



**Government
of South Australia**

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RECEIVED

28 MAR 2007

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Dear Dr Tamblyn

Thank you for your letter of 19 January 2007 concerning the Australian Energy Market Commission's (AEMC) Draft Rule Determination in relation to the abolition of the Snowy Region.

The South Australian Government acknowledges that there is a need to address the transmission network congestion in the Snowy Region and the associated market distortions. It also considers, that the making of Rules in response to ad-hoc requests like those proposed by Snowy Hydro Ltd, and more recently by Macquarie Generation, should be consistent with achieving a lasting and comprehensive solution to the congestion management problem in the National Electricity Market (NEM).

It is also considered important that the outcomes of the Ministerial Council on Energy's (MCE) Regional Boundary Criteria Rule change proposal and the Congestion Management Review not be pre-empted by these ad-hoc proposals.

Given that the AEMC considers that the amended Tumut Constraint Support Pricing/Constraint Support Contracts (CSP/CSC) trial is currently operating effectively, the State Government considers that there exists no pressing need to implement Snowy Hydro Ltd's proposal to abolish the Snowy Region.

To this end, the South Australian Government considers there to be considerable merit in maintaining the status quo for the time being (i.e. that the Snowy Region remains, with the amended CSC/CSP trial in operation).

The National Electricity Market Management Company (NEMMCO) has also indicated that there would be significant financial costs to market participants and NEMMCO alike associated with the necessary implementation of computer system changes, should the Snowy Region be abolished. The net economic benefit from the Snowy Region Rule change may not be as material as hoped and the changes may not result in the most efficient long-term solution.

Once the AEMC has arrived at a considered and comprehensive solution to the congestion management problem in the NEM, as part of the Regional Boundary Criteria Rule change proposal and Congestion Management Review, the more specific issues associated with the management of transmission network congestion in the Snowy Region will have been addressed. It is at this point that a fully informed decision on the Snowy Region can be made.

Should you wish to discuss this matter further, please don't hesitate to contact Mr Vince Duffy, Director, Markets and Sustainability, Energy Division, Department for Transport Energy and Infrastructure, on 08 8204 1724.

Yours sincerely



HON PATRICK CONLON MP
MINISTER FOR ENERGY

25 March 2007