

18 July 2006

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

Dear John

**Submission on the draft Rule determination National Electricity Amendment
(Management of negative settlement residues in the Snowy Region Rule) 2006**

Thank you for the opportunity to make this submission on the draft Rule determination in relation to managing negative settlement residues arising from network congestion in the Snowy region.

The submission makes two points on implementation issues:

- A Rule commencement date of 1 December 2006 would correspond with the Market Management System (MMS) upgrade, necessary for processing the transactions arising from the Southern Generators' proposal; and
- To assist the Commission's comparison with the Southern Generators' proposal and the Snowy Hydro Ltd "re-orientation" proposal, it is noted that the Southern Generators' proposal requires software development but once implemented it does not require any NEMMCO intervention. On the other hand the "re-orientation" proposal does not require any software development but does require discretion by NEMMCO in its application.

Further details regarding the above are in the following submission.

NEMMCO would be pleased if you could have these matters considered by the AEMC. For further details, please do not hesitate to contact Sean Buggy on (02)9239 9141.

Yours sincerely



Brian Spalding
Chief Operating Officer

SUBMISSION

1. Necessary changes to NEMMCO's Market Management System (MMS)

Section 6.9 of the Commission's draft Rule determination discusses the necessary changes to the MMS.

NEMMCO confirms its commitment to incorporate the necessary changes for the Southern Generators' proposal into the MMS. The letter from NEMMCO to the Commission on 28 April 2006¹ advised that the MMS upgrade cycle is 6 monthly, with releases programmed for May and November. As implementation of the Southern Generators' Rule in MMS is dependent on this release it follows that a Rule commencement date of 1 December 2006 would correspond with the MMS upgrade for November 2006.

This MMS upgrade cycle has been developed over time to give NEMMCO and participants some certainty so that budgets and resources can be organised. Typically, the development cycle takes about nine months, including three months to develop functional requirements, and six months to develop, test and implement the software.

The conventional approach is to use the final Determination to start the development cycle. For the Southern Generators' proposal NEMMCO recognises the short-term nature and has fast-tracked MMS development by using the draft Rule determination to start the development cycle. This does introduce the risk that the final Rule determination could depart from the draft Rule determination.

In the 28 April 2006 letter NEMMCO explained that the current CSP/CSC process was developed externally to the MMS. The external process was developed as an emergency implementation due to the tight deadlines required by the trial and uncertainty as to whether it was to be implemented. The letter stated:


The operation and support of market processes implemented in systems outside of the main MMS is not good practice and runs increased risk of audit and stability issues.

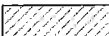
Accordingly NEMMCO has scheduled the incorporation of the CSP/CSC process into the November MMS Release.

If the Commission maintained its preference to implement the proposal for 1 November, NEMMCO would be required to implement procedures according to the Rule and make retrospective settlement adjustments when the software is ready.

A list of the affected billing weeks between 1 November and 30 November along with the associated Preliminary, Final and Revision Statement posting dates is included below:

Week ID	Billing Period Start	Billing Period End	Preliminary Statement	Final Statement	Revised Statement
44	Sun-29-Oct	Sat-4-Nov	Fri-10-Nov	Wed-29-Nov	Tue-20-Mar
45	Sun-5-Nov	Sat-11-Nov	Fri-17-Nov	Wed-6-Dec	
46	Sun-12-Nov	Sat-18-Nov	Fri-24-Nov	Wed-13-Dec	

 Statements where Rule change transactions will not be included if there is a 1 November commencement date.

 The first statement where Rule change transactions will be included if there is a 1 November commencement date.

¹ <http://www.aemc.gov.au/electricity.php?r=20051214.200416>

Any transactions arising from the Southern Generators' proposal for 2006 Week 44 may not be processed until the corresponding routine 20 Week Revision which is due 20 March 2007.

Participants will be required to accommodate the temporary arrangement that Preliminary and Final statements posted prior to 1 December 2006 will not include transactions arising from the Southern Generators' proposal.

2. Implementation issues for each alternative

Section 6.8 of the draft Rule determination discusses the Re-orientation proposal² and compares the Southern Generators' proposal. To assist the Commission's comparison NEMMCO has outlined implementation issues for each alternative:

Software modification

Unlike the Southern Generators' proposal, Re-orientation does not require a MMS upgrade.

Operating procedures

Both proposals will permit NEMMCO to cease managing negative settlement residues by "clamping" the flow of the Victoria to Snowy Directional interconnector. It was noted that the draft Rule and the Snowy proposal contained clauses specifying the treatment of negative settlement residues that would arise from network congestion in the Snowy region. Providing these clauses or similar clauses were carried through to the final Rule NEMMCO would see no need in consulting with industry, as it would use those clauses as a basis to modify its operating procedures.

The Re-orientation proposal will require NEMMCO to continue to judge when to apply the alternate formulation. The Southern Generators' proposal requires no dispatch time-frame discretion.

It is expected that beyond modifying NEMMCO operating procedures there would be no additional implementation expenses for the Re-orientation proposal as procedural modifications would be absorbed to NEMMCO operations. NEMMCO would need up to two weeks implementation time to amend, publish and revise procedures as required by the final Rule.

Settlement transactions

New settlement transactions will be included in statements to reflect transactions arising from the Southern Generators' proposal. Under the Re-orientation proposal there will be no new settlement transactions as impacts will be confined to spot prices.

² <http://www.aemc.gov.au/electricity.php?r=20060606.173557> page 1