

POWERLINK QUEENSLAND

PROPOSED RULE: National Electricity Amendment (Region Boundaries) Rule 2006

10 March 2006

Powerlink appreciates the opportunity to comment on the proposal made by the Ministerial Council on Energy (MCE) relating to reform of regional boundaries. This submission provides Powerlink's views relating to the proposed changes to the National Electricity Rules (the Rules) that the Australian Energy Market Commission (AEMC) has sought comment on by 10 March 2006.

Powerlink supports the stated view of the MCE that the regional structure for the wholesale market should be stable, with robust economic criteria to support incremental change as required. Given the desire to promote stability in the market, we also support the proposal to give advanced notice of a boundary change to allow participants to adjust their commercial positions accordingly.

Powerlink is particularly interested with the potential for region boundary changes to impact upon transmission investment proposals, and therefore supports the call for the AEMC to clarify the procedural order of a regional boundary review within the broader investment framework, in particular its interaction with the regulatory test, the last resort planning power and the congestion management regime.

In its rule change proposal, the MCE states that:

*"The MCE considers that regional boundary reviews should be conducted on application... The issue of gaming would be mitigated by the extent to which boundary review processes link to other mechanisms including the Last Resort Planning Power, the Regulatory Test, the ANTS and the arrangements for congestion management."*¹

They also state that:

*"Regional boundary review applications should not provide an opportunity for disaffected parties to introduce risk to potential new investors. It is important that the AEMC therefore clarify the procedural order and trigger requirements for regional boundary reviews."*²

Indeed, the MCE go further by outlining a process that implies that a constraint must have previously been identified in the Annual National Transmission Statement (ANTS) and/or that the congestion management regime has identified the constraint as commercially material and enduring.

¹ MCE Rule Change Request "Reform of Regional Boundaries", Attachment A, p4.

² MCE Rule Change Request "Reform of Regional Boundaries", Attachment A, p8.

However, it is noted that the proposed rule does not explicitly state these criteria, only that the region change may be disregarded if the AEMC consider the application to be misconceived or lacking in substance (including whether it is designed to discourage investment proposals)³. Although Powerlink supports the discretion given to the AEMC to disregard misconceived applications, we believe that the revised clause 3.5 should provide guidance on the criteria that any regional boundary change applications would be required to satisfy, or pre-conditions for any such application.

Consequently, Powerlink proposes that the rule change include the pre-conditions for any region boundary change application as stated by the MCE in their rule change request, specifically that:

- a constraint has been identified in the ANTS;
- the AEMC considers it to be material and enduring; and
- that there are no regulatory test assessments outstanding.

Powerlink believes that the codification of such criteria, or pre-conditions, would clarify the interaction between the region boundary change mechanism and the mechanisms designed to promote efficient transmission network investment to develop an economic national grid, such as the regulatory test and the last resort planning power.

Also, we believe that it is unlikely that an optimal solution can be found for the question of region boundary changes independently of the wider congestion management review, which the AEMC has just commenced. We would suggest that it is appropriate to align the region boundary rule change consultation with this other key review into the market operation.

Powerlink also supports the principle that there should be consistency between the economic criteria used to determine a region boundary, and the economic criteria in the Regulatory Test for network investments which would alleviate congestion.

Finally, the proposed rule contains a clause at the end enabling the AEMC to affect a region boundary review where certain defined criteria are satisfied. We believe this to be a separate sub-clause 3.5.2(q), but the proposed rule does not make this clear.

³ MCE Rule Change Request “Reform of Regional Boundaries”, Proposed rule 3.5.2(f).

