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Dr John Tamblyn
Chairman
Australian Energy Markets Commission
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By Email: john.tamblyn@aemc.gov.au

Friday, 17 February 2006

Dear Dr Tamblyn

DRAFT DETERMINATION – ABOLITION OF THE SNOWY REGION INTERNATIONAL POWER AUSTRALIA (IPRA) COMMENT

IPRA welcomes the opportunity to comment on the abolition of the Snowy Region draft determination.

IPRA's parent, International Power (IPR) has some 30GW of installed assets around the world, and is a substantial investor in Australia. IPRA holds assets in Victoria (Loy Yang B and Hazelwood), South Australia (Pelican Point, Synergen and the Canunda wind farm), Western Australia (Kwinana), and holds 50% of a significant retail partnership with Energy Australia, and a one-third stake in the SEAgas pipeline.

IPRA is also part of the Southern Generators Group which is currently preparing a detailed combined response to the Snowy Regional boundary rule changes. However IPRA seeks to offer some additional comments from the perspective of a substantial international investor in energy in this country.

The current Ministerial Council on Energy (MCE) proposal to reform the region boundary change process, and the Congestion Management Review, are complex and have a large potential impact on market efficiency, the commercial position of participants and the perception of the investment climate in the Australian energy sector.

The comprehensive and integrated approach espoused by the Commission is seen as essential and is strongly supported by this organisation. The most recent timetable for the reviews is to deliver a draft Congestion Management Review report, and draft Rule determination on the reform of region boundary changes, in August 2007.

However, the Commission's program also plans to issue the Final Determination on the ad-hoc proposals by participants to change regional boundaries (specifically the proposal by Snowy Hydro for abolition of the Snowy Region, and the proposal by Macquarie Generation to split the Snowy Region). This program is clearly out of step with the holistic process. It is IPRA's strong view that these regional boundary changes should only be contemplated following the completion of the Congestion Management Review and the Final Determination regarding the MCE proposed reforms to the regional boundary change process.

IPRA staff have had a significant role in developing the NEM Code (now the Rules) since market inception, and we are confident that it was never intended that the Code Change Process be used to alter regional boundaries. We are led to believe that the Commission also shares this view.

The apparent absence of a holistic process, the current Draft Determination regarding the abolition of the Snowy Region, and (in our view) the unwarranted rush to potentially implement the proposed changes as early as by Summer 2007/08, has created commercial risk, and further undermined investor confidence in the stability of the NEM regulatory system.

The most immediate and tangible outcome is the current uncertainty regarding the future of settlement residue instruments, thus increasing trading risk between regions and potentially harming interstate trade. The Settlement Residue Committee has accepted NEMMCO's recommendation that future auctions related to the Snowy node be suspended. NEMMCO has now suspended SRA auctions for Q1 08 (first round) and Q4 07 (second round) as a result. At this stage there are no SRAs whatsoever available for trade in the market, nor are they available via auction for Q1 08.

In summary, the current processes in relation to the use of ad-hoc rules to change regional boundaries and pre-empt the holistic process we understand has been espoused by the Commission is alarming, creates regulatory uncertainty and has the potential to harm current assets and future investment climate. IPRA recommends that the Commission suspend its assessment of the proposed abolition of the Snowy region pending completion of the Regional Boundaries Review process.

IPRA would welcome the opportunity to discuss any of these matters further to assist process improvement. Contact in the first instance should be with the undersigned on +61 3 9617 8333, or Mr David Hoch on +61 3 5135 5363.

Yours sincerely



Stephen Orr
COMMERCIAL DIRECTOR