

Ref.:

24 March 2006

Mr John Tamblyn
Chairman
PO Box H166
AUSTRALIA SQUARE NSW 1215



Dear Mr Tamblyn

Snowy Region Boundary

Ergon Energy Pty Ltd (Ergon Energy) appreciates the opportunity provided by the Australian Energy Market Commission (AEMC) to comment on the proposed Rule changes *Snowy Region Boundary* and the *Alternative Snowy Regional Boundary*. This submission is made by Ergon Energy in its capacity as an electricity retailer in the National Electricity Market (NEM).

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.

Ergon Energy acknowledges the congestion problems in the Snowy region are complex and highly contentious requiring a change from the status quo (with or without the constraint support pricing/constraint support contract (CSC/CSP) trial), in order to improve competition and the efficiency of dispatch. Since commencement of the CSC/CSP trial it has also been noted there has been a decline in contract market liquidity for the NSW node. Given, a physical (transmission) solution cannot be currently justified economically under the current regulatory framework, alternative arrangements need to be investigated and assessed.

Ergon Energy does not support either of the Rule change proposals to establish new boundaries. As neither proposal represent a comprehensive assessment of the physical constraints, market and dispatch inefficiencies, associated costs and benefits or potential alternatives. Also, the proposed timelines will not provide industry with sufficient time to address any commercial and economic considerations associated with a recommended change.

Given the above, Ergon Energy believes a comprehensive review is required to improve competition and the efficiency of dispatch whilst ensuring regulatory certainty. This could be achieved by applying the Ministerial Council on Energy's (MCE) Rule change proposal to implement a region boundary change criteria and process. To minimise market uncertainty, all Rule change proposals should be subject to the MCE process. This will ensure a thorough assessment of this complex issue.

The congestion problems in the Snowy region have been an enduring problem. Given the complexity of the issues and the associated market and competitive impacts of any change to region boundaries; a fast-tracked approach should not be considered.

Ergon Energy believes any assessment of the Snowy region should also include a review of the CSC/CSP trial. Given the derogation expires on 31 July 2007 consideration should be given to the mechanism (if any) that should be applied in the interim, that is until a permanent solution is implemented.

Please feel free to contact me on (07) 3228 7536 should you wish to discuss any aspect of Ergon Energy's submission.

Yours sincerely

Angela Moody
Manger, Regulation Policy

Telephone: 07 3228 7536
Facsimile: 07 3228 7766
Email: angela.moody@ergon.com.au