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31 October 2006

Mr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box H166  
AUSTRALIA SQUARE NSW 1215



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Dear Mr Tamblyn

## **Snowy Region Boundary**

Ergon Energy Pty Ltd (Ergon Energy Retail) appreciates the opportunity to provide comment to the Australian Energy Market Commission (AEMC) on the NEMMCO submission dated 25 August 2006 on the proposed implementation of a region boundary change. Ergon Energy Retail and its wholly owned subsidiary Powerdirect Pty Ltd are both retailers in the National Electricity Market (NEM).

Ergon Energy acknowledges the congestion problems in the Snowy region are complex and highly contentious, which require a change from the status quo (with or without the constraint support contract/constraint support pricing (CSC/CSP) trial), in order to improve competition and the efficiency of dispatch.

As noted in our previous submission dated 24 March 2006 on this proposal, Ergon Energy supports a stable regional boundary structure that promotes efficient dispatch, pricing and risk management. Given the risks (and resultant costs) associated with trading across regions any change to regional boundaries should be accompanied by significant net economic efficiencies and enhanced market operations. Furthermore, the timelines associated with any change should provide industry with sufficient time to address any commercial and economic considerations associated with a change.

On review of the NEMMCO response we are concerned that the work plan has been developed with the objective of ensuring the new region is created in the shortest time possible, rather than the actual time it will take to appropriately scope, implement and test the changes. By expediting the implementation process NEMMCO resources will be unnecessarily stretched thereby reducing NEMMCO's ability to deliver the necessary changes at an efficient cost. Furthermore, by stretching NEMMCO's resources it may affect other areas of NEMMCO's operations impacting the efficient delivery of those other services. Given the above, there will also be an increased propensity for errors to be made which could be costly for market participants, through increased NEM fees and participant confidence in the NEM. In the interests of ensuring all identified net efficiencies for market are fully realised it is essential NEMMCO is given sufficient time to undertake a region boundary implementation that is both financially and operationally efficient and accurate.

Ergon Energy Retail is also concerned at the suggestion that work to implement a region boundary change would commence on the basis of the AEMC's draft decision. Whilst it is acknowledged that some of these changes would be generic in nature, such actions would set a dangerous precedent for future Rule determinations. We therefore believe NEMMCO should be given adequate time to efficiently implement a Rule change once the AEMC has released its final determination.

As noted in our response to the Ministerial Council on Energy's (MCE) proposed rule change on Region Boundaries, a minimum time period to implement a region boundary change must be established. Whilst it is acknowledged some changes may be less difficult to implement, industry participants require regulatory certainty for such significant adjustments to the NEM. Furthermore, a defined timeline for implementation will assist in aligning actual costs incurred with those identified in the economic assessment conducted by the AEMC, attesting to the overall economic benefits associated with the change.

In general, Ergon Energy Retail believes three years (after the final determination) is an appropriate lead time for market participants to address any commercial or economic considerations associated with a change to a region boundary.

Please feel free to contact me on (07) 3023 2478 should you wish to discuss any aspect of Ergon Energy Retail's submission.

Yours sincerely

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Regulatory Manager

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