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ET/290  
10<sup>th</sup> February 2006

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

Dear John,

## **Management of negative settlement residues in the Snowy Region**

Eraring Energy appreciates the opportunity to make a submission on the proposed derogation by southern generators for the management of negative settlement residues in the Snowy Region.

Eraring Energy believes that this proposal is yet another “band-aid” solution to solve the problems caused by the current Snowy Region boundary without addressing the core issue.

The very first “band-aid” is the application of option 4 constraints in the Snowy Region to manage intra-regional constraints within Snowy. As a result of the option 4 constraints and the loop flows around the Snowy Region, negative settlement residues become an issue on the Vic/Snowy interconnector in that NEMMCO have to invoke a number of discretionary constraints to limit the negative residues.

This was overlaid with another temporary solution with regard to Snowy regional boundaries. That is the derogation (so called Snowy Trial) gained by Snowy Hydro for a trial of the CSC/CSP arrangements developed by Charles River Associates (CRA).

Eraring Energy opposed both of the above arrangements during the consultation process.

Now, it has been proposed that a still further temporary solution be applied to address the negative residues issue in the Vic/Snowy interconnector !

In essence, the proposed derogation aims to fund the negative settlement residues in Vic/Snowy interconnector from the positive residues accumulated in the Snowy/NSW interconnector. This is totally unacceptable as it will enhance the performance of one interconnector at the expense of another interconnector. This simply does not solve the root problem but creates additional burdens on inter-regional trade.



**Eraring** energy

One of the expected outcomes of the Snowy Trial was to firm up the performance of NSW to Snowy interconnector to encourage inter-regional trade. However, the proposed derogation further reduces the NSW to Snowy residue due to the outflow of accumulated residue in that interconnector to off-set the Vic/Snowy negative settlement residue. As such, the proposed derogation is at odds with the original intentions of the Snowy Trial.

Eraring Energy understands that the MCE has directed AEMC to review congestion management and regional boundaries and the management of negative settlement residue should be a part of that review. It is essential to fix the root cause of the problem rather than applying multiple temporary solutions. Therefore, Eraring Energy strongly objects to the proposed derogation for management of negative settlement residues and in general opposes any further temporary fixes to existing transmission constraint problems in the National Electricity Market.

If you need further clarifications on any matter stated in this memo, please contact Mr Robert Burns, Manager Market Development on 02 8268 4237.

Yours faithfully

G GROVE-WHITE  
MANAGING DIRECTOR