

12th October 2006

Dr John Tamblyn
Chairman
Australian Energy Market Commission
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Submission sent electronically to:
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Dear John,

Implementation of a Region Boundary Change

NEMMCO have issued a letter generically covering the implementation issues associated with Snowy Hydro's and Macquarie Generation's (Mac Gen) regional boundary change proposals for the Snowy Region. We note that the MCE regional boundary review was not specifically about amending the Snowy Region but covered the process issues and trigger levels as deemed appropriate for a general region boundary change.

Snowy Hydro will focus in this submission on the implementation issues associated with Snowy Hydro's Snowy Region change proposal on the basis that:

- We believe it is a superior solution on efficiency and contract liquidity grounds when compared to the Macquarie Generation proposal and as such should be the preferred solution;
- Snowy Hydro's proposal would result in much less market disruption than in comparison to the Mac Gen proposal;
- The implementation issues associated with the Snowy Hydro proposal are more achievable and present far less implementation risk than in comparison to the Mac Gen proposal; and
- Snowy Hydro advocates that its Snowy Region boundary Rule change proposal is a minimum incremental step to address current major and material problems in the Snowy Region. Snowy Hydro's proposed solution allows other solutions to emerge in the future to further refine the NEM Regional structure. These additional tools/solutions to address transmission constraints may emerge from the Congestion Management Review.

However, until such tools/solutions are mandated in the Rules we believe the Snowy Hydro proposal represents a backstop to address an existing and widely acknowledged problem.

We note that the NEMMCO's advice specifically mentions, "NEMMCO's ability to implement additional 2007 initiatives without additional costs may be restricted" because undertaking the Snowy Region change project represents a major 2007 project for NEMMCO. While Snowy Hydro acknowledges and appreciates NEMMCO's views that the Snowy region change project would be a significant project for NEMMCO, we highlight that the NEM was set-up to allow the on-going (dynamic) changes in Region boundaries. As such it is expected that NEMMCO's market systems are flexible enough to accommodate this market design feature.

Further, it should be acknowledged that the work required by NEMMCO to facilitate a region boundary change lays the foundation for future region changes that may arise under the MCE congestion management framework.

NEMMCO have stated that the project could be completed by November 2007 on the basis that the Commissions Draft Determination is issued by 15 Dec 2006 and the Final Determination is issued by March 07 without major differences.

The Commission has acknowledged that the issues associated with the management of negative settlement residues in the Snowy Region and the Snowy Region boundary change issues are very similar. Indeed the quantitative modelling that underpinned the Commissions assessment of the Southern Generations/Re-orientation proposals could be utilised in the assessment of the Snowy Region change proposals. Snowy Hydro therefore believes that the AEMC has the knowledge and momentum in place to achieve a Snowy region boundary change by November 2007.

NEMMCO's Assessment

We agree with NEMMCO's assessment that there is increased implementation risks associated with the Mac Gen proposal. Chief amongst these risks are:

- Modification to region loads would require significant work by TNSPs to determine new regional energy and demand forecasts;
- Extensive updating is required of region based data in NEMMCO's market systems;
- The likelihood that there is no revenue quality metering to measure flows in the Mac Gen proposed region boundaries;
- Complication arising from loopflows between the Northern Victoria, Victoria, and South Australia regions; and

- Complications arising from placing the regional boundaries between semi distribution transmissions lines, ie. the 66kV line between Ballarat and Horsham.

We believe the Commission should take these implementation risks into account in assessing Mac Gen's proposal. In comparison the Snowy Hydro Snowy Region Rule change proposal would be simpler and less risky to implement.

Snowy Hydro recommends that the Commission provide necessary guidance (where necessary) to NEMMCO to help facilitate the implementation of Snowy Hydro's proposal by November 2007. For instance, NEMMCO have stated that they are awaiting a have request by the Commission to specifically discussed the feasibility of timeframes with TNSPs.

In the next section we highlight the technical flaws and further additional risks associated with the Mac Gen proposal.

Technical Flaws and Additional Risks Associated with the Mac Gen Proposal

Snowy Hydro has stated in previous submissions that the Mac Gen proposal is not as efficient or technically sound as Snowy Hydro's proposal. In summary the disadvantages and risks associated with the Mac Gen proposal are:

Technically Incorrect

The Mac Gen proposal will place Upper Tumut in the South-West NSW region and this is technically incorrect as Snowy Hydro has shown that the lines from Upper Tumut to Canberra and Yass (01 & 02) can supply an extra 118MW when the Lower Tumut to Yass and Canberra (03 & 07) lines are constrained¹. This means that Upper Tumut is firmly connected to Canberra and Yass and hence it would be incorrect to place a boundary between these locations as recommended in the Mac Gen proposal.

