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Dr John Tamblyn
Chair
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
SYDNEY NSW 2000

Dear Dr Tamblyn

Congestion Management Review – Draft Report

I write in response to the Commission's request for submissions on the draft Report of the Congestion Management Review conducted for the Ministerial Council on Energy.

InterGen is party to three other submissions[1] addressing issues arising in and from the draft Report and supports the points made in those submissions. Consistent with those submissions, InterGen particularly sees significant merit in proposals for:

- three year terms for Settlement Residue Auction processes and the proposal to bill importing TNSPs to fund negative settlement residues;
- an independent review of constraint formulation processes, as proposed by the National Generators' Forum; and the
- establishment of a constraint information resource to provide key data to assist participants' risk management.

InterGen understands that the terms of reference issued to the Commission have required it to focus on the significance of current congestion rather than addressing the issue of how to avoid inefficient congestion emerging. InterGen considers that this reflects a long term failure of policy to address generator's access to the transmission network. It is notable, at the least, that producers in other industries reliant on natural monopoly network infrastructure to deliver products to market may negotiate, pay for and receive defined access to the relevant networks. The second of the submissions to which InterGen is party (as noted in the footnote below) addresses the grounds for introducing a mechanism into the National Electricity Market to optimize the development of new generation and transmission capacity.

[1] (by: 1) the National Generators' Forum; 2) a group of generators comprising Loy Yang Marketing Management Company Pty Ltd, AGL Energy Pty Ltd, International Power; Flinders Power; InterGen and Hydro Tasmania; and 3) InterGen, Stanwell Corporation and Tarong Energy Corporation)

It is a significant issue which MCE policy makers need to consider in the interests of maximising the long run benefits to be gained from the NEM. The benefits of generation and transmission investments' integration under central planning were not widely recognised during the development of the NEM, when the focus was on disaggregating industry sectors to facilitate competition between energy producers. Admittedly, the point was not completely ignored: clause 5.4A of the Rules addresses the principle and sets out a process. Unfortunately, the clause has been ineffective in practice because it allocates risks and responsibilities to transmission entities which they cannot manage. The consequences of this policy failure are now emerging in Queensland.

The entry of significant new generation investment in the south west of Queensland's interconnected electricity system is not being matched in time by an expansion of the transmission capacity between the south west and the major load centre of south east Queensland. InterGen therefore engaged ROAM Consulting to model the relevant network constraints over the next five years to 2012. A copy of ROAM's report is attached for the Commission's reference.

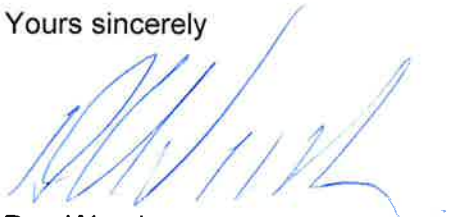
The key finding is that the large amount of new plant locating in south west Queensland over the next two years will lead to significant congestion between the south west and south east elements of Queensland's power grid from late 2009. The congestion will not be relieved until Powerlink augments the network to maintain the reliability of supply to customers in south east Queensland. Analysis and known Powerlink planning indicates that such new network elements will not be operating before late 2011.

The consequences of this condition are that at times of high demand generators in the south west will be unable to supply the full amount of energy to south east Queensland which they would choose to provide economically. This means that a) Queensland customers will face higher energy costs than would be the case were the network capable of carrying the capacity of south west Queensland generation into the south east and b) Queensland industry participants will face greater uncertainty which will unnecessarily complicate the management of market risk thereby also imposing higher costs. Figure 3.1 in ROAM's report demonstrates the effectiveness of the network assets planned to be operational from late 2011. Congestion is virtually eliminated once these assets are in play.

The possibility remains that this particular generation-transmission cycle then will re-occur and that it will emerge elsewhere in the NEM over time. Therefore a strong in-principle case exists for examining the peculiar absence of a mechanism for power producers to obtain defined access to their markets across the electricity transmission network. The ROAM analysis provides a demonstration of the practical consequences of the lack of such a mechanism.

I would be pleased to discuss this issue and ROAM's report with the AEMC and can be contacted on 07 3001 7126.

Yours sincerely



Don Woodrow
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