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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Dr Tamblyn

ERC0093
Grid Australia Proposed Rule Change – Early Implementation of Market Impact Parameter

The NGF welcomes the opportunity to comment on the proposed Rule Change: Early Implementation of Market Impact Parameter (MIP). Grid Australia initiated the Rule change which, if successful, gives TNSPs the option to apply the MIP in the current regulatory period. Currently, TNSPs do not have the option to apply the MIP until the next regulatory period.

We support this Rule change as it gives TNSPs the option to apply the MIP before the next regulatory period. Under the MIP, TNSPs are incentivised to reduce the impact of their planned outages. As such, we support the scheme's early implementation.

The AER developed the MIP as part of its service target performance incentive scheme (STPIS) in March 2008. TNSPs submit a performance target under the MIP. The performance target reflects a TNSPs' average performance history over the last five years. The MIP then measures the number of five minute dispatch intervals where an outage on a TNSP network results in a network outage constraint with a marginal value greater than $10/MWH. The AER will assess a TNSP's performance against its average performance history. Depending on the TNSPs' performance against its average performance history, it can earn up to 2% of its Maximum Average Revenue (MAR).

The AEMC will assess the Rule Change by evaluating its impact on the price control in the current regulatory period. As such it:

- requests information on the impact of implementing this Rule change in the current regulatory period; and
- explores whether TNSPs have the relevant data and investigates the complexities of the implementation process.

The NGF thinks that these issues are important and need to be examined. Nevertheless, we will limit our comments to other related aspects of this Rule change that we think important.

We support this Rule change as it gives TNSPs the choice to apply the MIP in the current regulatory period.

However, we think that the MIP should:

- be improved to include a method that holds TNSPs liable for the severity of market congestion to participants using the transmission system;
- be developed to place a share of TNSP regulated revenue at risk (up to 10%) under the STPIS; and make TNSPS answerable for the severity of market congestion on participants using the transmission system;
- promote extra capital spending to ease market constraints in the current regulatory period;
- strengthen its link to the contingent project framework in the hope that TNSPs will spend extra capital spending in the current regulatory period; and
- provide for AEMO to supply the relevant data inputs for the performance target submitted to the AER by a TNSP.

Key Points

1. The MIP measures the number of times a constraint has an impact of greater than $10/MWH on the transmission system and a TNSPs performance against this; but, it fails to hold them liable for the severity of the impact of congestion on the market

We support a change to the MIP that obliges TNSPs to account for the severity of the impact of congestion on the market. Currently, the MIP measures the number of five minute dispatch intervals where an outage on a TNSP network results in a network outage constraint with a marginal value greater than $10/MWH. Whilst the current MIP offers value, TNSPs will pay more attention to a scheme that makes them liable for the severity of impact of congestion on the market.

2. The NGF supports changes to the MIP under the STPIS that puts at risk higher share (up to 10%) of TNSPS' regulated revenues

We support a change to the MIP that puts at risk a higher share of a TNSP's regulated revenue (up to 10%) when it fails to achieve its targets under the STPIS in the next regulatory period. The AER may well achieve this by altering the MIP to hold TNSPs accountable for the severity of the impact of congestion on the market. Currently:

- TNSPs can earn an additional 2% of their regulated revenues – in the next regulatory period- if they achieve their MIP targets; they have no downside risk if they fail to achieve their targets
- TNSPs maximum share of regulated revenue at risk in the current regulatory determinations under the STPIS is + or – 1% of the regulated revenues
- TNSPs maximum share of regulated revenue at risk for the next regulatory periods under the STPIS will be + or – 5% of their regulated revenues

We think that the incentives on TNSPs to maintain the reliability of the transmission system are in adequate. Therefore, extra work taken on by the AER in this regard signifies to a step in the right direction.

3. The NGF hopes that providing TNSPs with the option to bring forward the MIP scheme in the current regulatory period will lead to an increase in capital expenditure to alleviate market constraints

We hope that giving TNSPs the option to apply the MIP in the current regulatory period will provide a stronger incentive for them to spend capital on the transmission system to ease constraints. Whilst we understand the incentive scheme for capital encourages TNSPs to underspend relative to their benchmark levels, we hope the early implementation of the MIP in the current regulatory term will encourage them to spend more capital.

4. The NGF hopes the MIP is strengthened to link it to the contingent projects framework to encourage capital expenditure

We support linking the MIP to the contingent projects framework. Contingent projects are relatively large projects that address foreseen events where the TNSP is uncertain as to whether the project will proceed, its costs/ and its timing. We hope that by linking the contingent project framework to an expanded MIP – which includes the market impact of congestion – that this will incentivise TNSPs to start projects to ease added congestion. We believe the incentive properties of the TNSP regulatory regime provide the right incentives for TNSPs to invest in efficient capital expenditure. However, linking an expanded MIP to the contingent project framework might encourage TNSPs to spend extra capital to ease constraints.

5. The NGF believes that AEMO should supply the relevant data pertaining to the TNSP to the AER to implement the MIP scheme

TNSPs should have no role in supplying the data required to implement the MIP. The MIP works by mandating a TNSP to put forward a performance target which is equal to the TNSPs' average performance history over the most recent five years. The MIP then measures the number of dispatch intervals where an outage on a TNSP network results in a network outage constraint with a marginal value greater than $10/MWH. We believe that the information used to determine the TNSP average performance history should be provided by AEMO and not by the relevant TNSP.

Conclusion

The NGF recognizes this Rule change deals with the mechanics of implementing the MIP in the current regulatory period. We understand our submission deals with a range of issues that are closely related to the Rule change. As such, we hope the AEMC will consider our comments in good faith before introducing the Proposed Rule.

Please contact the Con Noutso on 03 8628 1240 or 0437 985 602 if you wish to discuss any aspect of this submission.

Yours faithfully,

M. Roberts

Malcolm Roberts

Executive Director