

2<sup>nd</sup> March 2006

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Dear John

### **Consultation: National Electricity Amendment (Region Boundaries) Rule 2006**

Snowy Hydro Limited (Snowy Hydro) believes that the MCE framework for congestion management is a positive step forward for the market. The framework provides stable regions and minimal market disruption, caters for network investment to relieve constraints, and caters for a congestion management regime to deal with persistent but non enduring congestion. However, the proposed framework would only be effective if there was a sensible starting point that recognised and corrected known market problems.

There needs to be a consistent and holistic framework to the management of congestion in the NEM. Unfortunately, in the last 5 years for various reasons this framework has not existed. For instance, a number of NEMMCO initiated region boundary assessments have recommended modification of the Snowy Region. However, the implementation of these recommendations has not occurred. As a consequence significant congestion issues have arisen in the Snowy region. These problems are well documented and all market Participants have acknowledged that something needs to be done to resolve a known and persistent problem in the market.

Snowy Hydro endorses consideration by the AEMC of this Region Boundary Rule change proposal in a holistic manner with the congestion management review and a number of other associated rule change proposals.

Snowy Hydro endorses the MCE process for region boundary changes provided that the AEMC resolves the following issues before adopting the MCE proposed changes:

1. The correction of the Snowy Region boundary prior to the MCE proposed region change process commencing operation.

This is an essential requirement to alleviate a known problem in the NEM. Currently there are two proposals to correct the Snowy Region, the Snowy Hydro proposal and the Macquarie Generation proposal. Both these proposals should be given serious consideration to rectify serious inefficiencies due to an incorrect Snowy Region boundary definition. Failure to correct the Snowy Boundary will lock the current problems associated with the Snowy Region for at least another 5 years. Such an outcome would be inefficient and not in the long term interest of electricity consumers.

2. Establishment of a congestion management regime to deal with significant but not persistent constraints.

That is, the overall congestion management framework with stable region boundaries relies on a congestion management regime to deal with material but not permanent congestion. This implies the use of some mechanism (such as CSP/CSC) to manage material and non permanent constraints. Snowy Hydro has highlighted in Snowy Region Rule change proposal that for any congestion management regime to properly function, congestion problems must be transparent. This implies that there needs to be sensible region boundary definitions to start with otherwise constraints are not transparent to the market.

With respect to investment decisions, we have highlighted to the AEMC that the incorrect region boundary definition for the Snowy Region can influence investment decisions for both generation and transmission since pricing signals are distorted and congestion points north of the Tumut generation are not visible.

The MCE proposed process for region boundary changes should be seen as one key component in a holistic package to manage congestion. Snowy Hydro has highlighted two key issues that require resolution for the package to function efficiently. Failure to resolve these two issues would put serious doubts on the MCE proposed region boundary change process as it would lock in place inefficiencies for another 5 years.

### **Specific Comments on the Draft Rule**

Clause 3.5 (b) in the Draft Rule states,

*The initial regions for purposes of this clause 3.5 will be the regions published by NEMMCO in the List of Regional Boundaries and Marginal Loss Factors for the 2005/06 Financial Year.*

It is important to highlight that any affirmative outcome as a result of either the Snowy Hydro or Macquarie Generation Rule change proposals to abolish/change the Snowy Region and the Snowy Region Reference Node, would supersede clause 3.5 (b) with respect to market network connection points for the Snowy Hydro generating units and Snowy Region Reference Node.

### **Transparency and Boundary Change Criteria**

Now that Full Nodal Pricing has been rejected by the MCE as a policy direction for the market, it is very important that a transparent and consistent mechanism be utilised across the market for determining regional boundary criteria and congestion management rules. This is required to ensure ongoing market efficiency according to the market objectives as defined by MCE.



## **Conclusion**

Snowy Hydro supports the proposed MCE framework for defining regional boundaries. This support is conditional on resolving the existing region boundary definition problems prior to implementation, and applying a holistic approach to congestion management and region boundaries in general.

Snowy Hydro appreciates the opportunity to comment on the MCE Rule change request. Please refer to previous AEMC submissions by Snowy Hydro on associated matters. To discuss this issue further, I can be contacted on (02) 9278 1885.

Yours sincerely,

Roger Whitby  
Executive Officer, Trading

