

ELECTRICITY TRANSMISSION NETWORK owners forum

Ref. A274265

3 December, 2007

Dr John Tamblyn
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Dear Dr Tamblyn,

Congestion Management Review - Draft Report

Energy Transmission Network Owners Forum (ETNOF) appreciates the opportunity to comment on the AEMC's Congestion Management Review – Draft Report.

Please find ETNOF's submission attached.

If you have any questions or require clarification of any aspect regarding this submission, please contact Greg Hesse on (07) 3860 2632.

Yours sincerely,



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ELECTRICITY TRANSMISSION NETWORK owners

Congestion Management Review

Response to AEMC's Draft Report

December 2007



Congestion Management Review

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1. Introduction and Overview

This submission is made by the Electricity Transmission Network Owners Forum, which comprises ElectraNet Pty Limited, Powerlink Queensland, SP AusNet, Transend Networks Pty Ltd and TransGrid ("ETNOF"). Collectively, this group own and operate over 40,000 km of high voltage transmission lines and have assets in service with a current regulatory value in excess of \$9.1 billion.

ETNOF broadly supports the proposed approach of the Australian Energy Market Commission (the Commission) to the Congestion Management Review – Draft Report (the Draft Report). This includes the Commission's views that congestion is unlikely to escalate in the near future, that there does not appear to be any location in the National Electricity Market (NEM) where material congestion is likely to persist and that a proportionate response is taken in the form of "incremental change within the existing NEM market design rather than fundamental change to market design"¹.

Notwithstanding ETNOF's general support for the Commission's proposed approach, there are a few matters raised in the Draft Report, specific to the role of Transmission Network Service Providers (TNSPs) that warrant input from ETNOF. These include:

- NEMMCO / TNSP obligations to provide timely data relating to network outages;
- TNSPs obliged to supply additional information;
- incentives for non-network solutions;
- Inter-Regional Settlement Residue (IRSR) available up to 3 years in advance;
- planning process;
- importing region's TNSP to fund negative settlement residue; and
- disaggregated data.

Comments on these matters are provided in the following sections. ETNOF notes that any changes proposed in each of these areas should be tested against the NEM Objective.

2. NEMMCO / TNSPs obligation to provide timely data relating to network outages

ETNOF supports the Commission's proposals to improve the understanding of Market Participants of the impacts of various "events" that occur on the power system². However, the nature and timing of many of these "events" is inherently uncertain as this depends on many variables, many of which are not within the control of TNSPs. For instance, the impact on transmission capacity of a specific

¹ AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. iv.

² AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. 124.

transmission network outage may be heavily influenced by which generators are on-line and the levels of dispatch based on their respective bid stacks.

While TNSPs will endeavour to communicate the expected impacts of specific network outages, holding TNSPs accountable for the outcomes of other participants' decisions would require a whole different arrangement for the provision of network services by TNSPs. Without such changes TNSPs cannot be considered liable for the outcomes of participant's decisions that may be based on information that is inherently uncertain and changeable.

ETNOF would be pleased to assist in the continual development of any specific proposals for improving the provision of timely data to the market on network outages.

3. TNSPs obliged to supply additional data

ETNOF notes the Commission's intention to examine the merit of requiring additional information provision by TNSPs³. Such consideration needs to recognise that the Commission has already "noted that outside of the Snowy region, there is limited evidence of material and persistent congestion in the NEM."⁴

ETNOF supports the Major Energy Users Inc's (MEU's) and Powerlink's earlier submissions to the Commission on the CMR Directions Paper. These previous submissions caution the Commission that supplying additional information to the market by NEMMCO or TNSPs could expose the suppliers of such information to additional legal liability to third parties relying on this information to manage their market risk. There appears to be merit, as assessed against the NEM Objective, in limiting this liability to encourage the free flow of information and to minimise transmission price increases to customers over time required to compensate for this increased risk.

MEU's previous submission to Commission CMR Directions Paper

MEU also adds the rider that there may be concern that publishing the information indicated might expose the provider to risks if the information proves later to be incorrect or misleading.

