



National Electricity Market
Management Company Limited
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Sydney

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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Dear John

**SUBMISSION ON NATIONAL ELECTRICITY AMENDMENT (REGIONAL BOUNDARIES)
RULE 2006**

Thank you for the opportunity to comment on the Ministerial Council on Energy's (MCE) proposal for a Rule relating to the process and criteria for the determination of regional boundaries. The requirement for a minimum separation of five years between reviews of a similar region change, should promote stakeholder confidence in the existing boundary structures. A three year notice period for a regional boundary change should provide stakeholders with adequate preparation time.

While generally supportive of the overall thrust of the Rule changes, NEMMCO believes the proposed Rule would be improved by:

- a guideline, prepared by the AEMC, explaining the level of technical information and economic analysis that would be required to support an application for a new Region boundary;
- clarifying the requirement for a review of the success of any Region boundary change; and
- clarifying the provisions relating to the AEMC's report on possible Region boundary changes.

NEMMCO has put forward an Addendum containing suggestions that may improve the process.

If you have any questions regarding the above please do not hesitate to contact me on (02) 9239 9103.

Yours sincerely


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ADDENDUM**1. Providing technical and economic guidelines required for an application**

A Region Boundary Review can be undertaken if an application is submitted by either a registered participant or NEMMCO. The Commission may refuse to consider the application if the Commission deems that the application does not contain sufficient information relating to:¹

- (1) a detailed description of:
 - (i) the proposed region change;
 - (ii) the reasons for proposing the region change.
- (2) all relevant technical details concerning the proposed region change;
- (3) a detailed analysis of whether the region change is likely to result in a material and enduring net economic benefit to all those who produce, consume and transport electricity.

Given the expected cost and time of the Review process, it seems appropriate that the Commission use this information upfront to determine whether a Review is justified. However points (2) and (3) can be potentially broad in scope, and could demand significant resources, depending on how thoroughly each would be addressed. There is no provision to indicate the level of analysis required for an applicant to meet the Commission's hurdles.

NEMMCO suggests that the AEMC be required to develop a guideline that makes it clear the level of detail and analysis necessary for an application to meet the Commission's expectations.

A guideline of this nature would be consistent with National Electricity Amendment (Reform of the Regulatory Test Principles) Rule 2005, proposed by the MCE. Proposed clause 5.6.5A(c) requires the AER to "publish guidelines for the application of the regulatory test".

The guideline would explain the clause 3.5.2(d) requirements more fully and enable the applicant to allocate a commensurate level of resources. While realising that a prescriptive list is inappropriate for matters as complex as a region boundary change, a guide on what the Commission is expecting should improve the quality of applications and the efficiency of the process.

The Commission may also wish to consider whether the guideline should be developed under a consultation process.

¹ clause 3.5.2(d)

2. Determining the level of economic analysis to be conducted by the applicant

It is noted that the net economic benefit that will arise from a region change is addressed three times in the replacement clause:

- 3.5.2 (d)(3) to be addressed by the Applicant;
- 3.5.2(k), 3.5.2(o) to be addressed by the Commission at the Draft and Final Determination stages respectively.

The Applicant is required to provide a detailed analysis, while the Commission is required to provide their own reasons on whether it is satisfied that the region change will maximise the net economic benefit. On this basis it seems that the requirement for the Applicant is more onerous than the Commission's. While not compromising the filtering purpose of clause 3.5.2 (d)(3) it is suggested that a more practical approach could be for an Applicant to demonstrate a "prima facie case" similar to the requirements for a request for a Rule rather than a detailed analysis, and that the Commission undertake its own economic analysis during the Draft and Final Determination stages.

3. Process to review whether the Region Boundary change was successful

Page 6 of the attachment on Description of the replacement clause outlines that:

After a region change has taken place the rule will also set out a process to review whether that change was successful

NEMMCO was unable to identify a proposed draft Rule for this. Clarification is required so that stakeholders know if a post region change review is to take place and the consequence if the region change is found to be unsuccessful.

4. AEMC report

Clause 3.5.2(p) is repeated below:

(p) the region change will not take effect until three years after the date the AEMC publishes the final determination under clause 3.5.2(n).

Where:

- (1) a constraint has been identified on a national transmission flowpath in an ANTS which the AEMC considers as material and enduring; and
- (2) the AEMC considers that it is unlikely an investment proposal will relieve that constraint within two years; and
- (3) the constraint has not been considered as part of a region change under this clause in the previous 5 years.

The AEMC must consider whether a region change would be likely to meet the criteria in 3.5.2(c) and publish a report on its findings.

It appears the words following "Where" are not related to the first paragraph of (p) and probably should be a different clause – say clause 3.5.2(q).

Points (1),(2) and (3) correspond with Page 7 of the MCE proposal on the Region Change Process which states that the AEMC will be empowered to consider and report on possible boundary changes where criteria (1),(2) and (3) are met. Whether the AEMC will report on possible boundary changes, and if so how often, needs to be spelt out. If such a report is to be published it may provide a useful information source for applicants when preparing their submissions.

5. The three year notice

Clause (p) states that a region change will not take effect until three years after the date the AEMC publishes the final determination. If the region change requires modification to existing intra regional loss factors, and the Final Determination date does not coincide with 1 July, a conflict may arise between the region change timing and the existing Rule clause 3.6.2 obligation, where intra regional loss factors are to apply for a Financial Year.

Apart from this matter NEMMCO views the three year notice as sufficient time to prepare market systems and market data for region change.

6. Other points

The Region Structure clauses are allocated 3.5. Allocating 3.5.1 to the Region Structure clauses may make referencing more consistent.

Clause 3.5.1(d) on altering the location of a regional reference node references to 3.5.2(c), being the criterion the AEMC must have regard to when making a determination on a region change. Perhaps the intent was to reference to clause 3.5.1(c) instead.

Clause 3.5.2(h)(2) references to a criteria in clause 0. Instead of clause 0, it may have been intended to reference the criterion in clause 3.5.2(c).

Clause 3.5.2(j) refers to a date specified in a notice under clause 3.5.2(h). Clause 3.5.2(h) does not involve publishing of a notice, but invites written submissions. Perhaps the intent was to reference to the 3.5.2(g) notice.

The ANTS is referenced at clause 3.5.2(p)(1). This clause appears to require the ANTS to provide sufficient information for the AEMC to judge whether a constraint on a national transmission flow path is "material and enduring". It is not clear whether the information currently published in the ANTS is sufficient to satisfy this requirement.

Clause 5.6.5 defines the requirement for NEMMCO to produce the ANTS. Specifically NEMMCO is required to consult annually on both the data and assumptions, and the content of the ANTS. Any change to the content of the ANTS to provide additional information on "material and enduring constraints" should be included in this annual consultation.

NEMMCO

NEMMCO aims to complete this consultation by March each year to allow sufficient time for the ANTS market simulations to be completed and analysed. If the region boundaries Rule changes require changes to the content of the ANTS and they come into force after March, then appropriate transitional arrangements should be included. It is recommended that these arrangements ensure the additional content is only required from the following year.