

5th September 2006

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

Submission sent electronically to:
john.tamblyn@aemc.gov.au
and tendai.gregan@aemc.gov.au

Dear John,

Proposed National Electricity Amendment (Management of negative settlement residues by re-orientation) Rule 2006 and draft National Electricity Amendment (Management of negative settlement residues in the Snowy Region) Rule 2006

I refer to Snowy Hydro's submission in relation to the above Rule proposals dated 28 August 2006. Thank you for the opportunity to meet with the Commission on the 5th September and to explain in more detail the background to the reliability issues raised.

As discussed with the Commission, previous Snowy Hydro correspondence with the AEMC has only addressed the reliability of supply into NSW. The issue of reliability in Victoria has been raised in other forums in relation to Murray generation under a 'nodal' priced Murray generation market arrangement. The conclusion reached from these forums was based on 'normal' Eucumbene levels and that there was not a material reliability issue. The Victorian reliability issue (under the Southern Generators proposal) has deteriorated as the outlook for Eucumbene dam levels has deteriorated, the extent only becoming known at the end of August 2006.

Market arrangements (including the regulatory settings) have commercial implications and thus drive market behaviour. Commercially motivated market participants can and will respond to incentives created through the proposed arrangements. In this submission we set out the commercial incentives that the draft Southern Generators rule change creates for Snowy Hydro. The draft rule change proposal thus creates a material risk of significant supply reliability reduction for Victoria. We believe the Commission needs to consider the market and other implications of the commercial incentives that the rule changes create.

Snowy Hydro acknowledges that this potential reliability risk is not material at 'normal' Eucumbene levels, as has been assumed by the Southern Generators submission dated 4 Sep 2006. At normal Eucumbene levels, diversions from Eucumbene alone can support in the order of 500 MWs maximum of Murray

generation. As a result it may be plausible to assume that NEMMCO if necessary can manage this risk by using its power of direction.

However as is now apparent at the end of August with regard to current and the expected Eucumbene levels, the diversion capability alone of Murray generation may be only of the order of 350 MWs maximum. Accordingly, in the absence of sufficient Geehi storage there may be reduced reliability of supply to Victoria of the order of 200 to 300 MWs.

We set out in our presentation why we do not believe it is feasible or practical for NEMMCO to manage the reliability risk by relying on its power of direction.

We enclose the presentation that Snowy Hydro made to the Commission today. This presentation sets out the commercial incentives facing Snowy Hydro should the Southern Generators proposal be approved. We acknowledge that the Commission may need to publish this presentation and if this is the case we do not have an objection.

In response to the Commission questions, we have included additional factual data related to the risks of summer inflows into the Geehi catchment, and a justification of the target storage reduction in Geehi dam in response to the commercial incentives created by the Southern Generators rule change proposal. The enclosed inflow data for our Geehi catchment shows for the relevant summer months (December to March inclusive) that the monthly inflow quantity into Geehi storage at a 90% confidence (10% monthly probability of exceedance) level is 3.9GL. Due to the risks of negative pricing as a result of forced Murray generation due to high inflows at Geehi, Snowy Hydro would target a storage level that is 3.9 GL (approximately 30%) less than the current Summer Geehi target level.

As indicated today, Snowy Hydro will be replying separately to NEMMCO's questions on the effectiveness of their ability to direct Snowy Hydro to maintain reserves. Snowy Hydro will be responding to this and will separately forward a copy to the AEMC for its reference.

Please do not hesitate to contact me on (02) 9278 1885 should the Commission require additional information or further clarification.

Yours sincerely,

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

Roger Whitby
Executive Officer, Trading