

19 February 2008

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By Email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Dr Tamblyn

**Additional Submission: Congestion Management Review-Draft Report**

Please accept some additional comments and reflections on the development of the Congestion Management Review (CMR) by the Energy Retailers' Association of Australia (ERAA). We provided a main submission on 3 December 2007.

ERAA expresses its pleasure in being invited to the Positive Flow Clamping (PFC) workshop held 10 January 2008. This form of engagement is an excellent initiative and would be pleased to participate in similar workshops.

We note that a number of participants at the workshop, in particular NEMMCO, confirmed the practical difficulties that we observed in page 4 of our 3 December submission about the operation of PFC. In light of those challenges we now hold the view that PFC, in the form described by the draft report, is probably impractical and not worthy of further development.

We would however support research into alternative approaches to achieving similar objectives, such as the two alternatives that were presented at the workshop.

We wish to articulate the ERAA's position regarding the appropriate level of "k", i.e. the relative allocations of scarce transmission capacity between an interconnector and generators located within a region. ERAA members are concerned that the value of settlement residue instruments as an inter-regional hedging tool is destroyed where interconnectors are limited by intra-regional congestion to zero flow or counter-price flows, i.e. where "k" is effectively zero.



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The alternative presented by CS Energy undoubtedly improves dispatch efficiency beyond that achieved by zero flow clamping, but effectively fixes a “k” of zero, i.e. settlement residue instruments will have no value to inter-regional hedgers. That is, admittedly, the outcome of the present arrangements, however the ERAA believes the commission should aim to improve on this outcome. We suspect this was the commission’s objective when it postulated PFC.

The ERAA urges the commission not to lose sight of that objective. When considering alternatives to PFC, it should attempt to restore at least some value to the inter-regional settlement instrument. This objective would be aided by seeking to increase predictability of the IRSR instrument - for example through a “static k”.

For further discussion, please feel free to call me on 02 9437 6180.

Yours sincerely

A handwritten signature in black ink that reads 'Cameron O'Reilly'.

Cameron O'Reilly  
Executive Director  
**Energy Retailers Association of Australia**