



Lvl 11, 60 Marcus Clarke St.,
postal: GPO Box 1301
Canberra ACT 2601
ABN 83 113 331 623

Tel: 02 6243 5120
Fax: 02 6243 5143
john.boshier@ngf.com.au
www.ngf.com.au

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Dr. John Tamblyn
Chairman
Australian Energy Market Commission
Level 16, 1 Margaret Street
SYDNEY NSW 2000

Dear Dr. Tamblyn,

National Electricity Amendment (Regional Boundaries) Rule 2006

The National Generator Forum (NGF) is pleased that the important issue of regional boundary change structure and criteria is being considered by the AEMC. However, the NGF is concerned that consulting on regional boundary change rules prior to the conclusion of the closely related congestion management review is premature. To ensure changes to the regional boundary rules are consistent with the congestion management process the NGF recommends that market participants be given another opportunity comment on this matter as part of the congestion management review.

In the interim, the NGF offers the following initial comments on the proposal as it stands.

Existing Congestion Problems

As a consequence of the moratorium the NEM ministers placed on boundary changes in the NEM there are significant congestion issues in the Snowy region which it has not been possible to address by constraint management or transmission investment.

A number of proposals have emerged to address the problems arising from the Murray to Tumut constraint in the Snowy region:

- Snowy Hydro CSP/CSC Trial
- Snowy Hydro Regional Boundary Rule Change Proposal
- Macquarie Generation Regional Boundary Rule Change proposal
- Management of Negative Residues (Vic – Snowy)

The materiality and persistent nature of this existing problem warrants progressing assessment of these proposals prior to the implementation of an extended boundary change process. Principles established by such an assessment should be used as the starting point for the development of economic criteria for regional boundary change for all future boundary change proposals.

The assessment and subsequent operational experience could also be used as a ‘test case’ for developing a regional boundary review test for the assessment of alternative boundary changes. This test would be consistent with and similar to the regulatory test for transmission investment.

The Framework for the Rule Change

The reform package proposed by the AEMC (as described in the Charles River Associates NEM Transmission Region Boundary structure report of September 2004) included the regional boundary change process as part of a framework to provide an evolutionary boundary change process which included managing the constraint through a flexible congestion management regime and fixing the constraint. It was proposed the constraint, if material and persistent, could be fixed by regulated transmission investment or the creation of a new pricing region

The NGF supported this approach and made some suggestions as to how this package could be integrated into other market activities such as the ANTS process and the publication of marginal/total constraint costs numbers calculated by NEMMCO.

This rule change is only part of the package of reform proposed by the MCE and it is premature to consider the regional boundary change process in isolation of the current congestion management review. It is imperative that the AEMC consider the boundary change process as part of the broader review and as noted above provide participants with a further opportunity to comment on boundary change matters.

Boundary Change Assessment criteria

The rule change as proposed considers the frequency and process for a regional boundary change in isolation. Significantly this proposal does not adequately address the thresholds and triggers for the review noting only that in the case of a region boundary change the AEMC must determine “whether or not the region change is likely to result in a material and enduring economic benefit to all those who produce, consume, and transport electricity.” A number of criteria for rejection are also identified.

This approach is unlikely to provide greater certainty to investors than the current criteria which are based on a “Technical” but readily understood and easily measured threshold. The NGF proposes that the criteria for assessment be made explicit in the changes to the rules, and be centered on the concept of net cost-benefit assessment.

To meet the requirements of proposed clause 3.5.2 (c) the AEMC should therefore be required to establish in the Rules (of a similar type and promulgated in a similar manner to the regulatory test for transmission investment) a test for:

- constraint management; and
- a boundary change.

These tests must be followed in the assessment of a constraint management or boundary change proposal and include provisions to allow participant input to any alternative scenarios or identify other constraints to ensure all possible alternatives and constraints are considered. The use of clear, economic criteria would also eliminate the need for the AEMC to apply the subjective ‘rejection tests’ as proposed by the MCE on page 4 of their paper, or judgments on the likelihood of future investment as proposed on page 7.

