

H Summary of related reforms

This Appendix presents the policy reforms, Rule changes, and Reviews that relate to the issues being considered in the Abolition alternative⁵¹⁸, and the Split Snowy Region and Southern Generators Congestion Pricing proposals.

The Commission's decisions on the Rule changes relating to the congestion in the Snowy Region were taken in the context of two other important pieces of work relating to congestion: the Congestion Management Review (CMR), and the Rule change proposed by the Ministerial Council on Energy (MCE) to put in place a new process for changing regions in the NEM. The decisions relating to Snowy address an important legacy congestion issue from market start. The other work on congestion will set the enduring framework for congestion management in the NEM. In considering all of these issues, the Commission has sought to adopt, where practicable, a comprehensive and integrated approach.

H.1 Congestion Management Review

In October 2005, the MCE directed the Commission to undertake the CMR to identify and develop improved arrangements for managing financial and physical trading risks associated with material network congestion. The Commission was also directed to take account of, and clearly articulate, the relationships between a constraint management regime, constraint formulation, region boundary review criteria and review triggers, the Annual National Transmission Statement (ANTS) flow paths, the Last Resort Planning Power (LRPP), the Regulatory Test and transmission network service provider (TNSP) incentive arrangements from the perspective of the management of congestion.

The Commission published an Issues Paper on 3 March 2006 and released a Directions Paper on 12 March 2007. On 27 September 2007, the Commission published its CMR Draft Report. Submissions on the Draft Report are due by 3 December 2007.

Following consideration of the submissions to the Draft Report and further analysis, the Commission will prepare its Final Report for submission to the MCE.

H.2 MCE's Rule Change proposal for process for region change

The Commission received a Rule change proposal on 5 October 2005 from the MCE regarding the process and assessment criteria for considering changes to region

⁵¹⁸ The Commission made its final Rule determination to accept the Abolition of Snowy Region Rule change proposal on 30 August 2007. For the purposes of this Rule determination, the Abolition proposal is referred to as the "Abolition alternative" to reflect that at the time of the comparison of these alternatives, the Abolition proposal was a proposal, whereas now the Commission has made and commenced the *National Electricity Amendment (Abolition of Snowy Region) Rule 2007 No 7* to implement the abolition of the Snowy region. For more information see "AEMC 2007, Abolition of Snowy Region, Rule Determination, 30 August 2007, Sydney", available on the AEMC website.

boundaries in the NEM. The MCE proposed an application-driven process leading to region change determinations by the Commission, following a process of consultation and assessment of applications. The assessment criteria would be economic and forward-looking, replacing the technical and backward looking criteria and NEMMCO-led process in the current Rules. The MCE also indicated that the Commission should clarify when region change is appropriate having regard to the other means by which congestion can be managed. The MCE observed that region change should only be considered where network congestion is material and enduring and there is no commitment to transmission investment to relieve the congestion problem.

On 27 September 2007, the Commission published the draft Rule determination. The draft Rule would introduce an application initiated process to change regions only when there is a material and enduring congestion problem.

H.3 National Transmission Planner

On 3 July 2007, the MCE requested that the AEMC develop a detailed implementation plan for the national transmission planning function, as specified in the Council of Australian Governments (COAG) decision of 13 April 2007.⁵¹⁹ The AEMC will conduct a review into the development of a detailed implementation plan for the national electricity transmission planning function to ensure a more strategic and nationally coordinated approach to transmission network development. The new arrangements will provide a balance between the delivery of a coordinated and efficient national transmission grid, and local and regional reliability and planning requirements. It will guide network investment and provide signals for efficient generation investment. The Commission will consider the merits of aligning transmission regulation timetables, and will replace the current Regulatory Test, by amalgamating the criteria of reliability and market benefits and including the benefits to the national market in the latter. The AEMC has also been requested to conduct a review into electricity transmission network reliability standards, with a view to developing a consistent national framework for network security and reliability. The AEMC published a scoping paper in August 2007 and intends to publish an Issues Paper in early November 2007.

H.4 Economic Regulation of electricity transmission revenue and pricing Rules (the Chapter 6 Rule proposal)

The NEL required the Commission to amend the Rules for electricity transmission revenue requirements and pricing matters. The Commission undertook this project in two phases: Pricing and Revenue.

