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Australian Energy Market Commission  
PO Box H166  
AUSTRALIA SQUARE  
Sydney NSW 1215

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

Dear Sir / Madam

**AEMC Draft Rule Determination - National Electricity Amendment (Abolition of Snowy Region) Rule 2007**

Country Energy appreciates the opportunity to provide comment to the Australian Energy Market Commission (AEMC) in relation to the Draft Rule determination for the Snowy region.

Country Energy is a leading Australian energy services corporation owned by the New South Wales Government. Country Energy manages Australia's largest energy supply network across 95 per cent of New South Wales' land mass and offers retail electricity in five states and territories.

Country Energy is the Retailer that has the greatest financial impact from the changes in the snowy region and as a result believes that the continued stability of regional boundaries is crucial for market certainty, and any changes represent a significant long-term risk. The proposed changes to the SNOWY1 region must take into consideration these risks and should only proceed if it can be proven that it will enhance certainty in the market and improve the efficient financial trading arrangements for market participants.

With this in mind, Country Energy supports the Snowy Hydro proposal. Country Energy does not support the Macquarie Generation proposal as this would have significant impacts on Country Energy's existing hedge position and operation for the NSW1 region. As a result, the existing position could take up to five years to fully unravel. This timeframe is based on the fact that most Retailers hedge for a period of up to five years.

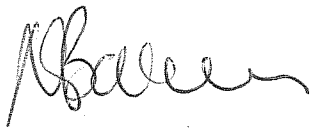
Country Energy's concerns for the region and our general support for the Snowy hydro proposal is outlined below.

1. **Complexity** – The Snowy hydro proposal reduces complexity. Country Energy supports the proposal whereby the Tumut node is redefined into NSW1 region and the Murray node to be redefined into VIC1 (Snowy Region Removed). This option has the least disruption to financial risk management and future generation investment, it reduces the level of settlement residue auctions, maintains market certainty and improves hedging contract liquidity. The Macquarie generation proposal adds additional and unwanted financial complexity to the National Electricity Market (NEM) by adding two additional load bearing regions and therefore new nodal prices in the form of a Northern Victorian (NVic) region and a South West New South Wales (SWNSW) region. Nearly all trading managers in the NEM will identify that the existence of the snowy region is an ‘artificial’ constraint to increased liquidity in the market, creating needless price risk between the snowy region and the neighbouring load regions. The price risk is created because we require the use of settlement residue auctions which are not firm instruments for hedging. The Macquarie Generation proposal increases the need for settlement residue auctions between these regions and therefore is not an efficient financial market outcome for managing risk.
  
2. **Hedge Contracts** - Country Energy has long term hedge contracts and supports the AEMCs conclusions that Snowy proposal will promote greater competition and improve dispatch, pricing and inter-regional trading. The Macquarie generation proposal would have definite pool price outcomes that would be detrimental to Country Energy’s competitiveness. In the NSW1 region alone Country Energy has hedge cover for the next five years. The introduction of SWNSW will alter the hedge position to each region and as a result alter our financial position. Country Energy will need to seek revised hedge cover and counterparties may not be willing to convert existing contract for differences to the new region at competitive rates. This could leave Country Energy long in NSW1 and short in SWNSW region with unknown financial impacts.  
  
In this scenario market power rests with one counterparty and this increases the risks of trading for Country Energy. If Country Energy cannot find a counterparty with an appropriate credit rating we will not be able to source contracts and have sufficient hedge cover.
  
3. **Retail contracts** - From the retail perspective Country Energy has long term retail contracts in place. The Snowy proposal will mean increased competition in neighbouring regions and hopefully will require them to adopt a more competitive bidding strategy. In contrast, Country Energy may be forced into re-negotiation of this existing contract as a result of the Macquarie Generation proposal. This customer will be located in the SWNSW region but wholesale contracts exist with a counterparty located in the NSW1 region. Country Energy could be faced with liquidity issues because our counterparties are not willing to offer inter-regional contracts or revise the regional reference price of existing hedge contracts.
  
4. **Generation in the region** - Country Energy would like to highlight the problems associated with the generation to load ratio in the SW region.

Currently there is an excess generation of 2100MW compared to an estimated load of 900MW for the SW region. If any new projects are to go ahead in this region the ratio will grow unfavourably. This could jeopardise these projects and result in an inefficient outcome for generation investment in NSW. This again raises the issue of exposure with only one major counterparty to deal with.

If you have any questions in relation to Country Energy's response please do not hesitate to contact Gerard Lang on 02 6338 3410.

Yours sincerely



Natalie Banicevic  
**General Manager Regulatory Affairs**