

30 April 2007

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
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By email: submissions@aemc.gov.au

Dear John

AEMC Draft Rule Determination – Abolition of Snowy

AEMC's Draft Rule Determination of 19 January 2007 on abolition of the Snowy Region proposes that Snowy Hydro's generating capability be divided between the New South Wales and Victoria regions, in preference to a number of alternative proposals, including that new regions be created in northern Victoria and southern New South Wales.

If there is an overwhelming view that the Snowy region should be abolished, and noting the Commission's view that this will increase inter-regional trading and decrease opportunities for Snowy Hydro to profitably exploit its generation through counter-price flows, ERM Power supports the Commission's Draft Determination.

However, it is our view that this matter has been sidetracked by the fine detail of the matter, to the detriment of the far more serious implications and uncertainties created by change. Our previous submission of 24 March 2006 considered that it would be inappropriate for the AEMC to 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.

The MCE's proposal recognised 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'.

ERM Power remains of this view, and shares the representations of others that stability of regional boundaries is crucial for market certainty, and that changes to the Snowy region

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should only proceed if it can be proven that it will enhance certainty in the market and improve the efficient financial trading arrangements for market participants (For example, Country Energy submission, 9 March 2007).

Furthermore, there are continuing problems of market power which Snowy Hydro has acquired as a result of solutions over the last few years, which will in effect be institutionalised by the AEMC draft decision to divide Snowy Hydro's generating capability between New South Wales and Victoria.

The more serious problems have only arisen since certain 'band-aids' were put in place in 2002, which gave Snowy Hydro the gate-keeper capability to constrain spare generation flows between NSW and Victoria at times of high demand in either State, with the effect of the Snowy region attracting the high of the two State pool prices, and diminishing the value of the very large investments made in expanding the interconnector capability.

Snowy Hydro's actions have come about as it has aspired to change its 50-year role as manager of the valuable hydro energy resource of the Snowy scheme for the benefit of electricity consumers in NSW and Victoria, and with regard to the management imperatives of the water resource of the Scheme.

The draft AEMC decision to place different portions of Snowy Hydro's generating capability in NSW and Victoria will only legitimise Snowy Hydro's capability to constrain spare generation flows between the two Regions, with detriment to generators in both States at different times, and to all NEM electricity consumers at most times of strong demand.

If the Snowy Region is to be eliminated and different portions of its generating capability assigned to each State, Snowy Hydro should not be allowed to exercise the market power this would give it, as 'gate-keeper' over the interstate interconnection, and its role should return to its previous role as hydro-energy resource manager for the benefit of electricity consumers. The allusion that the two State jurisdictions would benefit from the greater hedge product available in the respective regions would otherwise be obviated by the reduced interstate transfer capability which can be triggered by different generating outputs within the Snowy region.

Yours faithfully
ERM Power Pty Ltd

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