



National Electricity Market
Management Company Limited
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Sydney

10 November 2006

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

Dear John

Regional Boundary Decision Timing

The Settlement Residue Committee (SRC) established in accordance with Rule 3.18.5, has an ongoing role in monitoring, reviewing and reporting on the Settlement Residue Auctions.

At the last SRC meeting it was noted that the Commission had issued a notice under section 107 of the National Electricity Law (NEL) extending the period for publishing the draft Rule determinations on the Snowy Hydro and Macquarie Generation proposals for changes to the Snowy Region to 15 December 2006. The committee is concerned that the timing of the AEMC's draft decision to be on the same day as the next proposed settlement residue auction will affect participants' view of the value of the units.

To avoid this conflict NEMMCO proposes to delay the next Settlement Residue Auction from 15 December 2006 to 18 December 2006 to allow participants a clearer view of possible directions. NEMMCO must advise the market before 1 December 2006 of this delay in the Auction. I would be pleased if you could confirm that 15 December 2006 is still the expected date of the draft determination of the Regional Boundary Rule changes as there are some concerns with delaying the auction.

The SRC also noted that information provided by NEMMCO to the AEMC indicated that a possible date of any regional boundary changes could be in November 2007, which cuts across the SRA calendar quarter. The Committee noted that changes impacting the SRA process that cut across SRA calendar quarters create issues with the management of the process. However the Committee was not unanimous that any regional boundary change should be delayed solely for this reason. The Committee felt that the AEMC should be alerted to the issues arising from regional boundary changes part way through a calendar quarter. The main implications are:

- participants may have purchased units based on an expectation on the value of the units that has been changed by a regulatory action; and
- a boundary change may create or delete some directional interconnectors.

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When changes to directional interconnectors have occurred in the past, NEMMCO has:

- allowed affected units to be surrendered and the purchase price refunded. The units are then resold if possible; and
- cancelled units where the advice of a change occurs less than one month before the start of the quarter and the units are therefore not able to be resold. In this case the residue is directly passed to the relevant TNSP.

It should be noted that a boundary change would increase the complications of the adjustment process, including requiring a change to auction fees.

The impacts of changes on the SRA process are mitigated by maximum notice to participants and aligning the effective date of the change to the SRA quarter. Since units are sold a maximum of twelve and a half months ahead of time, a notice period of 13 months with an effective date on the quarter would have no impact on the SRA process. Note that the committee does not recommend that the AEMC delay the effective date of any region boundary change solely for this reason.

If you would like to discuss this further I can be contacted on (02) 9239 9103.

Yours sincerely



Brian Spalding

Chairman

Settlement Residue Committee