

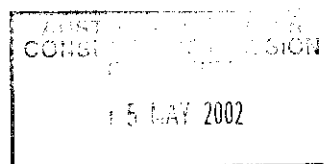


National Electricity Market
Management Company Limited
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10 May, 2002

Mr Michael Rawstron
General Manager
Regulatory Affairs – Electricity
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602



Dear Mr Rawstron

REVIEW OF INTEGRATION OF THE ENERGY MARKET AND NETWORK SERVICES STAGE 1

This letter contains NEMMCO's submission to the ACCC on the proposed National Electricity Code changes associated with stage 1 of the Review of Integration of the Energy Market and Network Services (RIEMNS Review). In general NEMMCO supports the proposed Code changes. Due to the broad scope of the changes under this review, NEMMCO appreciates this opportunity to comment on the detail in the Code changes.

The Code changes under stage 1 of the RIEMNS Review focus on three general areas in relation to the operation of the National Electricity Market:

- Forward looking loss factors;
- Inter-regional settlement residues; and
- Firmer transmission access

This submission will address each of these areas separately. The majority of this submission focuses upon the implementation and gazettal timing issues associated with these changes. However, a number of other concerns that NEMMCO has in relation to the proposed changes are also raised.

Forward Looking Loss Factors

NEMMCO is concerned that there may be insufficient time to develop a methodology through consultation, implement changes to IT systems, and audit and test the new methodology in time to publish the 2003/04 new loss factors by 1 April 2003. In an effort to meet this deadline, NEMMCO is commencing the consultation on the methodology ahead of the ACCC authorisation of the Code changes and may also commence development of our own IT systems. The consultation and system modification work may be invalidated if material changes are required as part of the authorisation.

There are a number of factors that could delay the progress indicated in this timetable including:

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- unforeseen complex issues raised in the consultation;
- delays in the ACCC authorisation or the ACCC requiring material conditions of authorisation; and
- unforeseen difficulties implementing the methodology in the NEMMCO IT systems and in calculating the 2003/04 loss factors.

Therefore NEMMCO believes that the RIEMNS Stage 1 Code changes should include a provision to extend the use of the present backward-looking approach to calculating loss factors until the new forward-looking approach has been finalised. Without such a provision NEMMCO would not have a basis for calculating loss factors and loss factor equations for the 2003/04 financial year if the development and implementation of the forward-looking methodology is not finalised in time.

The derogation in Code clause 9.35.11 presently provides for the loss factors within the Queensland jurisdiction to be calculated using a forward-looking methodology. NEMMCO notes that this clause expires on 31 December 2002. In the event that NEMMCO is required to calculate the 2003/04 loss factors using the existing backward-looking methodology, it would be necessary to extend the Queensland derogation 9.35.11 to enable the continued use of their present forward looking methodology. NEMMCO recommends that this issue be raised with the Queensland jurisdiction.

Definition of the Word "Invariant":

When developing the methodology for calculating the intra-regional loss factors, clause 3.6.2(e)(6) requires that:

"in determining the intra-regional loss factor for a transmission connection network point, flows in network elements that solely or principally provide market network services will be treated as *invariant*."

NEMMCO has previously sought clarification from NECA on what is meant by the word 'invariant' in the context of forward-looking loss factors. For historical loss factors it is clear that the actual historical flow on the Market Network Service Providers (MNSP) asset would be used. In a forward-looking approach however, load growth is taken into account and generation dispatch must be adjusted to account for the increased demand. Depending on how the generation is adjusted, it is possible that inter-connector flows, for example, could change substantially if the demand in a region is met by dispatching generation in an inter-connected region.

The RIEMNS Stage 1 Code changes do not provide any guidance for determining the flows in MNSP inter-connections when calculating the inter-regional loss factor equations other than the requirement that flows should be treated as 'invariant'.

NEMMCO's preferred interpretation is to define the MNSP inter-connector flows for the year in which the loss factors are to apply as being equal, on a half hourly basis, to the flows that occurred historically. This preserves the relationship between the historical load traces and MNSP flows but may lead to situations where flows appear illogical (for example, they could be in a direction counter to a parallel, regulated inter-connector).

MNSP flows could be treated in a number of ways. Three practical approaches are shown below. These alternative approaches are not considered to be consistent with the current Code drafting.

- assuming zero flow for MNSP interconnectors (that is, 'invariant' means held at a fixed value, in this case zero);
- assume that the MNSP flows are in proportion to parallel flows in regulated interconnectors; or

- perform detailed market modelling assuming that the capability of the MNSP is offered at a bid of zero.

NEMMCO believes there is benefit in clarifying the intent of this drafting and specifically what the word 'invariant' is intended to mean. NEMMCO believes it can develop an appropriate treatment of MNSP flows as part of the final methodology but the basis for the specific qualification by NECA of the MNSP flows remains unclear and a potential point of confusion.

Inter-regional Settlement Residue

NEMMCO has obtained clarification from the ACCC (4 March 2002) that the ACCC's determination of 22 December 1999 provided for NEMMCO to conduct auctions up to 31 December 2002 with respect of residues accruing during 2003. This enabled NEMMCO to offer the first tranche of settlement residue units of quarter 1 of 2003 at its March auctions. Each quarter of residues is offered to the market in four tranches over four successive quarters.

At NEMMCO's June auctions the first tranche of quarter 2 of 2003 will be offered. Tranche 2 and 3 will occur later in 2002. However tranche 4 will not occur until March 2003. This tranche 4 auction cannot take place under the current authorisation and NEMMCO will have to advise participants prior to the June 2002 auctions that it does not yet have the authority to complete the auction of quarter 2 of 2003. The uncertainty over whether the tranche 4 auction will occur may result in more aggressive bidding in the earlier tranches thus impacting price.

