

23 March 2006

Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

By email: submissions@aemc.gov.au



Dear Sir/Madam

Re: Rule Change Application – Snowy Hydro Proposal to revise transmission connection nodes in the Snowy region.

The ERAA welcomes the opportunity to comment on Snowy Hydro's Rule change proposal to revise transmission connection nodes in the Snowy region. The ERAA is an independent association representing ten retailers of electricity and gas throughout the National Electricity Market (NEM) and the National Gas Markets. ERAA members collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end use customers for both Gas and Electricity.

The ERAA supports region boundaries that promote efficient dispatch and pricing, provide appropriate investment signals to generation and loads, and allows for retailers to efficiently manage the risk of trading in a multi-region market. Every region boundary adds risk to participants trading in the NEM, and hence a cost of managing that risk. Regions should therefore be minimised within the bounds of economic efficiency.

The ERAA recognises the dispatch and pricing inefficiencies caused by the location of the current Snowy region boundary. The ERAA also acknowledges the unlikelihood of physical works in the short to medium term to relieve network constraints within the Snowy region. As such, the ERAA supports appropriate action to better manage network congestion within the Snowy region.

The ERAA however does not support the Snowy Hydro Rule change proposal to revise transmission connection nodes in the Snowy region. The ERAA is of the view that the proposal has not adequately demonstrated how the Rule change would contribute to the achievement of the NEM objective. The proposal has listed the benefits of the Rule change, but has not attempted to quantify these benefits and has not addressed the significant costs of boundary change.

The ERAA is supportive of establishing a formal boundary change process and encourages the AEMC to expedite the MCE's Rule change proposal to implement a revised region boundary change criteria and process. The ERAA recommends all boundary change proposals be subjected to the revised boundary change criteria and process when implemented. This would ensure all proposals are subjected to a full economic analysis to demonstrate benefits exceed costs by an acceptable margin. Such

a quantitative analysis would also allow similar boundary change options to be compared to enable the most optimal solution for the long term to be implemented.

The issues associated with the location of the Snowy region boundary have plagued the NEM for some time now. The ERAA would be concerned if a solution was fast-tracked without comprehensive economic analysis to ensure the most efficient long-term solution is implemented.

If you have any queries on the content of this submission, please contact me on (02) 9369 4296.

Yours sincerely,

[Transmitted electronically]

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