

6th September 2006

Brian Spalding
Chief Operating Officer
NEMMCO
Level 22 Norwich House
6-10 O'Connell St
Sydney NSW 2000

Cc: Mark Miller, Ken Pullen

Copy to:

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

Dear Brian,

I refer to your email of 31 August and our letter to the AEMC dated 28 August.

With respect to information provision and with regard to following lawful directions issued by NEMMCO, Snowy Hydro will comply with its obligations under law and the NEM Rules.

As you noted, Snowy Hydro is obliged to, and routinely does provide MT and ST PASA to NEMMCO. This includes a weekly energy limit for MT PASA and a daily energy limit for ST PASA. **Based on current storage conditions and outlook we do not expect any longer term Snowy Hydro supply issues for the forthcoming summer. Snowy Hydro also does not expect that it to be feasible for any related reliability issues to be visible in MT PASA for the forthcoming Summer.**

I refer to discussions in late 2005 regarding NEMMCO's ability to direct in order to manage Victorian reliability risks created by a 'nodally' priced Murray generation market arrangement. At that time it was concluded that it may be plausible to assume that NEMMCO could manage relevant risks by using its power of direction. However at that time, Eucumbene was at normal levels and diversions from Eucumbene alone could support in the order of 500 MWs maximum of Murray generation. Assuming 1900 MWs of Victorian import capability and assuming 1300 MWs of transfer across the Murray/Tumut cutset, at that time 600 MWs of Murray generation would be

assured by direction and by assuming a small amount of Geehi storage being available.

However as is now apparent with current and expected Eucumbene levels indicate the diversion capability of Murray generation may only be in the order of 350 MWs. Accordingly, in the absence of sufficient Geehi storage there may be reduced reliability of supply to Victoria of the order of 250 MWs.

Based on our modelling we do not anticipate that this physical reduction in capability for diversions will create a reliability of supply problem in itself for Victoria.

The context of our communication to the AEMC was regarding the commercial incentives created by potential implementation of the Southern Generators rule change proposal. This proposal will create the commercial incentive for Snowy Hydro to target a storage level for Geehi that is 30% less than current levels target over the summer period.

Our modelling shows that with this reduced target storage level for Geehi, assuming similar utilisation of market Murray generation as per last summer, Geehi will experience a number of storage 'failures' (zero storage levels) this coming summer. We would expect that any reliability issue should it arise would also likely to coincide with storage failure.

In practice forecasting the point of failure will be highly uncertain. Snowy Hydro would need to deploy personnel on the ground at Geehi to monitor environmental issues and safety of personnel and plant. Based on the conditions observed on site, Snowy Hydro would need to reduce Murray availability in real time at the point of failure. Should this arise, NEMMCO would be immediately informed.

We would anticipate that a reliability problem would be observed with little warning and in unexpected circumstances. **In conclusion, we believe that a direction from NEMMCO would not be effective in managing a reliability shortfall as the potential circumstances arise.**

Please do not hesitate to contact me on (02) 9278 1885 if you believe there is merit in meeting in order to discuss these matters to gain a higher level of mutual understanding.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Roger Whitby', is written over a light blue rectangular background.

Roger Whitby
Executive Officer, Trading