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13 October 2006

Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE
Sydney NSW 1215

Email: submissions@aemc.gov.au

Dear Sir / Madam

Implementation of a Region Boundary Change – Commercial in Confidence submission to the AEMC

Country Energy appreciates the opportunity to provide comment to the Australian Energy Market Commission (AEMC) in relation to the request for information on the timeframes necessary to implement a region boundary change.

Country Energy is a leading Australian energy services corporation owned by the New South Wales Government, with over 3,600 employees serving more than 840,000 customers.

Country Energy manages Australia's largest energy supply network across 95 per cent of New South Wales' land mass and offers retail electricity in five states and territories.

Country Energy is the Retailer that has the greatest financial impact from the changes in the snowy region and as a result believes that the continued stability of regional boundaries is crucial for market certainty, and any changes represents a significant long-term risk. The proposed changes to the SNOWY1 region must take into consideration these risks and 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.

With this in mind, Country Energy does not support a boundary change without NEMMCO being given adequate time to consider the full impacts of the proposal especially when based on a draft determination by the AEMC. NEMMCO need to be in a position where they can consider the full range of impacts on the market and from a retail perspective, this is not limited to the physical conditions of the region but the need for these efficient financial trading arrangements.

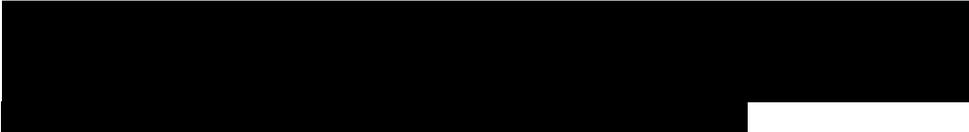
Macquarie Generation proposal- Implementation by Country Energy

Country Energy does not support the Macquarie Generation proposal as this would have significant impacts on Country Energy's existing hedge position and operation [REDACTED] and as a result could take up to five years to fully unravel. This timeframe is based on the fact that most Retailers hedge for a period of up to five

years. Country Energy would be forced to re-evaluate our market position based on the issues identified below.

1. **Complexity** – The proposal adds additional and unwanted financial complexity to the National Electricity Market (NEM) by adding two additional load bearing regions and therefore new nodal prices in the form of a Northern Victorian (NVic) region and a South West New South Wales (SWNSW) region. Nearly all trading managers in the NEM will identify that the existence of the snowy region is an 'artificial' constraint to increased liquidity in the market, creating needless price risk between the snowy region and the neighbouring load regions. The price risk is created because we require the use of settlement residue auctions which are not firm instruments for hedging. The Macquarie Generation proposal increases the need for settlement residue auctions between these regions and therefore is not an efficient financial market outcome for managing risk.

2. 



3. 

4. **Electricity tariff Equalisation Fund (EETF)** – Consideration needs to be given by the AEMC for the potential impact of the dissipating EETF arrangements on Retailers. . The phasing out of EETF from October 2008 to 30 June 2010 will result in this load being hedged with uncertainty around counterparty risk, price and instrument type.

5. **Generation in the region** - Of major concern is the generation to load ratio in this region. Currently there is an excess generation of 2100MW compared to a load of 800MW. If the identified project by Wombo is to be completed this will increase the ratio from 2700 MW of generation to 800 MW of load in this region. [REDACTED]

Snowy Hydro Proposal – Implementation by Country Energy

Country Energy prefers the Snowy Hydro proposal in comparison to the Macquarie Generation proposal as it recognises that a regional boundary change is the most appropriate long-term solution. Country Energy supports the proposal whereby the Tumut nodes to be redefined into NSW1 region and the Murray node to be redefined into VIC1 (Snowy Region Removed). This option has the least disruption to financial risk management and future generation investment, it reduces the level of Settlement reside auctions, maintains market certainty and improves hedging contract liquidity.

Timeframe for implementation

Country Energy notes the short turn around time proposed by both projects of 31 July 2007 and 1 August 2007 respectively. NEMMCO have commented that this timeframe is not practicable and the AEMC have suggested that if the implementation of the change was not possible by 31 July 2007 (the expiry of the Snowy trial), the co-ordinated transition process may consider the extension of the Snowy trial (as amended) if necessary, as one possible transition option. This would be supported by Country Energy.

Country Energy representatives would be pleased to meet with the AEMC to further discuss our submission. Or alternatively, If you have any questions in relation to Country Energy's response please do not hesitate to contact Gerard Lang on 02 6338 3410.

Yours sincerely

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