



17 December 2007

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

By email to: submissions@aemc.gov.au

Dear Dr Tamblyn

Congestion Management Review Draft Report

The Energy Supply Association of Australia (esaa) wishes to provide some general comments on the draft report prepared by the Australian Energy Market Commission (AEMC) for the congestion management review (CMR).

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of more than 40 electricity and downstream natural gas businesses. esaa member businesses own and operate some \$110 billion in assets, employ over 40,000 people and contribute \$14.5 billion dollars directly to the nation's Gross Domestic Product.

esaa appreciates the work undertaken to date by the AEMC on transmission network congestion and its management in the National Electricity Market (NEM). The issues addressed in the AEMC's review are complex and have proved difficult to resolve in previous assessments by various authorities and policy bodies. Congestion management regimes also can directly affect the commercial positions of participants in the National Electricity Market (NEM), and generation and network investment.

The principal comment that the esaa wishes to contribute to the AEMC's CMR is that the draft report presents a very cautious approach to the issues being addressed, and one that may inadvertently prevent market participants developing efficient commercial responses to managing congestion. In particular, the draft Report does not seem to encourage market participants to price congestion and develop related financial instruments to manage the risk associated with congestion, including options for managing basis risk in the market. In this regard it appears that the Commission prefers to rely on regulated monopoly infrastructure solutions to congestion rather than enabling financial, commercially competitive or demand side solutions to play their possible role.

The draft Report assesses the level of congestion in the market as relatively low. Irrespective of the accuracy of the assessment, and in particular the short term effects of material congestion, the absence of significant congestion as defined by the AEMC (over one or two years prior to being built out by transmission and/or generation investment) ought not to preclude the availability of pricing measures to manage congestion for those market participants wishing to develop commercial measures to manage the immediate risks and costs of congestion.

The efficiency and effectiveness of the NEM is based to a considerable degree on the use of price signaling to inform decisions by participants on investment, supply and energy use. The recommendations of the draft Report – measures to improve the predictability of pricing and dispatch outcomes, measures to improve existing risk management instruments, and measures to support transparent disclosure of transmission capability – provide a useful improvement for transparency of information in the market, but are relatively less useful in providing market participants with options to develop commercial responses to congestion. As noted in a number of submissions to the draft Report, the development of options for commercial responses to congestion need not involve a fundamental change to existing wholesale pricing arrangements or market design.

As noted above, the esaa appreciates the complexity of the subject matter, and the potential implications of any recommendations for commercial positions of market participants. esaa notes also the Commission's preference (as stated at page (iv) of the Draft Report's Overview) for incremental change within the existing NEM design. Nevertheless, the Commission's analysis needs to conform to the requirements of the legislative Rule-making criterion, ie the market objective of promoting efficient investment in, and efficient use of, electricity services for the long term interests of consumers. The criterion is a dynamic efficiency test, and can be interpreted on that basis.

esaa notes that the submissions to the draft Report as posted on the AEMC's website at the time of writing vary in the degree of support for the Commission's approach in the draft, and its interpretation of the market objective. Within this constraint, the esaa believes there is scope for the Commission to broaden the recommendations to enable the development of a congestion management regime with a more progressive price-based approach rather than a reliance on regulated monopoly infrastructure investments as the predominant response to resolving congestion.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized flourish at the end.

Brad Page
Chief Executive Officer