On revenue, the Commission has clarified the revenue setting rules. The Commission considers this will provide Transmission Network Service Providers (TNSPs) more certainty about recovery of costs for augmentation investments, including investment in alternatives such as network support contracts with

⁵¹⁹ MCE letter to the AEMC, 3 July 2007.

generators or providers of demand side measures. The Commission published a Final Rule Determination and made the National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 on 16 November 2006.⁵²⁰

On pricing, the Commission published a Final Rule Determination and Rule on 21 December 2006.⁵²¹ The Final Rule largely confirms the continued operation of current pricing methodologies while also providing scope for innovation in the future. This has been achieved by recasting the regulatory framework incorporating codification in the Rules of the key design features of the regime including:

- Principles for prescribed transmission service pricing methodologies (arrangements for the pricing of negotiated services have been dealt with in the Draft Revenue Rule);
- The requirement for the Australian Energy Regulator (AER) to make guidelines in specific areas of pricing implementation and administration with a focus towards consistency across the NEM; and
- Clear procedural requirements for the development, implementation and administration of pricing methodologies.

The Rule commenced on 28 December 2006. The Commission considers that, in combination, the amended Rules provide a balanced package of incentives for TNSPs to invest in and operate their networks efficiently while maintaining the quality and reliability of transmission services. In September 2007, the AER released its Final Decision on the Submission Guidelines, which set out the requirements a TNSP must follow when developing and submitting a revenue proposal to the AER.

H.5 Last Resort Planning Power Rule change proposal (LRPP)

On 12 October 2005, the Commission received a Rule change proposal from the MCE requesting the introduction of a Rule to provide for the Commission to have a Last Resort Planning Power (LRPP). This power provides for the Commission to direct certain market participants to take the Regulatory Test in relation to potential inter-regional transmission investment projects across regions. The Transmission Last Resort Planning Rule requires the Commission to seek advice from the industry prior to exercising the power.

The Rule seeks to ensure timely and efficient inter-regional transmission investment for the long term interests of consumers. The Rule seeks to ensure that appropriate consideration is given to transmission investment in circumstances where existing incentives to undertake transmission investment may be lacking. These circumstances may arise where a potential transmission investment results in inter-regional benefits, which would result in positive net benefits to the market as a

⁵²⁰ AEMC 2006, *National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006*, Rule Determination, 16 November 2006, Sydney.

⁵²¹ AEMC 2006, *National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006*, 21 December 2006, Sydney.

whole, but which is not economic for any one Network Service Provider operating in one region of the market.

On 8 March 2007,⁵²² the Commission issued a Final Rule Determination on the LRPP Rule proposal, which largely accepts the MCE's proposed Rule. The Rule provides an intervention mechanism for the Commission to ensure that appropriate inter-regional investments are examined. It does not give the Commission the power to direct market participants to make the investments. However, the Rule requires the results of the Regulatory Test application to be published to inform potential investors of whether an economically viable project exists, thereby providing information for potential investors as to the viability of undertaking the investment. During the course of the Rule change process, the Commission identified a number of matters that it considered were matters of detail or implementation that were more appropriately the subject of guidelines. Subsequently, on 10 July 2007⁵²³, the Commission published its LRPP Guidelines and the associated decision addressing issues such as requests from the Commission for information to inform its decision making, the procedure for public consultation on the panel's advice and public reporting on the exercise of the LRPP.

H.6 Review of Regulatory Test principles

Another Rule change proposal from the MCE sought to reform the principles of the existing Regulatory Test for assessing new transmission investment. The purpose of the Regulatory Test is to evaluate a proposed regulated transmission investment against all other reasonable network and non-network alternatives. The overarching objective of the Regulatory Test is to deliver economically efficient transmission investment within the NEM's network regulatory regime. The MCE's intention with this proposal was to provide greater clarity for the application of the Regulatory Test and reduce the scope for dispute, which has proved problematic in the past.

The Commission made a Final Rule Determination on the Rule change for the Reform of Regulatory Test Principles on 30 November 2006.⁵²⁴ The Commission considers that the Rule change will allow the Regulatory Test to operate more effectively, providing greater policy guidance for the promulgation of the Test and increasing the certainty and transparency of the application of the Test. In its Determination, the Commission outlined a suite of principles that would provide minimum coverage guidelines for the AER to apply in promulgating the Regulatory Test. These principles include an economic and competition focus, which were underplayed in the original Regulatory Test. These principles are intended to establish a streamlined process that helps to maximise the net economic benefits to the market.

The Rule makes the market benefits limb of the Test simpler, through the provision of an information mechanism for alternative projects and requiring that the

⁵²² AEMC 2007, *National Electricity Amendment (Transmission Last Resort Planning) Rule 2007*, Rule Determination 8 March 2007, Sydney.

⁵²³ AEMC 2007, *Last Resort Planning Guidelines*, 10 July 2007.

