

3 March 2006



The Chairman
Australian Energy Market Commission
PO Box H166 Australia Square
NSW 1215

submissions@aemc.gov.au

Dear Sir,

Draft Rule Determination: Recovery of Negative Inter-Regional Settlements Residue

The ERAA welcomes the opportunity to comment on the draft Rule Determination for the NEMMCO proposals in relation to the Recovery of Negative Inter-Regional Settlements Residues. The ERAA is an independent association representing retailers of electricity and gas throughout the National Electricity Market (NEM) and the National Gas Markets. ERAA members collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end use customers for both Gas and Electricity.

The ERAA supports the draft Determination, with some reservations and believes the proposed new method of recovering the debt via Settlements Residue Auction proceeds will improve the efficiency and value of the SRA process.

We are concerned, however with some aspects of the Determination. These are:

- recovery of interest cost;
- the sunset provision; and
- drafting of the clauses

Interest Payments

The AEMC has accepted the recovery of accumulated negative residue through auction proceeds, but has proposed that the associated interest cost would still be recovered through auction fees. NEMMCO has argued that this is an inherent cost of the SRA process.

The ERAA considers that interest cost has nothing to do with the operation of the auction process, but is purely a cost associated with funding the debt itself. We therefore believe that the interest cost associated with funding accumulated debt from negative settlements residues should also be recovered through auction proceeds. This could be achieved by amendment of clause 3.6.5(a)(4A), to include associated interest costs.

Sunset provision

The ERAA notes that the AEMC has proposed a 3-year sunset on the changes, subject to broader review. While we accept that this proposal is a limited change to the SRA process and that wider reviews currently proposed may make further changes we do not support a sunset provision. The ERAA considers that this change is discrete and not a trial or interim step. It therefore would persist in the absence of a wider review determining a better method and should only be changed by a positive proposal, which is part of a wider Rule change.

Rule drafting

The ERAA is concerned that the AEMC is proposing to develop a new chapter of the Rules. The new chapter, it would appear, will contain savings and transitional Rules, presumably for other Rule changes as well.

Our experience with the operation of Chapter 9 of the Rules, particularly in relation to Chapter 6, suggests that this approach leads to confusion. The ERAA considers that all aspects of a Rule, including any savings and transitionals, should be included within the main clauses of the Rules.

On a minor point, the ERAA would appreciate if future Rule proposals included a marked up version of the Rules so that the changes can be appreciated in context. This was the practice in the past and makes analysis of Rule changes much easier.

If you have any queries on the content of this submission, please contact me or Alastair Phillips at ERAA on (02) 9369 4296.

Yours sincerely,

Patrick Gibbons
Executive Director