Powerlink's previous submission to Commission CMR Directions Paper

Information is provided in good faith by NEMMCO or TNSPs as part of annual review documents to guide potential investments. However, Powerlink does not consider it should be seen as carrying any special insight into future market dynamics or that such information would be sufficient for third party's to use in actual investment decision making. That information is necessarily prepared based on assumptions, the basis of which will vary with time. Investors will still need to be responsible for drawing their own conclusions from the range of information and views that will be available to them, including more detailed studies which they may seek as part of the connection application process. We urge the Commission to work with transmission companies to identify what information is appropriate to be provided generally, in what timeframes and at what cost before reaching any firm conclusions on this point.

ETNOF would be pleased to assist in the continual development of any specific proposal.

³ AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. 124.

⁴ AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. 79.

4. Incentives for non-network solutions

ETNOF disagrees with the proposition in the Draft Report that non-network solutions may offer a lower risk profile compared to network solutions⁵. The limited facts contained in the Draft Report to support this position are noted and this appears counter to the Commission's usual rigorous approach.

The Draft Report concludes that non-network solutions may offer a lower risk profile compared to network solutions, and therefore deserving of a lower rate of return. The Draft Report considers that this is because the costs of a network solution may over-run during the regulatory period, resulting in lower returns for the TNSP. Hence, a non-network solution where the costs are treated as a pass-through may appear to have a lower risk. This scenario represents a simplistic view.

The reality is the TNSP remains legally responsible for the ability to deliver network services, particularly reliability outcomes. Customers, and the wider community, rely on transmission businesses to meet these vital service obligations. Generation based non-network solutions have inherently lower availability than network solutions, actually increasing the risk to successful delivery of transmission services. This means, there is a real risk that the provider of the contracted non-network solution may not be able to meet contractual obligations and electricity supply is interrupted as a result. While some financial recovery may be possible from the network support provider this is invariably limited by commercial reality. The TNSP, on the other hand, faces potentially massive legal liabilities and reputational damage, with corresponding implications for company management. Licences to provide transmission services may also be at risk

This risk is compounded because of the inherent complexity in designing network support contracts. This includes mechanisms to provide effective communications with the network support provider when services are required, to manage performance verification (particularly with demand reduction options), and to ensure effective performance incentives over time.

The Commission's Final Report needs to acknowledge these risks as they are important to designing incentive arrangements to encourage TNSPs to adopt efficient non-network transmission service options. ETNOF would support further development of appropriate arrangements to incentivise TNSPs which also recognise the different risk profiles of network and non-network solutions.

5. Planning Process

ETNOF notes that the Congestion Management Review (CMR) is directed to managing impacts of congestion in the near term, and is not intended to drive network investment decisions⁶.

However, there is an important linkage between the level of network development required and the level of short term transmission outages. As the level of transmission investment increases so will the requirement for planned transmission outages. This pattern reflects efficient and prudent transmission network management practices.

⁵ AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. 137.

⁶ AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. 36.

Transmission investment tends to vary considerably over time and is often described as 'lumpy'. This has certainly been true since NEM commencement and is one of the reasons why the Commission retained the 'building block' approach to the regulation of transmission revenues in the revised Chapter 6 of the Rules published late last year (2006).

When investment in transmission systems is at a high level, more transmission outages are required to allow access by personnel to existing transmission equipment to install and/or connect new equipment and test new equipment. A notable example of this is when transmission lines are rebuilt to a higher capacity using existing transmission line routes. This is increasingly required to minimise line route impacts on local communities and to meet the legally enforceable requirements of environmental assessment processes.

The NEM is currently experiencing historically high levels of transmission augmentation in most regions, and this is forecast to increase further over the next five years. This investment is the result of processes designed to encourage efficient investment, and whilst in most cases this is built to meet reliability requirements it also assists in reducing congestion, or at least preventing it from increasing unduly. However, as a result the level of planned transmission outages, and accordingly the associated short-term congestion risk are also increasing.

