

28th November 2007

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

Submission sent electronically to:
submissions@aemc.gov.au

Dear Dr Tamblyn,

**Submission to – Congestion Management Review
Draft Report**

Snowy Hydro supports the Commission's findings outlined in the Congestion Management Review draft report.

We believe that the Commission has taken an appropriate long term and integrated approach to addressing transmission congestion in the NEM. The final determination on the Snowy Region Abolition addressed a material and enduring congestion problem, is consistent with a regional market design, ensures an appropriate starting point for the MCE's region boundary change framework, and is consistent with the Commission's approach to transmission planning, revenue and pricing. It is now important for the Commission to implement its package of reform in an integrated and timely manner.

Having resolved the congestion problem with the Snowy Region we agree with the Commission that the general level of congestion in the NEM at this stage is relatively immaterial. Hence any regulatory action needs to be proportionate to an identified problem. From this perspective we believe the existing regulatory processes such as the Regulatory Test, the MCE Regional boundary change process, the establishment of a National Transmission Planner, and increased information provisions from NEMMCO on constraint management would incrementally help the market address the issue of congestion.

While Snowy Hydro believes that the Tumut CSP/CSC trial provided a reasonable transitional solution to the problems with the Snowy Region, we note that the concept faces issues such as:

1. The allocation of CSC rights as a naked CSP without an accompanying CSC has been proven to be inefficient; and
2. The CSP/CSC solution was only intended to deal with transitional congestion which was material but not enduring. A risk associated with implementing the CSP/CSC is that other Participants may try and entrench the transitional solution. This would then prevent more efficient and appropriate longer term solutions such as a region boundary change or transmission upgrades from being implemented.

Snowy Hydro believes it would be worthwhile for the AEMC to further investigate pricing for constrained-on generation. The mechanism currently available for pricing and compensation for constrain-on generation through NEMMCO directions and negotiated compensation with TNSPs may be inefficient for a number of reasons.

Firstly, compensation may be incommensurate with the risks for providing generation. This ultimately may lead to the generator declaring itself unavailable, to the detriment of end consumers. Secondly, compensation via negotiation with the TNSP is hindered by the fact that the generator is negotiating with a Service Provider who operates under a regulated revenue regime without a sufficient mechanism to pass on the risk and costs of transmission congestion. We therefore believe that the Commission's investigation also needs to integrate the issue of pricing (compensation) and the source of this funding.

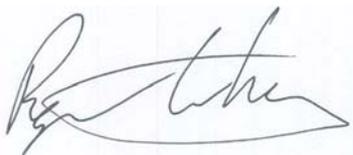
Snowy Hydro supports improvements to the IRSR to improve inter-regional trading. The suggestion on more long dated IRSR units would facilitate increased market liquidity as Participants would be able to contract further in the future.

We believe more empirical work needs to be done to assess the merits of Positive Flow Clamping as a means to improve IRSR firmness. The outcomes from this hypothetical approach are complex and dependent on generator bidding behaviour and incentives which are unclear due the complexity of the concept. More analysis needs to be undertaken by the AEMC to ensure that such an approach does not end up with unintended economic consequences.

Snowy Hydro supports the provision for increased information provision to improve congestion management decision making. We are particularly supportive of information on constraint equation development and invocation. We appreciate that NEMMCO already has made available in various places information on constraint formulation and invocation. However, consolidation of this information accompanied by detailed guidelines on how the constraints were formulated and justification on key constraint issues like the derivation of the coefficients and scaling factors would provide better and more informed information for Participants to manage constraints. We also believe TNSPs should also publish detailed guidelines on how they assess transmission capability as this is a critical input into NEMMCO's constraint formulation.

Snowy Hydro appreciates the opportunity to comment on the Draft Report on the Congestion Management Review. We support the Commissions findings and recommendations to improve congestion management in the NEM. Please contact me on (02) 9278 1885 if you would like to discuss the issues outlined in this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Roger Whitby', is written over a light blue rectangular background.

Roger Whitby
Executive Officer, Trading

