

7 February 2006

Dr. John Tamblyn
Chairman
Australian Energy Market Commission
Level 16, 1 Margaret Street
SYDNEY NSW 2000

Dear Dr. Tamblyn,

**PROPOSED RULE CHANGE-
MANAGEMENT OF NEGATIVE SETTLEMENT RESIDUES IN THE SNOWY REGION**

Delta Electricity has considered the rule change proposal and acknowledges that the current practice of managing negative settlement residues in the Snowy region could be improved. However, aspects of this rule change proposal are common to the AEMC regional boundary review and the Snowy regional boundary rule change proposal, and there is risk that proceeding with changes prior to the finalisation of these other AEMC reviews may result in wasted effort. Delta believes that changes to the management of negative settlement residues in Snowy region should not proceed unless they are consistent with the findings of the AEMC's other reviews which should include an economic and administrative evaluation on the Snowy CSP/CSC trial.

Although Option 4 congestion formulation combined with NEMMCO's current approach to eliminating negative settlement residues has specific shortcomings in the case of the Snowy region, this approach is fundamental to the efficient operation of the Settlement Residue Auction (SRA) market. The SRA market provides certainty for market participants to trade and contract across regions. The rule change proposal fails to address this important issue. For example, when counter price flow is from VIC to Snowy with VIC spot price higher than the Snowy price, participants with a contract position in the Snowy region require access to settlement residue from Snowy to VIC in order to hedge trades between regions. Delta believes the AEMC must include the operation of the SRA market in its consideration of the rule change proposal.

In addition, consideration of the accumulation of negative settlement residues must be undertaken within the broader context of congestion management. The market has accepted that Option 4 intra-regional congestion management formulation provides optimally efficient dispatch outcomes but the impact of counter-price flows on settlement residues and interregional competition is material. As evidenced by negative settlement residues in the Snowy region, the management of congestion and settlement residues are currently not aligned in a manner that delivers certainties to market participants.



In Delta's view, the problems that arise from the management of negative settlement residues in the Snowy region would be better addressed by eliminating the Snowy region and developing a NEM wide approach to eliminate counter-price flows in a manner that is aligned with Option 4 operation. Solutions could be achieved by having a 'look forward' scheme in the NEM dispatch engine or by implementing a clearly defined efficient dispatch approach for flows across an interconnector. These ideas will be expanded upon in Delta's submission to the AEMC's regional boundary review.

Delta acknowledges that there are problems with current practice but consideration of solutions should be part of consolidated review by the AEMC on regional boundaries and congestion management.

Yours faithfully,

Tim Baker
General Manager/Marketing