ETNOF encourages the Commission to expressly recognise this phenomenon in its final report to ensure that the Ministerial Council of Energy, and other interested stakeholders are fully informed as congestion related issues, including the proposed Australian Energy Regulator (AER) incentive schemes, are considered.

6. Inter-Regional Settlement Residue (IRSR) being available up to 3 years in advance

ETNOF understands the Commission's reasoning in seeking to firm up financial instruments. However, if the Commission is proposing additional information on network outages be supplied, ie 3 years to match IRSRs, ETNOF cautions the Commission that the additional costs associated with placing further obligations needs to be considered in evaluating the overall benefit in accordance with the NEM Objective.

Specifically, ETNOF does not support the proposal that NSPs to advise of planned network outages beyond the current outlook period established in Rule 3.7A. Practical experience with the operation of this Rule has shown that the accuracy of planned transmission outage forecasts diminishes significantly as forecast periods increase beyond about 3 months. This is due to a range of factors, expressly recognised in Rule 3.7A, that are beyond the control of the TNSPs. Attempting to forecast planned outages further than 13 months (and up to 3 years) would lead to the use of completely arbitrary assumptions. Of note is that TNSPs are only running Regulatory Test consultation processes to determine investments within this time window. The outage data provided more than around a year ahead could not be meaningful.

In addition, the AER is actively developing new incentive measures on TNSPs to minimise the impacts of network congestion. ETNOF believes that an incentives based regime is to be preferred to any further extensions of the Rules in this area as it is more in keeping with the overall incentive based regulatory regimes associated with Australian economic regulation of network infrastructure.

7. Importing region's TNSP to fund negative settlement residue

ETNOF recognises the Commission's reasoning underpinning the recommendation that the importing region's TNSP should fund the negative settlement residue⁷.

However, it needs to be recognised that the requirement to adjust transmission charges to account for transfers of settlement residues and settlement residue auction proceeds, creates volatility in transmission prices. For example, TransGrid has experienced significant increases in these adjustments over the past few years to the point where they now represent around 20% of total revenue. Changes in these adjustments can occur over a relatively short time frame reflecting changes in market conditions. Similarly, changes in the treatment of negative settlement residues can impact on transmission charges.

While the current proposal is not expected to have a material impact on transmission charges in any NEM region, future reviews need to recognise this possibility and include estimates of the potential impacts for the information of affected stakeholders. It would be appropriate for the Commission's Final Report to note this requirement.

Nevertheless, ETNOF supports the proposal that the existing NEMMCO intervention threshold of \$6,000 be raised to \$100,000⁸. Because the benefits of positive settlement residues flow to customers in the importing region, ETNOF considers it appropriate for associated costs, including negative settlement residues, as well as the TNSP's expenses in paying for these negative residues, are also passed through in transmission charges to the importing region. Depending on the proposed arrangements there may be a need for implement transitional arrangements for TNSPs that are in between revenue reset periods.

ETNOF would be pleased to assist in the development of any specific proposal.

8. Disaggregated Data

The Commission has asked for comments regarding the supply of disaggregated data, giving an example of a large number of flow paths. ETNOF cautions the Commission that significant TNSP effort is required to fulfil an obligation to publish data for a large number of flow paths⁹. In addition, the results of this analysis would only hold meaning within the bounds of the assumptions adopted at the time of the analysis, such as network configuration, forecast loads and any new connections. Extrapolation of results beyond this would potentially lead to misleading interpretations and be counter to the objective of improved information (as distinct from data) to market participants.

As noted in section 3 in this response, previous submissions caution the Commission that supplying additional information to the NEM by NEMMCO or TNSPs could expose the supplier of such information to additional risk. Section 3 also noted the possible benefits, as measured by the NEM Objective, of providing some limits on the legal liability of the supplier of such information to third parties relying on this

⁷ AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. 107.

⁸ AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. 109.

⁹ AEMC – Congestion Management Review – Draft Report, 27 September 2007, p. 150.

information. These benefits included reduced costs to customers and increased incentives to TNSPs to provide the required information freely.

Notwithstanding these concerns, ETNOF would be pleased to assist in the continual development of any specific proposal.