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RULE CHANGE PROPOSAL: REFORM OF REGION BOUNDARIES

Thank you for the opportunity to comment on the proposed *National Electricity Amendment (Region Boundaries) 2006*. CS Energy views the continued stability of region boundaries as crucial for market certainty. The possibility of changing region boundaries is a significant long-term regulatory risk in the NEM. Therefore, the process by which region boundaries are altered must be measured against this risk, and designed to enhance rather than reduce certainty. Secondary markets are an essential element for the efficient operation of the NEM, and any change to the region boundaries will severely disrupt these markets. Especially given the inherent risks and complexity of inter-regional trade for secondary markets.

Frequency of Regional Boundary Reviews

The MCE proposal of an application based review system has significant merit in avoiding the unnecessary uncertainty, risk and expense of periodic reviews. Region boundary changes should only be considered after the other mechanisms have been tested and have failed. CS Energy has identified two related issues that should be considered with the proposed application-based system:

Multiple applications dealing with substantially the same issue, or closely related overlapping issues, may be presented at about the same time. We have seen this recently with two proposals for changing the SNOWY region being considered at the same time. In a system as complex as the NEM a change to region boundaries can have unforeseen effects across the entire market and influence participant behaviours in ways that cannot be modelled in advance.

System changes and disturbances caused by one boundary change may not be completely known before a new application is received. Assessing the new application in such circumstances of these unknown effects would be impossible. To prevent this, the Region Boundary Change Process must include provisions to only accept applications for boundary changes based on a system that has settled to its quiescent state. This would require that new applications not be considered:

- a. during a Region Boundary Review; or
- b. in the lead-time between a review and a boundary change taking effect; or
- c. for a reasonable period (2 years) after a region boundary change.

Any application to consider another change before understanding the market-wide impact of a previous change should be rejected as being ill considered.

CS Energy does not see any need for AEMC to unilaterally initiate a Boundary Change Review. If a boundary change has value to the Market then the party benefiting from the change will propose it. If a boundary change has no proponent this indicates that no participant sees a benefit in the change and the change should not proceed.

Process for Regional Boundary Change

Region boundary changes should be a last resort after other mechanisms have been exhausted. Ending the current market and creation of a whole new market (which is effectively what a boundary change does) is a major market disruption event, so if it is deemed necessary then it must be undertaken so as to minimise risk and disruption to market participants.

CS Energy supports the MCE view that prior to a region boundary change being required a series of other mechanisms should be put in place to manage material congestion. A congestion management regime and then the Last Resort Planning Power should be used, and time must be allowed for investment to catch up with the need. Only if these mechanisms fail to alleviate the problem should a region boundary change be considered. CS Energy notes that the LRPP is currently under review and the MCE did not identify the details of a congestion management regime that would be used. These are two critical processes and further consultation on these would be appropriate. Even so, a criterion for a boundary change application should be that the congestion being addressed has previously been the subject of a congestion management regime and had the Last Resort Planning Power applied where appropriate. In applying the Regulatory Test, the costs saved and benefits gained by *avoiding* a region boundary change should also be explicitly included.

If a boundary change is finally deemed necessary then the commercial risks to participants and the Market as a whole must be minimised. Two principles that help achieve this are:

- a. Time from application to decision should be kept to a minimum. Whilst a proposal is pending decision there will be uncertainty in the market. This affects the forward contract market and decisions relating to the location of transmission, generation and customers.
- b. Time from decision to the region boundary change taking effect must be sufficient to allow for the forward contract market to adjust without shocks. Currently contracts trade up to 4 years ahead, so a 3 year lead-time would be sensible.

Change Criteria

CS Energy agrees that the criteria for a boundary change should be economic and forward looking. So, consistent with the Regulatory Test these criteria must focus on genuine economic savings and not use market prices or shadow prices as a measure. Participant behaviour in the NEM during congestion is not an indicator of economic costs.

In summary, CS Energy supports the MCE proposal for reforming the Region Boundary Change process, but it is important to limit the risks and ensure that other mechanisms are used before such a major disruption event is implemented.

Yours faithfully

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