

# MCE

Ministerial Council on Energy

CHAIR

The Hon Martin Ferguson AM MP  
Minister for Resources and Energy

Telephone: (02) 6277 7930 Facsimile: (02) 6273 0434

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Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

05 NOV 2008

Dear Dr Tamblyn 

## Congestion Management Review - Final Report

As Chair of the Ministerial Council on Energy (MCE), I would like to thank the Australian Energy Market Commission (AEMC) for its Congestion Management Review Final Report, received on 10 June 2008. The MCE has considered the Review Final Report and its response to the recommendations is attached.

Recognising the extensive consultation undertaken by the AEMC in formulating its final report, the MCE, in accordance with section 96A of the National Electricity Law, requests that the AEMC progress the proposed rules to implement the recommendations via the fast-track rule change process.

This letter together with the attached response has been publicly released and is available on the MCE website ([www.mce.gov.au](http://www.mce.gov.au)).

Should you have any further enquiries, please contact Ms Kimberley Pattinson, Manager MCE Secretariat, on (02) 6213 7789.

Yours sincerely



Martin Ferguson

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### MCE Secretariat

GPO Box 9839 CANBERRA ACT 2601  
Telephone: (02) 6213 7789 Facsimile: (02) 6213 6689  
E-mail: [MCE@ret.gov.au](mailto:MCE@ret.gov.au)  
Web Site: [www.mce.gov.au](http://www.mce.gov.au)

# **Congestion Management Review**

## **Ministerial Council on Energy**

### **Response to**

## **Australian Energy Market Commission Final Report**

### **November 2008**

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This document presents the Ministerial Council on Energy (MCE) response to the Australian Energy Market Commission (AEMC) final report of June 2008 titled *Congestion Management Review – Final Report*.

#### **Background and Context**

In October 2005, the MCE directed the AEMC to undertake the Congestion Management Review (the Review). The Terms of Reference for the Review are attached. The MCE recognises that this has been a time-consuming review process given the complexities associated with the management of congestion in the National Electricity Market (NEM). The MCE also appreciates that the AEMC's task in conducting the Review was complicated by concurrent related Rule change proposals involving extensive stakeholder consultation, including proposed changes to the Snowy region boundary.

Under the Terms of Reference for the Review, the AEMC was asked to identify and develop improved arrangements for managing both the financial and physical trading risks associated with material network congestion in the NEM. The AEMC was also asked to develop draft National Electricity Rule (the Rules) changes to enable implementation of the proposed arrangements.

The Congestion Management Review was part of a package of MCE transmission reforms aimed at achieving the Council of Australian Governments' (COAG) objective of a national transmission system. Since the MCE 2005 transmission reform package, a number of reforms have been initiated by COAG to better achieve this objective and encourage efficient market investment in, and operation of, the energy sector.

#### **AEMC Final Report recommendations**

The AEMC's Review Final Report recommends four Rule changes to improve the arrangements for managing financial and physical trading risks associated with transmission network congestion:

- Formalise in the Rules NEMMCO's use of fully co-optimised network constraints for the purposes of dispatching generation and Market Network Service Providers;

- amend the Rules governing the funding of negative settlement residues so as to reduce uncertainty for holders of Inter-Regional Settlement Residue (IRSR) units;
- establish a new Congestion Information Resource (CIR), to be published by NEMMCO, which will consolidate and enhance existing sources of information relevant to the understanding and management of congestion risk; and
- clarify the Rules governing the rights of generators who fund transmission augmentations as a means of managing congestion risk, so that future connecting parties will make a contribution to those funded investments from which they benefit.

The Review Final Report and accompanying draft Rules outline the proposed amendments to implement the above mentioned changes.

### **MCE considerations and response**

The MCE endorses the recommendations of the AEMC contained in the Review Final Report. The MCE notes that the AEMC has proposed incremental changes consistent with the current NEM market design and looks to improve the provision of information and strengthen the existing risk management instruments. The MCE recognises that the proposed recommendations will improve the clarity of the dispatch process and rules around transmission augmentation. Furthermore, the proposed recommendations will also provide greater transparency, predictability and certainty around the formulation, development and use of constraint equations and existing hedging instruments.

With regards to the Draft National Electricity Amendment (Negative Inter-regional Settlements Residue Amounts) Rule 2008 (Negative Residue Draft Rule) recommended Rule change, which sets out the requirement for NEMMCO to recover negative settlement residues from the appropriate Transmission Network Service Provider in the importing region, the MCE notes that the current negative settlement residues recovery mechanism is due to expire on 30 June 2009 and that NEMMCO is due in September 2008 to start auctioning units for Q3 2009. The MCE considers that it would be inefficient to revert to the old recovery mechanism of auction fees and therefore the current sunset should, if necessary, be extended until the new recovery mechanism can be implemented. This should be given effect through a savings and transitional arrangement in the Negative Residue Draft Rule.

The work the AEMC has performed on the Review is a vital first step towards establishing an effective congestion management regime that will promote efficient outcomes by assisting energy market participants to manage risks and make informed decisions. Beyond the recommendations specific to the proposed congestion management measures, the Review Final Report also provides an overview of the key drivers and issues for change that are likely to demand further consideration in the near future. As the Final Report points out, any congestion management regime will need to continually evolve to meet the needs of the market and, while the steps proposed in the Review are incremental in nature, they represent an important first step in the ongoing evolution of the congestion management regime.

In particular, the MCE notes that the Review Final Report provides valuable foresight into the possible impacts of climate change policy on the energy sector and the measures that may be needed to address the changing patterns of network congestion likely to materialise in the NEM. One of the key aspects of the congestion management regime that must be monitored into the future is whether current transmission network congestion signals are sufficient to inform investment decisions and promote dynamic efficiency in the market in light of the challenge to the NEM from the implementation of climate change policy. This includes both commercial and regulatory choices regarding the location of infrastructure investment and technology. This may become an important issue in the context of the large amounts of renewable energy generation that are expected to enter the market following the introduction of the Carbon Pollution Reduction Scheme (CPRS) and extended Renewable Energy Target (RET).

The MCE has recently directed the AEMC to conduct a review of the energy market framework in light of the introduction of the CPRS and RET. The work that the AEMC has performed under the CMR forms a sound basis from which to examine further congestion management measures and amendments to the energy market framework to complement the Australian Government's climate change policy objectives, consistent with the National Electricity and Gas Law Objectives.

### **Implementation**

The MCE considers that the draft Rule changes proposed by the AEMC are eligible under Section 96A of the National Electricity Law for implementation through the fast-track Rule change process. The fast-track Rule change process allows the AEMC to by-pass an initial stage of public consultation where the requested Rule change is made by an electricity regulatory body and is the result of an MCE-directed review. The MCE requests that that the Rule changes recommended by the Review be progressed in this manner.