



Victorian Energy Networks Corporation

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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
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Dear John

AEMC Congestion Management Review

Thank you for the opportunity to respond to the Australian Energy Market Commission's ("AEMC") Draft Report on Review of Congestion Management, dated 27 September 2007 ("Draft Report"). This letter sets out VENCorp's comments in relation to the Draft Report.

In VENCorp's view, consideration of the congestion management issue over the past couple of years has been somewhat fragmented. VENCorp believes that consideration of congestion management issues cannot be considered in isolation of a number of other important reviews currently being undertaken including the National Transmission Planner, the Reliability Panel's review of reliability standards, and the AER's service standards regime. Further, the AEMC's decision to abolish the Snowy Region should not have preceded the outcomes of this review.

While the Terms of Reference were no doubt a constraining factor, VENCorp's believes that it would be a step forward if the AEMC recommended to the MCE that a more integrated approach to considering congestion management was warranted and that it could not progress the matter further at this stage.

In addition, it seemed that the Draft Report's analyses and conclusions sometimes tended to lack sufficient analytical rigour. VENCorp contends that where important changes to the operation of the market are being judged, the AEMC should either request further information from participants or further investigate the matter itself by seeking independent expert evidence/analysis.

VENCorp makes the following comments regarding the effectiveness of nodal pricing/financial instruments ("pricing solution") as a congestion management tool.

1. The conclusion could have been influenced by an analysis of the data that may have unintentionally skewed the result towards a less detrimental conclusion. For example, the AEMC concluded that because the congestion costs were not large as a proportion of gross wholesale sales per year, it was a relatively minor concern. In VENCorp's view, the correct evaluation of the magnitude of the problem should have been a comparison of congestion costs against the estimated costs of implementing measures to remove or relieve congestion.
2. The AEMC concluded that proposed transmission augmentation projects in NSW and Queensland along with the removal of the Snowy Region were likely to eliminate or diminish the most problematic congestion areas. While the AEMC's conclusion is correct,



it lacks the subtlety expected of an economic analysis, since a pricing solution may be a more economically efficient solution to a congestion problem, than a build or region boundary change, particularly in the short to medium term. A transmission build or region boundary change may be able to be deferred for many years if a pricing solution provides a cheaper congestion management solution.

3. It would have been helpful if the Draft Report attempted to determine the costs of the pricing solution and assess its probability of success. This could have been used to calculate whether introducing the pricing solution would have yielded to the market sufficient net benefits to provide an incentive to new generation to locate in areas that remove congestion or at the least, avoid contributing to it further. In stating this, VENCORP acknowledges the AEMC's conclusion that the decision to locate in a particular location depends on a host of other reasons. While VENCORP does not dismiss the importance of these factors, it also maintains that a pricing solution may influence a developer's decision where those other factors are marginal in the first place. For instance, as a rule, a transmission build solution is often a more expensive exercise compared with the cost of a gas pipeline feeding a gas fired turbine located strategically to alleviate congestion.

Should you have any questions please do not hesitate to contact Louis Tirpou on (03) 8664 6615.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Zema'.

Matt Zema
Chief Executive Officer