31 May 2013

Mr Marc Tutaan
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Ref: EPR0032

Dear Mr Tutaan,

DELTA ELECTRICITY'S RESPONSE TO THE AEMC'S ISSUES PAPER: MANAGEMENT OF NEGATIVE INTERREGIONAL SETTLEMENTS RESIDUES (IRSRs)

Delta Electricity appreciates the opportunity to respond to the AEMC's consultation.

Delta Electricity recognises that there is a role for AEMO intervention to limit the accumulation of negative IRSRs. However, it is also undeniable that AEMO's current policy and practice of managing negative IRSRs have left much to be desired in the past 3 years. The Issues Paper's Table 2.1 shows, due to counter price flows into NSW, more than $20 million worth of NISRs have accumulated since 1 July 2010. Whatever the network conditions were that resulted in counter price flows in the exporting regions NSW customers bore the greater cost. Delta Electricity believes this is unfair and inefficient.

AEMO's current automated negative residue management process is a significant improvement on past practises. However, the implementation of the $100,000 threshold to trigger clamping of interconnector flows, and the process for deactivation of clamping has resulted in the application and resetting ('cycling') of this high threshold multiple times in a single trading day. This process has ultimately led to the accumulation of significant and unnecessary costs that the importing regions' customers had to pay.

Delta Electricity is a member of the National Generators Forum (NGF). The NGF participated in the 2009 consultations with respect to the AEMC's Congestion Management Review and AEMO's Trigger Levels for Management of NISR Accumulations. The NGF did not support increasing the trigger level from $6,000 to $100,000, arguing that (i) a change to the negative IRSR trigger level does not give any assurance to be beneficial; and, (ii) the increased trigger level will increase uncertainty for market participants. AEMO found these NGF arguments unsubstantiated and increased the trigger level to $100,000. Unfortunately the three years past have proved the NGF claims to be true.

MANAGEMENT OF NEGATIVE INTERREGIONAL SETTLEMENTS RESIDUES

With this submission, Delta Electricity is aiming to address these demonstrable inefficiencies.

Question 1 - Effectiveness of AEMO's current management of negative IRSR

• Could the transparency and clarity of AEMO's processes for managing negative IRSRs be enhanced?

Yes. By publishing the real time NRM_DI_AMT (NR$) through MMS. This will reduce the uncertainty for market participants.

• Could any improvements be made to the timeliness of the AEMO's response in managing negative IRSRs?

Yes. Delta Electricity believes the threshold trigger should be as small as possible, ideally zero, if not possible then reverting to the previous threshold trigger of $6,000 so that counter price flows are dealt with more promptly. Given the current degree of automation within AEMO's systems for managing negative IRSRs Delta Electricity believe that AEMO could readily adopt a lower threshold to ease the burden on the importing regions' customers.

Once the threshold is small then the implementation of symmetrical response in the management of negative IRSRs can be considered.

• Are AEMO's responses proportionate to the issues raised by negative IRSRs? Or should AEMO respond differently?

No. The current threshold has proven to be ineffective at achieving a meaningful reduction in accumulation of negative IRSRs. However, Delta Electricity believes this could be addressed by setting the threshold to zero.

• Is AEMO's communications approach with respect to managing negative IRSRs sufficient?

No. The real time NRM_DI_AMT (NR$) should be published.

• Are there any factors outside of AEMO's control that may affect AEMO's management of negative IRSRs?

Yes. Negative IRSRs are caused by the exporting region's intraregional constraints but paid by the importing region's customers. Delta Electricity believes the exporting region's TNSPs should bear the cost of negative IRSRs, or enter into network support agreements to prevent them occurring.

MANAGEMENT OF NEGATIVE INTERREGIONAL SETTLEMENTS RESIDUES

Question 2 - The $100,000 intervention threshold

• Is the $100,000 intervention threshold, applied by AEMO, appropriate?

No. The implementation of the $100,000 threshold was symptomatic of AEMO's manual operating practice to manage negative IRSRs. AEMO's current automated system is capable of working with a much lower threshold without adversely affecting system operator resources. There is no remaining justification to use such a high threshold.

Delta Electricity believes the threshold trigger should be zero, if not possible then reverting to the previous threshold trigger of $6,000 would still provide a substantial improvement in the prompt management of counter price flows.

• If not, should the threshold be adjusted up or down?

See above.

• What factors should be used to determine the level of the threshold?

See earlier responses. No additional comments.

Delta Electricity looks forward to a positive consideration of its comments on the Issues Paper.

Yours sincerely

Alister Alford

A/ General Manager Marketing