

16 February 2006

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Dear John

RESPONSE TO THE DRAFT RULE DETERMINATION ON RECOVERY OF NEGATIVE INTER-REGIONAL SETTLEMENTS RESIDUE

Thank you for the opportunity to comment on the Draft Rule Determination - Recovery of Negative Inter-Regional Settlements Residue. The proposed change to the recovery of negative residues removes a measure that was never effective and had potential to discourage interest in the Settlement Residue Auction (SRA).

This submission will address the two modifications that the Commission has made to NEMMCO's Rule change proposal.

1. Recovery of accrued negative settlements residue

NEMMCO appreciated the draft determination's recognition of negative residues that have already been accrued before the new regime is introduced. The identification of this matter will remove any stakeholder doubt that the existing and the new recovery regimes will run in parallel until all the accrued negative residues are fully recovered. This change is supported.

2. The sunset clause

The inclusion of the sunset clause to limit the new regime to three years and then reinstate the existing regime raises some issues.

Firstly the Draft Determination explains that the sunset will signal that:

- The Rule change addresses one aspect of a more substantial set of issues; and
- The funding of negative residues may be open for further consideration in the Congestion Management Review (CMR).

A dependency between the Rule change and the CMR seems to have been introduced through the sunset clause. The inference is that the sunset provision will drive the CMR to produce a replacement arrangement otherwise the existing regime will be reinstated. It would seem unnecessary to have this sunset as the CMR would result in Rule changes that could address all relevant areas including the recovery of negative residues if a more appropriate scheme was determined via the CMR.

It cannot be assumed that the CMR would result in a scheme that prevents all negative residues accruing in all situations. Cases that can result in significant negative residues that are unlikely to be managed via the CMR include:

1. Physical separation of the power system where the separation does not coincide with the region boundary; and,
2. NEMMCO intervention for Power System Security purposes.

Secondly, the timetable of auctioning SRA units has the units being auctioned one year in advance of when they commence. If the Rule changes arising from the CMR are not complete one year before the sunset, there could be uncertainty for Auction participants. Bid prices made one year in advance, for units applying after the sunset, could be discounted if there is uncertainty over the recovery mechanism of negative residues.

Removal of the sunset should not limit the CMR from addressing the underlying causes and funding of negative residues. If the CMR produces an effective arrangement to eliminate or fund negative residue accruals, then the Rule changes from the CMR should establish that improved regime with or without the sunset. NEMMCO is not convinced that the sunset is a pre-requisite for the CMR to fulfil its Terms of Reference.

It is requested that the AEMC reconsider the sunset provision as it would appear to introduce an unnecessary level of uncertainty.

If you have any questions regarding the above please do not hesitate to contact me on (02) 9239 9103.

Yours sincerely


Brian Spalding
Chief Operating Officer