Pre-empts MCE congestion management and transmission policy

The Mac Gen proposal would place Murray generation in a new northern Victoria region. Mac Gen justifies this on the basis that there may be binding constraints from Dederang to South Morang. However in suggesting this region boundary change the Mac Gen proposal is pre-empting that there isn't a network augmentation alternative to alleviate the constraint between Dederang and South Morang.

Snowy Hydro believes that this goes against the MCE policy framework for congestion management where persistent and significant transmission

¹ Refer to AEMC website, Snowy Hydro's submission to the Alternative Snowy Region Rule Change proposal.

congestion is firstly identified in the ANTS, the regulated transmission test can then be applied, and in the absence of a competitive market response to alleviate the congestion (such as new generation investment) the congestion is alleviated through transmission augmentation or a new region is established.

Snowy Hydro believes that our proposal with Murray in Victoria is superior since it would allow a gestation period for the market to assess whether a transmission augmentation between Dederang and South Morang is needed. If subsequently this augmentation proves unviable then the AEMC could consider revising the Victoria region definition and create a new Northern Victoria region. This sequence of events is in our opinion more logical and consistent with the proposed MCE framework on congestion management and region boundary change.

Mac Gen Proposal results in Significant Market Disruption

The Mac Gen proposal would result in significant market disruption as contractual market disruption clauses would be triggered (ie. triggering of AFMA/ISDA market disruption clauses) on contracts that hedge the demand exposure on the Yass/Wagga and the Northern Victorian loads. These load areas are currently referenced to either the NSW or Victoria region reference prices. Under the Mac Gen proposal these loads would be referenced to two new regional reference nodes. Hence the ISDA market disruption clauses would be activated and result the re-negotiation of these contracts. Snowy Hydro believes this may lead to significant market disruption as counterparties would need to re-hedge this exposure.

Further to this, there would also be market disruption for contracts written on the NSW and Vic nodes, since these regions would be substantially affected by the Mac Gen proposal which would have the effect of removing load from the NSW and Vic regions. The net affect would be volatility in the contracts market as Participants are forced to re-negotiate contracts and would create substantial risks for all market Participants.

In comparison, the Snowy Hydro proposal would result in minimal market disruption since there is immaterial load in the current Snowy Region and hence under our Rule change proposal there would be immaterial changes to the NSW and Victoria load regions. Our Rule change proposal does not amend the regional reference nodes of NSW and Victoria in any way. Further Snowy Hydro is the only substantial directly affected Participant.

Snowy Hydro's proposal may lead to price changes in the NSW and Victoria as there would be more generation competition in these regions. We believe these price changes does not present grounds for the trigger of contract disruption clauses in financial contracts as the reference nodes for NSW and Victoria remain unchanged and the demand loads of these regions remain unchanged.

Relevant NEMMCO Experience

We note that NEMMCO have already initiated a regional boundary change as a result of the Directlink conversion to regulated interconnector status. We understand that as part of the interconnector conversion the Terranora load was re-defined to another NEM market region. Hence there exists precedence for such a region change project although it is acknowledged that materiality of the Directlink/Terranora change is of lower significance than in comparison to the Snowy Region change.

Conclusion

The Mac Gen proposal is technically incorrect, is inconsistent with the MCE congestion management framework, and would result in significant market disruption and risks to market Participants. As highlighted by NEMMCO, the Mac Gen proposal would also result in significantly higher implementation risks than in comparison to the Snowy Hydro proposal. For these reasons we are strongly opposed to the Mac Gen proposal.

We believe the implementation issues raised by NEMMCO are achievable under Snowy Hydro's Snowy Region Rule change proposal. Snowy Hydro acknowledges the challenges presented to NEMMCO in implementing a Snowy Region boundary change by November 2007. Snowy Hydro recommends that the Commission provide necessary guidance (where necessary) to NEMMCO to help facilitate the implementation by November 2007. We strongly advocate that with increasing peak demand driven by extreme weather conditions it is imperative that the Snowy Hydro Snowy Region boundary change proposal is implemented by November 2007 in time for the summer 2007/08 period.

Snowy Hydro appreciates the opportunity to comment on implementation issues associated with a Snowy Region boundary change. Please do not hesitate to contact me on (02) 9278 1885 should the Commission wish to further discuss issues raised in Snowy Hydro's submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Roger Whitby', is written over a light blue rectangular background.

Roger Whitby
Executive Officer, Trading