

27th January 2012

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submission lodged online at: www.aemc.gov.au

Project Number: EPR0019

Dear Mr Pierce

**Submission to: Transmission Frameworks Review
First Interim Report**

Snowy Hydro Limited welcomes the opportunity to make a submission to the AEMC's Transmission Framework Review First Interim Report.

Snowy Hydro supports retaining the status quo transmission framework arrangements. These existing arrangements have been performing well to date and there is no evidence to suggest that these arrangements won't continue to work in the future. The resolution of the carbon policy should provide more certainty to investors and further strengthen the case for no major regulatory change as investors require a stable and predictable period by which to make long term investment decisions.

The current transmission arrangements recognise the inherent trade-off in liquid and deep contract markets versus more granular spot pricing. The current Regional market model in the NEM has seen steady increases in contract market liquidity and volume. This in turn has underwritten capital investment in new generation plant.

Past analysis has demonstrated that dispatch inefficiency is immaterial and is likely to be even less material when the carbon price is introduced as it will narrow the difference in marginal fuel costs between different generation types. Snowy Hydro believes any attempt to marginally improve dispatch efficiency by more granular pricing will cause much greater efficiency losses in the Contract markets.

Snowy Hydro sees no justification for fundamentally changing the transmission charging arrangements as a means to achieve more efficient transmission investment. If there's any evidence of inefficient transmission investments then it's a question of whether the RIT-T is doing its intended role.

Snowy Hydro acknowledges that a major driver for this review has been discontent from Southern Generators. Like the Commission it is unclear to us what the exact reason for this discontent is. We suspect these concerns are driven by fear that new entrants will locate in places that may crowd out these incumbent generators access to the shared transmission system. These Southern Generators believe that they have some explicit transmission rights to transport their generation to their Regional Reference Node. However to date these Generators have not presented any explicit evidence to validate these claims.

We note that International Power (IP) has submitted another Policy Package for the Commission's consideration. Our interpretation of IP's proposal is that it is a form of grandfathering of transmission property rights based on defined parameters in the planning domain. We have interpreted IP's motivation to introduce this additional policy package because they view that policy packages 2 to 5 in the Interim Report are deficient at minimising total system costs. Snowy Hydro shares this perspective with IP, but unlike IP we believe on balance the status quo arrangements (package 1) is delivering net efficient outcomes, which therefore supports no fundamental change.

If the Commission believes that the Southern Generators claims on transmission property rights warrant further attention, Snowy Hydro is of the opinion that IP's proposal on face value is a better and more workable alternative compared to Policy Packages 2 to 5. We note however that the issue of property rights would require much greater debate and consideration than the analysis undertaken to date. This includes consideration of complex issues such as the form of the right, the duration of the right, its trade-ability, its impact on new entrants, and its impact on what is currently a liquid and efficient Contract market.

Finally, we believe incremental changes as suggested by AEMC in the First Interim report could improve existing arrangements and are therefore worth further investigation. One area that we have highlighted in past submissions is incentives on TNSPs with respect to planned transmission outages. In the past planned transmission outages taken out at inappropriate times or scheduled sub-optimally has caused significant congestion and market volatility. We note the AER's current consultation on its target performance scheme may result in improved TNSP operational incentives.

Snowy Hydro looks forward to participating in the next stages of the review process. Please contact Kevin Ly, Manager Market Development and Strategy on (02) 9278 1862 if you would like to discuss any issue associated with this submission.

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