



Our ref: 15100_1

12 July 2006

Dr Brian Spalding
Chief Operating Officer
NEMMCO
Level 22, Norwich House
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Sydney NSW 2000

Dear Brian

Implementation of a region boundary change

As you are aware, the Commission is currently considering three Rule change proposals regarding region boundaries. Two of these proposals relate to the Snowy region boundary and one, from the Ministerial Council on Energy, is on the criteria and process for changing region boundaries.

If any change to region boundaries were to be made, it would be the first since the market started in 1998. A component of the Commission's consideration is to understand what process must be undertaken in order to implement a region boundary change and how long that process would take.

From our previous discussions, and NEMMCO's submission on the two Snowy region boundary Rule change proposals, the Commission understands that such a change is likely to include:

- Considerable changes to NEMMCO's market systems and participant interfaces with these systems;
- Changes to marginal loss factors and equations;
- Revision of constraints used in dispatch;
- Changes to the settlement residue auction; and
- Changes to metering, settlement, and possibly prudential arrangements.

The Commission is seeking further clarification of NEMMCO's perspective on:

- What steps must be undertaken to implement a boundary change?
- Which of those steps must NEMMCO undertake? Market participants? Others?
- What is the estimated timeframe to implement these steps and have them certified? and

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- What provisions in the National Electricity Rules (Rules) or other protocols affect implementation procedures and timeframes for a region boundary change?

The Commission is particularly interested in understanding what the specific compliance requirements are in the Rules.

I appreciate your assistance in this matter. If you have any questions on this matter, please contact Tendai Gregan (tel: 02 8296 7823).

Yours sincerely



John Tamblyn
Chairman