

9 March 2006

Dr. John Tamblyn
Chairman
Australian Energy Market Commission
Level 16, 1 Margaret Street
SYDNEY NSW 2000

Dear Dr. Tamblyn,

National Electricity Amendment - Reform of Regional Boundaries

Delta Electricity welcomes this opportunity to consider a revision to the regional boundary change process and criteria. It is noted however that the AEMC has just announced the consultation on the related, but broader, matter of congestion management. Comments on the proposed regional boundary rule change are provided below however it is our view that this Rule change consultation be combined with the broader review. This will ensure that any changes to the Rules reflect the total framework for congestion management and resolution – from identification of emerging transmission constraints through to congestion management, investment and possibly a regional boundary change.

A regional boundary change has the potential to significantly disrupt participant operations and may result in additional risks associated with hedge contracting activities. Further, participants may incur costs associated with changes to their internal processes and IT systems. In other words, a change to a regional boundary should not be undertaken lightly and regional boundary change should only be initiated to address material and enduring congestion if it is clear that there are no viable investment options and the boundary change will deliver net economic benefits.

Notwithstanding Delta's view that this rule change consultation is premature, comments on the proposal as presented are detailed in the following sections.

Existing Material Congestion

There currently exists a material and enduring point of congestion within the Snowy region that has had many attempts at resolution over a long period of time, including the less than satisfactory CSP/CSC congestion management regime. In light of the unique nature of this constraint and there being no viable investment options, it is strongly recommended that the regional boundary changes before the AEMC be progressed separately and as quickly as practicable. Delta will provide comment on the two proposals in a separate submission.



Boundary Change Approach

Given the potential uncertainty for NEM participants and investors resulting from a regional boundary change proposal it is imperative that a regional boundary change request only be considered if transmission congestion is clearly material and sufficient time has been given for market driven or regulated investment options to be committed.

The process for regional boundary change needs to be transparent and predictable to allow participants to best manage the potential disruption to operations. Delta supports the envisaged process articulated in the consultation document but would like to see this process identified as a series of steps that are explicitly captured in the Rules. A regional boundary review should only be initiated if it is clear that;

1. Congestion management is ineffective or is only partially managing the constraint;
2. Regulated or market driven investment is not forthcoming or viable; and
3. Preliminary assessments indicate that a boundary change would deliver net economic benefits.

Regional Boundary Change Test

The draft rules require the AEMC to 'make a determination to make a *region change* basing its determination on whether the *region change* is likely to result in a material and enduring net economic benefit...'. The proposed rules are silent on how this determination should be made.

For consistency of application and to ensure the decision to make a regional boundary change will deliver net economic benefit it is recommended the Rules include a regional boundary change test. This test would be an economic cost-benefit assessment of a regional boundary change proposal including consideration of viable alternative boundary change options.

In addition, the test needs to have a net benefit threshold to account for those costs and benefits that are difficult to quantify. For example this may be a set figure of say \$1M/annum or some percentage of estimated cost savings.

Initiation of Boundary Change Review

A primary consideration of a regional boundary change process is whether it is initiated from periodic reviews or whether it is solely driven by participant application (as worded in the rule change proposal). Delta favours a periodic review approach that utilises the analysis of congestion already undertaken by NEMMCO for the ANTS, whilst making provision for a market participant to initiate a review to cover off congestion circumstances that arise quickly or that are not one of the major flow paths.

The periodic review process based on the annual ANTS would provide the platform for ultimately initiating a boundary review. The process would involve:

1. Annual ANTS identification of emerging and increasing congestion, which should include preliminary cost-benefit assessments of both transmission network



augmentation and regional boundary change where a point of congestion is commercially material;

2. Assessment of congestion management (e.g. Option 4) operation and effectiveness;
3. Application of the regulatory test for transmission upgrades and/or commitment of market driven investment that would economically alleviate the congestion;
4. Invoking the Last Resort Planning Power where applicable; and
5. Application of an agreed regional boundary change test (not unlike the regulatory test) – possibly by NEMMCO.

This approach would not exclude a market participant from making an application to the AEMC for a regional boundary change though the applicant would have to prove net economic benefit by conducting the test.

Timing Considerations

The proposal for a regional change to come into effect 3 years after the final AEMC determination is supported. However, any regional boundary change process whether it is initiated from periodic reviews or participant application may allow a number of regional boundaries to be changes in relatively quick succession. In Delta's view it would be sensible to align the timing of different boundary changes such that the minimum time between boundary changes is three years. This would minimise regulatory disruption to participant operations.

Further there needs to be an option for the AEMC to reverse a regional boundary change where it is obvious changes to the market supply/demand or transmission eliminates the need for a boundary change. The importance of this should not be underestimated.

Summary

The ability to efficiently make a regional boundary change that has been proven will deliver net economic benefits as a last response to material and persistent points of transmission congestion is essential for the long term efficiency of the NEM. The rule change as drafted incorporates a cumbersome process of application and consultation, and is silent on the cost-benefit criteria. It is difficult see how the proposed drafting will guarantee improvements to market efficiency and Delta strongly recommends a rethink of the framework in which a regional boundary change is initiated and assessed.

If you require further clarification of Delta's views on this matter please do not hesitate to contact me on (02) 9285 2715.

Yours faithfully,

Tim Baker
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