



Ref: 367/10/26; 367/36/1

10 March 2005

Mr Peter Adams
NECA Ltd
Level 5, 41 Currie Street
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Dear Peter

RECOVERY OF NEGATIVE INTER-REGIONAL SETTLEMENT RESIDUES

Tarong Energy Corporation Limited (TEC) is pleased to make this submission in respect of the NEMMCO proposal to change Settlement Residue Auction Clause 3.6.5 for recovery of negative inter-regional settlement residues.

TEC is supportive of the proposed change to Code Clause 3.6.5 as it alleviates some of our concerns regarding recently elevated auction fees while minimising costs incurred by NEMMCO in carrying forward negative residues (which are subsequently passed on to auction participants).

Recent rises in auction fees and the considerable delay between negative residue events and recovery significantly detracts from the appeal of the SRA as a mechanism to manage risk in inter-regional trade. This proposal allows a more realistic alignment between the cost of the negative residue and its recovery, which should alleviate some participants' concerns. The operational impact of the proposed change to auction participants is minimal and it is likely to facilitate a reduction in NEMMCO's costs.

Other alternatives discussed in Attachment 3 of NEMMCO's proposal, such as changes to the netting off period, would all detract from the attractiveness of the SRA while imposing operational changes on auction participants. As such they are not supported by TEC.

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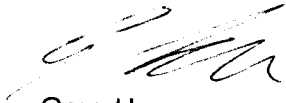
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While supporting this code change proposal, TEC note that the current arrangements for limiting the gross negative residue within a billing period to \$10,000 should be reviewed if proposals for arrangements such as congestion support payments and contracts are progressed. Such arrangements would likely render the \$10,000 limit unnecessary with little or no benefit to the efficient operation of the market or NEMMCO.

Yours sincerely



Greg Hesse
SENIOR MANAGER, PHYSICAL MARKETS AND REGULATORY AFFAIRS

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