEMC) to consider the requirement for and scope of enhanced trading arrangements in relation to congestion management and pricing.

The MCE terms of reference provide guidance in three key areas.

- this review should identify and develop improved arrangements for managing financial and physical trading risks associated with material network congestion, with the objective of maximising the net economic benefit to all those who produce, consume and transport electricity in the market;
- the review should take account of, and clearly articulate, the relationship between a constraint management regime, constraint formulation, regional boundary review criteria and review triggers, the ANTS flow paths, the Last Resort Planning Power, the *regulatory test* and Transmission Network Service Provider incentive arrangements; and
- the constraint management regime should apply as a mechanism for managing material and enduring constraint issues, until it is addressed through investment or regional boundary change.

In conducting the review into congestion management regimes, the AEMC would benefit from having regard to

- the previous work undertaken by Charles River Associates on constraint management and pricing as part of their report, *NEM – Transmission Region Boundary Structure* (September 2004) and submissions to associated consultation; and
- the results emerging from the limited trial of Constraint Support Pricing/Constraint Support Contracting in the Snowy Region and an assessment of its broader impacts.

MCE Secretariat

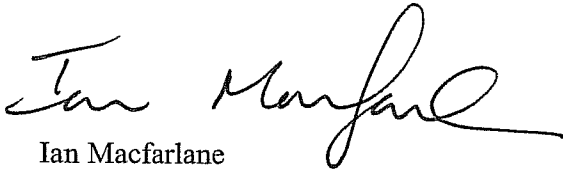
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In light of the complexity of the review, the MCE requests that a final report be provided to the MCE, and made publicly available, no later than nine (9) months following receipt of these terms of reference.

The MCE provides terms of reference relevant to the Review at **Attachment A**. The MCE anticipates that the attached information will be posted on the AEMC website.

I trust this information is of assistance. Should you have any further enquiries, please contact Ms Loretta Boman of the Department of Energy on telephone 07 3225 8207.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Macfarlane', with a long, sweeping horizontal stroke at the end.

Ian Macfarlane

**National Electricity (South Australia) Act 1996
NATIONAL ELECTRICITY LAW**

NOTICE OF REFERENCE UNDER PART 4, DIVISION 4

Terms of Reference for Australian Energy Market Commission

Congestion Management Review

1. BACKGROUND

- 1.1 The Ministerial Council on Energy (MCE) has recognised that no material efficiency benefits would be gained from a nodal pricing approach at this stage of market development. The MCE has endorsed a rule change to implement a regional boundary assessment process whereby new boundaries are created to price material and persistent network constraints with an emphasis on incremental and infrequent changes to the current boundaries. The MCE also endorses the consistent formulation of constraints using a form of constraint equation that allows the National Electricity market Management Company (NEMMCO) to control all variables (i.e. fully co-optimised direct physical representation).
- 1.2 The 20 May 2005 MCE Statement on NEM Electricity Transmission tasked the Australian Energy Market Commission (AEMC) to consider the requirement for and scope of enhanced trading arrangements in relation to congestion management and pricing, taking into account the results emerging from the Snowy trial and the Charles River Associates (CRA) study.
- 1.3 Pursuant to Part 4, Division 4 of the NEL (a Schedule set out under the *National Electricity (South Australia) Act 1996 (Act)*), the MCE by written notice, may direct the AEMC to conduct a review into:
 - any matter relating to the National Electricity Market; or
 - the operation and effectiveness of the Rules; or
 - any matter relating to the Rules.

- 1.4 Participating jurisdictions under the NEL are:
- The Commonwealth;
 - The State of New South Wales;
 - The State of Victoria;
 - The State of Queensland;
 - The State of South Australia;
 - The Australian Capital Territory; and
 - The State of Tasmania,
- and have agreed to the reference set out below.

2. REFERENCE

We, the MCE, by resolution dated XX September 2005, hereby direct the AEMC to review the matter described in section 3 of the Terms of Reference pursuant to Part 4, Division 4 of the NEL, in accordance with the Terms of Reference specified below.

3. TERMS OF REFERENCE

The following are the Terms of Reference for the review specified pursuant to section 41 of the NEL:

- 3.1 This review will identify and develop improved arrangements for managing financial and physical trading risks associated with material network congestion, with the objective of maximising the net economic benefit to all those who produce, consume and transport electricity in the market.
- 3.2 The AEMC review should take account of, and clearly articulate, the relationship between a constraint management regime; constraint formulation; regional boundary review criteria and review triggers; the ANTS flow paths; the Last Resort Planning Power; the Regulatory Test and TNSP incentive arrangements. The AEMC should develop a constraint management regime that applies as a mechanism for managing material constraint issues, until it is addressed through investment or regional boundary change.
- 3.3 The AEMC review on constraint management should have regard to the previous work undertaken by CRA on constraint management and pricing as part of their report NEM – Transmission Region Boundary Structure dated September 2004 and submissions to associated consultation should form the basis for the AEMC review on constraint management. In addition the results emerging from the limited trial of Constraint Support Pricing/Constraint Support Contracting in the Snowy Region and an assessment of its broader impacts should also be considered in this review. The AEMC should consult directly with NEMMCO on progress of the Snowy trial.

- 3.4 The Snowy trial is due to conclude in June 2007, and subject to the development of replacement arrangements that are found to benefit the market, there is an expectation that new arrangements will be implemented by this date.
- 3.5 On completion of the review, the AEMC will provide a report to the MCE, which will be made publicly available, outlining the AEMC's proposals in relation to the opportunities for enhanced constraint management arrangements. The AEMC must also provide draft Rule changes that would enable implementation of the proposed arrangements.

4. CONDUCT OF THE REVIEW

- 4.1 This review must be conducted in accordance with Part 4, Division 4 of the NEL.
- 4.2 The AEMC will provide a final report to the MCE, to be made publicly available, no later than 9 months following receipt of these terms of reference.
- 4.3 The AEMC must consult with industry and NEMMCO.