



Hydro Tasmania
the renewable energy business

10th March 2006

Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Emailed: submissions@aemc.gov.au

Region Boundaries

Hydro Tasmania would like to thank the AEMC for the opportunity to assist the Commission in its review of the National Electricity Rules, (NER) in relation to regional boundaries.

The MCE has now provided policy direction in the area of regional boundaries, ie that:

- (a) minor constraints tolerated,
- (b) enduring constraints dealt with through a boundary review - 3-5 year process
... But in the interim
- (c) persistent constraints dealt with through a CSC/CSP type process,
- (d) regulatory test principles reviewed to be consistent with this - building out constraints remains an option - market benefit assessment.

Hydro Tasmania's view is that the AEMC review process should be restricted the formulation of rule changes consistent with this policy,

Hydro Tasmania is supportive of the general principles behind the MCE-led process of clarifying the criteria for establishing and changing NEM regional boundaries. In particular the existence of stable NEM boundaries, with a well defined procedure for short-term management of material network congestion can only assist the efficient operation of the market.

Interdependence and Relative Timing

Hydro Tasmania has concerns with the relative timing of three National Electricity Rules, (NER) change proposals currently before the AEMC. The slow-moving boundary change process envisaged by the MCE is dependent on the development of an effective short-term measure for congestion management. The CRA paper proposed a form of CSC/CSP but many of the details were left undeveloped. This means that the current proposal for a boundary change process is based on the, possibly unjustified, assumption that a workable CSC/CSP type mechanism can be developed. Hydro Tasmania believes that the

feasibility of a CSC/CSP type arrangement should be assessed before the boundary change process is locked into the NER.

In addition, the AEMC has before it a proposal from a group of Southern Generators, to deal with negative settlement residues which arise as an outcome of efficient dispatch, as a consequence of loop flows in the transmission network. The impact of loop flows should be considered in conjunction with the development of an overall congestion management regime. The Southern Generators' proposal, in conjunction with an effective congestion management process, may well reduce the need for regional boundary changes. This proposal by the group of Southern Generators is a post-dispatch market-settlement mechanism, to preserve efficient market dispatch. It can be assessed independently of the boundary review process.

At present, the AEMC is also considering two conflicting proposals for specific boundary changes in the Snowy region. These proposals do not draw out specific criteria for boundary change, which could be used as the basis for consistent application of a uniform set of boundary change criteria across the NEM. As a consequence, it is possible that if either of these changes were adopted, it would set a precedent for future changes in other regions and conflict with the parallel criteria and processes currently being considered by the AEMC. It seems more reasonable that these specific changes should follow rather than lead the establishment of over-riding boundary change criteria and processes. Other methods, such as limited-term derogations should be used, if absolutely necessary.

In summary therefore, Hydro Tasmania suggests that:

1. Resource priority should be given to establishing whether an effective CSC/CSP type mechanism can in fact be developed to manage intra-regional constraints. If such a mechanism is not possible, then it may be necessary to accept a shorter cycle of regional boundary change than that envisaged in the CRA report.
2. In parallel with this the proposed mechanism, for the funding of negative settlement residues which arise from efficient market dispatch, can be incorporated into the NEL.
3. Ideally, consideration of specific boundary change proposals should follow the establishment of overall principles, criteria and processes.

Specific Drafting Suggestion

In the spirit of achieving a well constructed implementation of the policy position, Hydro Tasmania would like to raise a concern which arises from the provisions of the proposed clause 3.5.2 (b). As currently worded, this clause would prevent an application being made, within 5 years of an unsuccessful application. Our concern is that this could lead to gaming, with the submission of an application which was deliberately 'misconceived or lacking in substance'. Such an application would rightly, be rejected by the AEMC and would serve to block all further applications in that area of the NEM for a 5-year period.

It is suggested that the wording of clause 3.5.2 (b) be changed to:

- (b) Unless, in the AEMC's reasonable opinion, material change(s) have occurred since the previous application, an application may not be made, by the same applicant or associated entity, under this clause 3.5.2 within 5 years after an unsuccessful application seeking the same or substantially similar *region change*.

This would have the effect of preventing repeated spurious applications for region change but not limiting well conceived proposals of material import. It would remove the incentive to engage in the type of gaming described above.

In addition, the proposed text immediately after sub-clause (p) might be interpreted as setting the conditions under which the AEMC must make a determination to make a *region change*, independent of an application. It is considered that this is not the intention, and it is suggested that the wording be altered to make it clear that the AEMC is required under these conditions to make a report on whether there are grounds for a *region change*. An application could then be made on the basis of such a report.

It is noted that the case where a *region change* has not been considered in the previous 5 years but an application for such a change has been submitted, is not included. This could lead to the requirement for the MCE to produce a report, even though an application for *region change* had just been submitted.

It may be better for the Rule to be drafted in four clearly separate parts:

- (I) the conditions under which a *Registered Participant* or NEMMCO may make an application,
- (II) the conditions under which the AEMC must make a report to the market,
- (III) the criteria to be used in assessing a proposed change and
- (IV) the processes to be followed leading to a determination and a *region change*.

The editorial changes to achieve this are minor.

If you wish to discuss any aspect of this submission, please feel free to contact David Bowker on 03 6230 5775 or by email on david.bowker@hydro.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'S Davy', written in a cursive style.

Stephen Davy
Group Manager Trading Portfolio

Attachment – Relevant NEL clause and proposal

For clarity, the relevant text after clause 3.5.2 (p) in the proposed Rule is:

Where:

- (1) a *constraint* has been identified on a *national transmission flowpath* in an ANTS which the AEMC considers as material and enduring; and
- (2) the AEMC considers that it is unlikely an investment proposal will relieve that *constraint* within two years; and
- (3) the *constraint* has not been considered as part of a *region change* under this clause in the previous 5 years;

the AEMC must consider whether a *region change* would be likely to meet the criteria in 3.5.2(c) and publish a report on its findings.

PROPOSALS

It is suggested that the last phrase of 3.5.2 (p) above could be re-worded to read, “the AEMC must, within (six) months of these conditions being satisfied, publish a report which assesses the likelihood of a *region change* meeting the criteria in 3.5.2 (c)”.

Also, that the wording of clause 3.5.2 (b) be changed to:

- (b) Unless, in the AEMC’s reasonable opinion, material change(s) have occurred since the previous application, an application may not be made, by the same applicant or associated entity, under this clause 3.5.2 within 5 years after an unsuccessful application seeking the same or substantially similar *region change*.