

10 March 2011

Mr Andrew Truswell  
Project Leader Transmission Frameworks Review  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235



Reference: EPR0019

Dear Mr Truswell

### **Transmission Framework Review**

I write in response to submissions to the Transmission Frameworks Review which in part argue that CS Energy's power station at Kogan Creek ("KCPS") decreases the economic efficiency of the National Electricity Market. Those arguments consider particular aspects of the NEM's operation without taking the essential step of assessing them in the context of the Market's overall economic efficiency and observable market outcomes.

In particular, the submissions argue that the KCPS' operation has the effect of diminishing NEM efficiency by constraining power flows over the Queensland-New South Wales Interconnector ("QNI"). Examination of the record shows that the constraint in question binds under system normal conditions and is generally very predictable. Consequently, the northward flow limit on the QNI is sufficiently consistent that the firmness of units bought at the Settlement Residue Auction also is predictable. Given this predictability is observable by mature market participants; it seems misplaced to argue that the KCPS is impeding inter-regional trade. This issue is of course quite different to that of arising commercial concerns that inter-regional trade is not as valuable as it might have been had no new plant entered the market in Queensland.

The critique of the KCPS needs to be considered in the context of the overall operation of the physical and financial markets for energy. These markets generally are working together effectively given the current rules for generator access to the network and planning of network augmentations. Generators in the NEM have no physical or financial certainty of access to their market. This condition would apply even if a generator were to pay for transmission infrastructure forming part of the common use network; consequently generators do not invest in network for the purposes of relieving congestion. However, in Queensland, and perhaps all NEM jurisdictions other than Victoria, the network planning settings for customer reliability tend to result in constraints being built out before material costs to economic efficiency emerge. Therefore, generators currently take risk, but on volume only. CS Energy has long taken the view that under these conditions, physical market risk is manageable, and the financial market operates satisfactorily to meet the needs of Market Participants and their customers.

It is highly likely that imposing charges to address concerns about the effect of system operations on short run physical market outcomes (such as those raised in regard to KCPS) will harm the financial market because generators would effectively face price as well as volume risk. Generators could manage these additional risks only with an option for existing generators to purchase access certainty and a requirement for new entrant generators to do so in order to be able to connect to the network. To make the complex design and implementation of such a significant reform worthwhile would require at least Queensland, New South Wales, South Australia, Tasmania and the Australian Capital Territory to accept changes in their transmission planning standards which may introduce timing delays in new build of transmission assets.

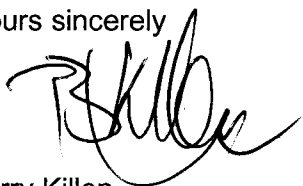
An investor in power generation commits a very large amount of capital in the expectation that the new plant will operate for at least thirty years or more, offering the investor a reasonable prospect of earning a return. Typically, a base-load power plant cannot be moved or turned to an alternative use – it is sunk. This means that imposing new cost on existing plant for the short run use of the transmission network will deliver no efficiency gains in respect of the choice of location for that plant. It will, as noted above, simply limit forward trading and in doing so impose costs which the plant will seek to recover through the physical market. Retailers, with fewer hedging contracts in light of the reduced forward trading, might need to recover higher physical market costs from their customers.

It appears to CS Energy that the Review has not elicited sufficient evidence to support imposing additional charges on generators for network use or some other means of managing short run congestion which would improve the net economic efficiency delivered by the NEM.

Issues of network access and impacts on transmission systems and incumbent generators are clearly complex and have been well canvassed in a number of reviews over the life of the NEM, with numerous solutions being proposed. To date, none of the solutions has been able to resolve the complexity of the inter-related issues; rather, resolving one problem merely tends to create or exacerbate others. Whilst the current arrangements may not be perfect, they should remain until such time as an alternative which addresses all issues is found.

Please contact Mr Allan Short, Manager Analytical and Regulatory ([ashort@csenergy.com.au](mailto:ashort@csenergy.com.au); ph 0738547562 if you would like to discuss the points raised in this letter or need further explanation.

Yours sincerely



Terry Killen  
**General Manager Corporate Services and Trading**