The boundary change test should clarify and identify in more detail the requirements of proposed clauses 3.5.2 (d) and 3.5.2 (f) to ensure that the application of test can be applied consistently and with confidence that the outcomes will deliver net economic benefit.

This approach is consistent with MCE's objective of establishing "boundary change criteria as forward looking and economically based with consistency between the criteria for regional boundaries and transmission investment" as well as congestion management regimes if implemented.

Application for Region Change

The NGF has previously proposed to the MCE that the congestion management and the boundary review process be integrated with the ANTS process which already has the objective of identifying and quantifying the impact of constraints on major transmission flow paths.

In the NGF's view the market simulation modeling included in ANTS (expanded as necessary) could be used to assess whether a particular constraint is likely to meet the criteria for;

- the implementation of a constraint management proposal, or
- passing the regulatory test (already in ANTS), or
- a boundary change.

This would establish a structured, periodic regional boundary review process managed by a market body, from which regional boundary change proposals would emerge in consultation with the market. This approach would still allow a registered participant to apply for a region boundary change to cover the circumstance of material congestion or a superior boundary change option not identified in the ANTS process.

We note also that NEMMCO is measuring on behalf of the AER Total Constraint Costs (TCC) and Marginal Constraint Costs (MCC) and potentially the shadow price of inter- and intra-regional constraints as transmission performance "transparency measures". Constraints which are not on the major flow paths, but which may be significant intra regional constraints (and subject to a constraint management mechanism) would be identified by the MCC/TCC process. When integrated, the boundary change process, the ANTS and MCC/TCC processes will provide participants with an annual update on the magnitude of significant constraints, which will allow them to assess the likelihood of the future implementation of a constraint management proposal, transmission upgrade or boundary change.

Boundary Change Thresholds

The MCE has proposed that the criteria in the CRA report should be adopted by the AEMC as a starting point. CRA recommended a threshold for a regional boundary be set to take account of the difficulty in calculating some the costs and benefits and to ensure clear benefit is obtained. The NGF supports this principle but considers that further consultation and expert analysis is required to establish appropriate thresholds for a boundary change.

Boundary Change Process

The NGF supports, in principle, the boundary change process envisaged by the MCE as described on page 5 of the proposal.

The draft rule proposes a review cycle of up to 5 years to align with the regulatory reset of transmission revenues. The NGF suggests that this is too long a period between reviews and prefers that there is a structured annual review of region boundaries conducted as part of the ANTS process, as outlined above.

Congested intra-regional and inter-regional flow paths would be identified via the AER MCC and TCC measures and in the ANTS respectively and in the first instance the possibility of a constraint management transmission solution or regional boundary change would be identified.

If the economic justification is achieved for a transmission project, then the transmission project would be implemented as a priority (eg as a 'contingent project' rather than waiting for the next regulatory review).

If transmission augmentation cannot be justified then a test for regional boundary review should be applied.

The NGF considers the 3 year lead-time between a boundary change determination and implementation to be the minimum period required to allow market participants to make the necessary operational adjustments. It is noted however that an unexpected change in market supply, demand or transmission may result in the ANTS process identifying that a boundary change may no longer be economic. The rules should allow for a determination to be reversed if a subsequent a boundary change test clearly identifies that the yet to be implemented change would not deliver a net economic benefit.

Summary

1. Whilst the NGF supports a review of the boundary change process it is considered premature to finalise any changes to the process before the completion of the associated congestion management review.
2. The existing congestion problem in the Snowy Region caused by existing regional boundaries needs to be resolved and a permanent solution implemented as soon as practicable. Principles established in this process should be applied to developing future boundary change criteria.
3. The NGF considers that the regional boundaries rule change proposal as drafted does not support a stable wholesale market, is not consistent with CRA's envisaged overarching framework for constraint management and is not sufficiently robust to ensure region boundaries will be changed where there is clear net economic benefit.
4. The suggestions by the NGF in this submission will address the major shortcomings of the proposed rule change

Please do not hesitate to contact me or Roger Oakley at LYMMCO if we can assist further.

Yours faithfully,

John Boshier
Executive Director