

11 October 2006

Dr. John Tamblyn
Chairman
Australian Energy Market Commission
Level 16, 1 Margaret Street
SYDNEY NSW 2000

By email submissions@aemc.gov.au

- Commercial in confidence -

Dear Dr. Tamblyn,

Implementation of a region boundary change
NEMMCO Letter to AEMC dated 25 August 2006

Delta is pleased to comment on NEMMCO's response to the AEMC regarding NEMMCO's perspective on the steps and timeframes for implementing a regional boundary change in relation to the two Rule change proposals currently being considered by the Commission.

NEMMCO's response does not address the commercial impacts of a regional boundary change on participants. Delta considers that there are significant issues (for all market participants) which need review. These include:

- Commercial impacts on electricity contracting;
- Changes required to market participants' IT systems.

Commercial Impacts on Electricity Contracting



The impacts of a region boundary change on existing electricity contracts and also on future electricity contracting are likely to be significant. The following points are made:

Impact on Existing Electricity Contracts

- Under the majority of ISDA Master Agreements (between participants) a change in regional boundaries constitutes a "Market Disruption Event". Such an event would impact on existing electricity transactions and would require parties to affected transactions to enter into complex and time consuming renegotiation of those transactions.
- Snowy and Macquarie Generation proposals both involve boundary changes and would have similar impacts on contracting.
- Renegotiation of existing transactions would present commercial risks and would consume significant resources of the market participants.

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Impact on Large Industrial Contracts

- For the commissions' information, there are currently hedge contracts in place to support large industrial loads which may be affected by regional boundary changes.
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- While Inter-Regional Spot Price separation is generally not significant for the majority of dispatch intervals, in times of constraints inter-regional price differences can be as high as \$10,000/Mwh.

Impact on Future Electricity Contracts and Contracting (Liquidity)

- Creation of additional regions would increase the extent of inter-regional basis risk that would need to be managed by wholesale market participants.
- Increase in inter-regional basis risk has the potential to reduce electricity market liquidity and, to some extent, create smaller 'regional markets'.
- Impact on electricity market liquidity would vary between the proposals according to the extent of change being considered.

Delta Electricity would like to refer the commission to a letter written by AFMA on 24 August 2004, the letter was written to the Ministerial Council of Energy. The letter addressed the impact on the financial markets associated with Nodal Pricing. The letter raises similar issues to those raised by Delta Electricity in this submission. A copy of the letter is attached for the commissions' information.

A market disruption event as described above would have a significant impact on the orderly conduct of the OTC market and would therefore substantially reduce markets participants' ability to manage risk effectively.

Changes Required to Market Participants' IT Systems

The work needed to incorporate additional regions into the existing IT systems of the market participants is significant. 


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Summary

Delta considers that the impacts of a regional boundary change need to be carefully considered in terms of impacts on electricity contracting and on the changes required to existing (participant) IT systems. These matters need review along with the matters raised in NEMMCO's response.

Given the complexities associated with the contracting market which have been described above it would be difficult to quantify the exact impact on the implementation of a region change. Further review would need to be completed in order to more accurately determine the extent that these issues would undermine NEMMCO's estimate for earliest implementation of November 2007.

If you require clarification of Delta's views please contact me on (02) 9285 2715.

Yours faithfully,



Tim Baker
General Manager Marketing