⁵²⁴ AEMC 2006, *Reform of Regulatory Test Principles*, Rule Determination, 30 November 2006, Sydney.

comparison of the proposed investment be made only against identified alternatives rather than all possible alternatives. The Commission considers that this will lead to greater incentives for TNSPs to utilise the market benefits limb of the Regulatory Test and this will facilitate investments to relieve congestion.

H.7 Comprehensive Reliability Review

The Commission has requested the Reliability Panel⁵²⁵ to undertake a comprehensive and integrated review of the effectiveness of NEM reliability settings, including whether there may be a need to improve or change them. The panel is focusing on whether an adequate level of generation and bulk transmission is made available. In June, an additional request was made by the MCE to provide advice on strengthening the market's ability to manage generator inputs.

The panel released a second interim report in September 2007, and intends to publish its final decisions in November 2007.

H.8 Rule on the Recovery of Negative Inter-regional Settlements Residue⁵²⁶

On 30 March 2006, the Commission made its Final Rule Determination and Rule on NEMMCO's proposal on the recovery of negative inter-regional settlements residue as part of the Settlement Residue Auction. The Rule (which commenced on 1 July 2006) enables NEMMCO to recover outstanding negative inter-regional settlements residue (negative residues) from future auction proceeds rather than future auction fees. This reduces NEMMCO's recovery period from up to three years to a minimum of one month or a mean of two months, and therefore reduces the cost of cross-subsiding the debt over that period.⁵²⁷

In its Final Determination, the Commission stated that it did not consider the Rule on the recovery of negative residues was a long-term solution to the problems with the current Settlements Residue Auction and because it did not address the underlying causes of negative residues. Consequently, the Rule approved by the Commission by the Commission had a three year sunset and the Commission signalled that an alternative permanent means of managing negative residues needed to be assessed as part of the CMR.

⁵²⁵ The NEL requires the AEMC to establish the Reliability Panel in accordance with the National Electricity Rules. The role of the Panel is: to monitor, review and report on, in accordance with the Rules, the safety, security and reliability of the national electricity system; at the request of the AEMC, to provide advice in relation to the safety, security and reliability of the national electricity system; and any other functions or powers conferred on it under the Law and the Rules. Clause 8.8.1 of the Rules sets out the functions of the Panel in more detail.

⁵²⁶ AEMC 2006, Recovery of Negative Inter-regional Settlements Residue, Final Rule Determination, 30 March 2006, Sydney.

⁵²⁷ NEMMCO, Review of the Trigger Level for Management of Negative Settlement Residues, Final Determination Report, 27 October 2006, p.3.

H.9 Rule on the Management of negative residues in the Snowy region⁵²⁸ and Determination on the Management of negative residues by re-orientation⁵²⁹

On 14 September 2006, the Commission accepted the Southern Generators' and NEMMCO's Rule proposal (Southern Generators Rule) for an interim mechanism to manage negative residues in the Snowy region. The Rule commenced on 1 November 2006. The Commission concurrently rejected a proposed alternative to the same problem from Snowy Hydro and NEMMCO (Re-orientation proposal).

The Southern Generators Rule introduced a new process for managing negative settlement residues in the Snowy Region. It eliminated the risk of Victoria to Snowy inter-regional settlement residue (IRSR) units (in either direction) being in deficit, thereby eliminating the reason for NEMMCO to intervene in the operation of the market to impose, under the Part 8 derogation, an alternative constraint equation to restrict flow on the Victoria-to-Snowy interconnector (called clamping). Instead, the Rule enabled NEMMCO to offset negative settlement residues on the interconnector between the Victoria and Snowy regions using positive residues accumulated on the interconnector between the Snowy and NSW regions.

The Commission considers that implementing a short term congestion management pricing measure before adopting a region boundary change is consistent with the approach proposed in the MCE's Congestion Management Review.

H.10 Extension of the expiry date for the Tumut CSP/CSC Trial and NEMMCO's power to manage negative residues

On 4 May 2007, the Commission published its determination⁵³⁰ to extend the expiry date for the Snowy CSP/CSC Trial and NEMMCO's power to manage negative residues from 31 July 2007 to 31 October 2008 with the option to expire the whole derogation, the Tumut CSP/CSC Trial and/or Southern Generators Rule on a date other than 31 October 2008 or a specified event.

⁵²⁸ Final Rule Determination, Southern Generators Rule, 14 September 2006.

⁵²⁹ AEMC 2006, Management of negative residues by re-orientation, Final Rule Determination, 9 November 2006, Sydney.

⁵³⁰ AEMC 2006, *Extension of the Participant Derogation in Part 8 of Chapter 8A of the National Electricity Rules*, (Draft) Determination, 14 December 2006, Sydney.