

13 October 2006



Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

By email: submissions@aemc.gov.au

Dear Sir/Madam

Re: Timeframes to Implement a Region Boundary Change

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide a submission in response to the Australian Energy Market Commission's (AEMC) request for information on the timeframes required to implement a region boundary change.

The ERAA is an independent association representing twelve retailers of electricity and gas throughout the National Electricity Market (NEM) and the National Gas Markets. ERAA members collectively provide electricity to 11 million customers in the NEM and are the first point of contact for end use customers for both gas and electricity.

The Urgency for Boundary Change in the Snowy Region

The ERAA has reviewed the NEMMCO letter outlining its views on implementing a region boundary change. In our view any implementation should balance the drive to quickly implement efficiency enhancing Rule changes against:

- Impacts on NEMMCO operations of the existing market systems,
- The need to ensure that complex changes are robustly implemented and appropriately tested, and
- Time taken for participants and secondary markets to adjust to the change.

NEMMCO has also made it clear that their forecast delivery date is contingent on minimal change from the draft to the final determination. While reasonable pre-emptive planning by NEMMCO is supported, we believe it would be

inappropriate for excessive cost to be expended pending a final decision by the AEMC.

We note that the market has operated with the existing inefficiencies for some time. Additionally, the temporary Rule provisions in place to reduce the inefficiencies of the current Snowy region structure have improved the situation. The ERAA would be likely to support extending these interim provisions until a final determination on changes to the Snowy region boundary are implemented. In this context we perceive little risk in ensuring that speed of implementation is balanced against the need for robust and fully developed system changes.

Retailers Time Requirements

The ERAA holds the view that all region boundary changes that impact on customer load or the value of financial instruments should be subject to a lead-time of three years. This is of fundamental importance to the integrity of the NEM. Unconstrained change in NEM arrangements as significant as region boundaries creates regulatory uncertainty which threatens the viability of investment and strategic decision making.

A key concern for retailers in the NEM is the ability to reasonably simply manage customer load and understand its risks. Rapid partitioning of our customer bases into multiple price regions would present major challenges for retailers operationally, in risk management and in providing a regulated price/service offering to all customers. As the vast majority of our customers are insensitive to electricity price it is unlikely that there would be much efficiency benefit in such a move.

Most existing generator/retailer instruments include re-opening provisions in the event there is a change to the market pricing arrangements for one party with the objective of restoring the original economic position. Inevitably such a re-opener will incur costs, especially if the economic change is contentious.

The ERAA offers the following information regarding the implementation of the two region boundary change proposals under consideration by the AEMC.

Snowy Hydro Boundary Change Proposal

Some financial contracts may be subject to reopening provisions as a result of the boundary change and would require re-negotiation. However the ERAA suspects that most contracts would not be impacted because they are not referenced to the current Snowy Regional Reference Node and as such the financial positions of counter-parties would not be materially effected. This was the case when the NSW/QLD region boundary was altered to cater for Terranora load at the time the Terranora Interconnector was registered as a regulated interconnector.

In addition to giving consideration to the impact on financial contracts, retailers would also need to reassess inter-regional trading and hedging strategies including SRA requirements, and would need to make changes to market trading systems.

Macquarie Generation Boundary Change Proposal

The ERAA considers the Macquarie generation boundary change proposal to be significantly more complicated to implement than the Snowy Hydro proposal. The introduction of new load bearing regions alters the risk exposure of various retailers, and would materially impact on the financial positions of many retailers' financial contracts thus triggering reopening provisions resulting in complex and lengthy negotiations. Retailers would be forced to re-evaluate their market positions and hedging strategies. Consideration may also need to be given to the introduction of new instruments to assist retailers meet obligations to supply customers with a regulated price/service offering across multiple regions.

The introduction of new interconnectors increases the risk of trading throughout the NEM and would require a re-evaluation of inter-regional trading policies and the development of new inter-regional risk management strategies.

Other Issues

To simplify the management of contracts, a region boundary should take effect on either the start of a financial or calendar year, or at an absolute minimum the start of a quarter.

ERAA notes NEMMCO's suggestions on changes to the region boundary change proposals to improve the ease of implementation. ERAA welcomes suggestions to improve proposed boundaries but encourages the AEMC not to accept short term efficiency (with particular regard to the speed of implementation) over long term market efficiency.

If you have any queries in relation to this submission, please feel free to contact either Scott Wallace on (07) 3405 9317 or myself on (02) 9369 3263.

Yours sincerely

[Transmitted via Email]

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