

30th April 2007

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

Submission sent electronically to:
submissions@aemc.gov.au

Dear Dr Tamblyn,

Supplementary Submission to Snowy Region Boundary Change and Southern Generators Rule Extension

Reference is made to the supplementary submission by the Southern Generators dated 24th April 2007 (“the response”) which attempts to address Snowy Hydro’s submission dated 26th March 2007.

The Southern generators assert that outcomes are a natural outcome of the underlying physical network. This may have some merit in a nodal priced market (assuming no withholding) but has no merit in the regional NEM design.

The Southern Generator response indicates that they assume that:

- (a) incentives don’t change under the rule change proposals; and
- (b) dispatch efficiency (mis-pricing) is the key matter to consider in assessment of competing Snowy Region change proposals.

With respect to point (a), the incentives and behaviour do radically change under different rule change scenarios (as each proposal results in different settlement outcomes). This comment is relevant for both Murray and Latrobe valley generators.

When the South Morang constraint binds under conditions of high NSW price and northerly flows, the Southern Generators rule creates inefficient incentives to withhold Murray generation, creating artificially high Victorian prices and incentives to artificially run Latrobe Valley generation, reducing exports to NSW and creating negative residues on other links (ie. as experienced on 30th January 2007). Latrobe Valley generation is mis-priced and gas generation (and other Latrobe Valley generation) is clearly in-efficiently incentivised to run as it receives the Thomastown Victorian regional reference price.

Both the Murray-Tumut and South Morang constraint occur at the same time due to high prices in NSW and exports from south of the Murray-Tumut constraint. If the Southern Generators are serious about addressing incentives created by mis-pricing then they should be advocating a CSP for at least the Latrobe Valley generation.

With respect to point (b), the Southern Generators advocate that dispatch efficiency (through mis-pricing) is **not** the key matter to consider in previous MCE reviews and most recently through the Congestion Management Review directions paper via the NGF submission. The NGF submission advocates the importance of the contract market and the trade-off between dispatch efficiency (mis-pricing) and contract market efficiency. This begs the question, why are the Southern Generators taking a contrary view to dispatch efficiency / mis-pricing when it comes to the Snowy Region? We believe these contradicting positions in relation to their own plant and Snowy Hydro generation is due to the fact the current arrangements for the Snowy Region limits the level of competition in both the Spot and Contracts markets. If Southern Generators are serious about addressing dispatch efficiency (mis-pricing) as the key issue in congestion management then they should be strongly advocating a CSP for the Latrobe Valley generators.

The Southern Generators see “elimination of accurate real-time losses loss modelling ... as serious detriment to the market”. Again if the Southern Generators are serious about the accurate real time modelling of loss factors, they should be advocating a CSP (or new region) for the Latrobe Valley (with introduction of Basslink and existing gas generation there is significant difference in loss factors in Latrobe Valley).

It is also notable that the uncertainty in determining the opportunity cost for hydro generators is orders of magnitude greater than any alleged detrimental impact through the use of dynamic versus static loss factors, but where the marginal cost is reasonable well known and is an important consideration due to close cost competition (i.e. the Latrobe Valley base load generators) these same generators advocate the use of fixed loss factors. Again the Southern Generators are taking contradicting positions in relation to their own generators versus Snowy Hydro generators.

Snowy Hydro appreciates the opportunity to comment on the Snowy Region Abolition Draft Determination and the Southern Generators letter dated 24th April 2007. Please contact me on (02) 9278 1885 if you would like to discuss the issues outlined in this submission.

Yours sincerely,



Executive Officer, Trading