

24 March 2006

Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box H166  
Australia Square NSW 1215

By email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Dr Tamblyn

### **Review of the Snowy regional boundary**

Snowy Hydro and Macquarie Generation have submitted Rule change proposals to the AEMC to amend the Snowy regional boundary.

The AEMC is also currently considering a Rule change proposal from the Ministerial Council on Energy to establish the process and criteria for regional boundary changes. The MCE's stated objective is to establish a stable wholesale market based on current boundaries with robust economic criteria to support incremental change as may be beneficial to the market.

The MCE's proposal recognises that regional boundary changes impact on the commercial conditions for investment in new generation plant; and that a process of boundary review by application creates the potential for the review process to be used as a means of gaining commercial advantage, or 'gaming'.

As an interim measure, a moratorium had been placed on boundary changes because the initial boundary rule change process created unnecessary risk and uncertainty, resulting in increased costs and reduced efficiency for the industry as a whole.

WPV considers that it would be entirely inappropriate for the AEMC to now agree to a 'one-off' change to the regional boundary structure pending development of a sound boundary review framework.

Aside from the on-going uncertainty that would be created by such an *ad hoc* process, the various proposals to amend the Snowy regional boundary do not satisfy the MCE's overarching requirements of only incremental change supported by robust economic criteria, and no impact on generation investment.

WPV's significant investments in intermediate generation plant can only be justified on the basis of existing regulatory process assumptions, these being consistent with the framework envisaged in the MCE proposal. Any move towards pre-emptive and truncated reviews with minimal notice prior to implementation (July 2007 is proposed) would cause serious concern to WPV, notwithstanding that the proposals may represent a genuine concern to mitigate limitations in the current arrangements.

In particular, the Macquarie Generation proposal to include Wagga Wagga in an enlarged Snowy region is, even if unintentional, a possibility which would certainly affect WPV's investment in a gas-fired power station in this location. The location is in other respects ideal, being the closest in the State to competing gas sources.

WPV would undertake a comprehensive review of the proposed boundary changes at the appropriate time. However, WPV's preliminary analysis suggests that any increase in the number of regions should be approached with caution, given the likely negative impact on financial product liquidity and the risk arising from the consequential increase in inter-regional hedging arrangements.

In the interim, WPV urges that the AEMC observe the review process principles proposed by the MCE.

Yours faithfully  
Wambo Power Ventures Pty Ltd



Trevor St. Baker  
Managing Director