A similar issue exists with the auction of the remaining quarters of 2003 with the early tranche still offered in 2002.

Whilst NEMMCO can run the SRA on this basis throughout 2002, it is preferable for the status of the authorisation with respect to periods beyond 2002 to be clarified as soon as possible. We thus support the extension of authorisation for the SRA by way of an interim authorisation as soon as possible.

Towards Firmer Access

Under the proposed Code changes, Clause 3.7.2(f)(4) (Medium Term PASA) and Clause 3.7.3(h)(5) (Short Term PASA) require NEMMCO to report on discrepancies between forecast inter-connector transfer capabilities and the capacity of the relevant inter-connector in the absence of outages. It should be noted that these new Code clauses will require extensive changes to NEMMCO's systems and procedures as follows:

1. NEMMCO does not currently label constraints such that they can be automatically classified as outage constraints or system normal constraints. This type of classification will be required to allow PASA to revoke the outage constraints in order to determine the values required under the new clauses. This will require a change to the structure of constraints within NEMMCO's systems.
2. In order to determine the difference between inter-connector capabilities with and without outages, multiple runs of the PASA solver will most likely be required.
3. There will be significant changes required in the reporting of PASA results. This will require co-ordinated changes across participant systems.

In addition to these PASA changes, new Clause 3.7A requires NEMMCO to determine and publish the projected impact that network outages will have on intra-regional and inter-regional power transfer capabilities. Once again, NEMMCO emphasises that this represents a significant body of

development work for NEMMCO that will be complex and will result in a drawn-out implementation.

Finally, new Clause 3.13.3(q) requires NEMMCO to report upon the "*discrepancy between interconnector transfer capability and the capacity of the relevant interconnector in the absence of outages*" on a quarterly basis. Once again, the work involved in developing systems for NEMMCO to meet this requirement is significant.

Due to the issues that could arise as a result of the interpretive nature of the proposed Clause 3.7A and Clause 3.13.3(q) (as discussed below) NEMMCO would recommend to the ACCC that the reporting required under these clauses should be done in accordance with procedures established by NEMMCO under the Code consultation process.

If the ACCC accepts the arguments stated above, NEMMCO believes that the changes required to PASA, and the changes required under the new Clause 3.7A and the new Clause 3.13.3(q) could be implemented in line with the following timetable¹:

- Commencement of consultation – July 2002
- Consultation draft report – October 2002
- Consultation final report – December 2002
- Development of a functional specification – February 2003
- Development, testing and implementation of systems – September 2003

NEMMCO would also stress that this process could not be commenced until the ACCC have made a ruling on whether this consultation should be required. Finally, it should also be noted that, as stated above, the changes will require co-ordinated changes across participant IT systems and, under National Electricity Market Change Control Procedures, Participants have the power to defer system changes of this type.

NEMMCO would encourage the ACCC to consider these implementation issues when determining an implementation date for these sections of the proposed Code changes.

Additional Issues with Clause 3.7A and Clause 3.13.3(q)

In addition to the implementation issues discussed above, NEMMCO also raises the following concerns in relation to clause 3.7A of the proposed Code changes.

- Although the clauses states that this data should be provided "*... in accordance with the provision of information to medium term PASA ...*", it is not clear whether this is an enhancement to medium term PASA, or whether this represents a completely new process. NEMMCO urges the ACCC to seek clarification in relation to this issue.
- In the absence of bidding information in the Medium Term PASA time frame, the impact of network outages on intra-regional power transfer capabilities may lose meaning where scheduled entity output terms (eg generation dispatch levels) impact the constraint values in the dispatch time frame. NEMMCO is concerned that the information published under this clause may be misleading in this respect.

Finally, the following concerns are also raised in relation to Clause 3.13.3(q) of the proposed Code changes:

¹ This assumes that the ACCC will publish their draft determination by July 2002. Any further delay on this date would defer the timetable accordingly.

- It is not clear whether the level or quarterly reporting required under this Clause is intended to be a general report developed in an ad-hoc manner, or whether this clause requires the formal publication of quarterly data. As the proposed change is under the Code clause detailing standing data, the latter seems more likely. However, NEMMCO urges the ACCC to seek clarification in relation to this matter.
- The terms "*transfer capability*" and "*capacity*" are undefined in this context and could have a number of meanings:
 1. the maximum transfer that could be achieved for a given dispatch interval or trading interval based upon the system conditions applying at the start of that interval. This is somewhat inconsistent since any change in transfer over that interval will effect the system conditions and, hence, impact upon the maximum level for the next interval. In addition to this, such a reported capability would be most likely less than that which could be achieved under other conditions.
 2. the maximum transfer level that could be achieved under the best possible realistic system conditions. This would be virtually impossible to implement, in some cases, as it would require a large number of "what-if" dispatch re-runs.
 3. the maximum transfer capability which could be achieved under a specific defined scenario for that inter-connector in that direction. This would be more feasible than option 2 above, but still presents a major implementation issue.

Due to the complex nature of these issues raised in relation to reporting under Clause 3.7A and Clause 3.13.3(q), NEMMCO recommends that a condition should be placed on the authorisation of these Code changes that would require NEMMCO to perform a Code consultation to determine the procedures by which the information required under these clauses should be determined.

Should you have any queries regarding the above please contact Bill Truscott on (07) 3347 3022 .

Yours sincerely



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cc.

Bill Truscott
Mark Miller