

15th March 2007

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

Submission sent electronically to:
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Dear Chairman,

**Snowy region boundary, Southern Generators rule change
and rule making process**

The AEMC has undertaken an extended and effective process to determine which approach to the Snowy Region best meets the NEM objective. The Commission has clearly and transparently articulated its approach in advance. However there is, in our view, now some risk to this process. We observe;

- Some market participants are, in our view, distorting and unreasonably delaying the process by monitoring the decision making process and submitting revised or new proposals. Examples include Macquarie Generation's attempt to alter its rule change proposal after it has seen the modelling analysis, and the recent proposal by the Southern Generators to now extend the current derogations.
- The AEMC relies on NEMMCO to implement decisions which affect NEMMCO systems and processes. NEMMCO has changed its estimate of the time required to implement a regional boundary change, at a very late stage. We understand well the NEMMCO requirements and believe that the original timetable can be met.

Thorough analysis of the alternatives is an important part of the process and we support the detailed modelling that the Commission has conducted. We note the counterfactual analysis of the split region option has already been completed and conclusion arrived at. The most recent proposal by Macquarie Generation (Eraring's split region option as modified by AEMC) cannot be practically implemented; an observation that underlines our concerns that the process is being delayed by some participants for reasons of commercial advantage;

- The proposed regional reference node with no load and no generation is completely at odds with accepted electricity market design principles and the NEM regional market design.

- Under the Mac Gen proposal the Victorian Wodonga load will be effectively redefined into the NSW region. A loop flow will be created between Victoria and NSW through Redcliffs, which the current version of NEMDE cannot support. Alternatives would create inconsistent region boundary definitions and non transparent and inconsistent NEMDE formulations. For example, Wodonga load will need to be notionally excised from three major inter-regional connectors.
- The Mac Gen proposed boundaries cross locations with neither material nor enduring constraints (such as Upper Tumut/NSW) in direct contradiction of the MCE policy.

In summary, alternatives proposed by the Southern Generators and Macquarie Generation are inconsistent with the general arrangements that they have advocated previously in related reviews. These alternatives would also be highly inconsistent with current policy settings in Snowy Hydro's view.

Snowy Hydro submits that the Snowy Hydro proposed changes to the region boundary will both address the legacy issues and provide a long term solution to the accepted problems with the Snowy Region. Snowy Hydro's proposal also provides a platform for future evolutionary reforms following the congestion management review if there is considered to be sufficient net benefit. We particularly note our proposal also allows full access to the NSW market by the Southern Generators.

We submit that the overall costs for the Snowy Hydro proposed changes are relatively small and immaterial in comparison to the benefits modelled by the Commission. We will shortly detail our costs required to achieve the proposed changes (Snowy Hydro Generator and Red Energy Retailer) and note that these are small being less than ten thousand dollars, despite Snowy Hydro being the most affected participant.

As we have set out in our submission (of 29/1/07) to the Commission's consultations to extend the current derogations, and as we will further articulate in our submission on the AEMC's draft determination on the Snowy Hydro region boundary change, the current derogations are creating significant market stress. Snowy Hydro strongly opposes any form of extension of the time limited Southern Generators rule beyond 31 July 2007.

Following the introduction of new option 4 constraints to Victoria (South Morang constraint on 24/7/06) and implementation of the Southern Generators rule in November 2006 serious mis-pricing is now transparent within the Victorian region and specifically at the Latrobe Valley. This mis-pricing is of orders of magnitude greater than that seen at the Murray node and occurs three times as frequently. As a result of these factors, the desired benefits (and the rationale for the approval of the Southern Generator's rule proposal) have simply not been delivered to the market and due to the mis-pricing, increased costs to end users have resulted. The current arrangements are untenable and additional short term measures would be required to address the mis-pricing issues over next summer.

We also urge the Commission to consider the impact on the contract market due to delays and uncertainty over the region boundary definition. Under the circumstances now unfolding, Snowy Hydro has no choice but continue to withhold significant volumes of contracts in the forward hedging market. This reduces liquidity and competition in the contract market thereby creating in-efficiency. The planned removal of the NSW ETEF arrangements requires medium and long term contract commitments. Forward certainty of the final determination at an early stage is a key factor as contract negotiations for this exposure must be conducted well in advance. Snowy Hydro has had to suspend negotiations commenced in September 2006.

Snowy Hydro is concerned that some participants seek to extend the process and extend uncertainty in order to limit competition in the contracts market. Additionally further delays to the process impact the spot market, whereby continuation of the current arrangements incentivise Snowy Hydro to limit generation to maintain transmission head room.

In the light of the foregoing problems both in the contract and spot markets, we ask that the AEMC reject the recent Southern Generators rule change request and does not approve any proposed extension of the Southern Generators rule. The split region option cannot be implemented without creating other significant problems and it is inconsistent with the MCE staged approach to region boundary changes. The constraints to the north of Tumut and south of Murray are neither material nor enduring.

We request that a final determination of the Snowy Hydro region boundary change proposal be made with minimal delay to the originally published timetable.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Roger Whitby', is written over a light blue rectangular background.

Roger Whitby
Executive Officer, Trading