

21st March 2005

Peter Adams
NECA

Submission by e-mail to: padams@neca.com.au

Dear Peter,

**Re: Code Change Panel: proposed amendment to the Code
Recovery of negative inter-regional settlement residues (negative residues)**

Snowy Hydro Limited (Snowy Hydro) welcomes the opportunity to comment on the proposed code change.

Snowy Hydro believes the current method of negative settlement residue recovery through netting positive billing week residues and from recovery through auction fees is inefficient and unsustainable due to the increased incidence of large negative residues. To continue using the current approach places at greater risk the benefits that accrue to end customers through increased inter-regional trade and competition as SRA unit holders are forced into a reduction in contract volumes as the firmness of the SRA units are reduced.

The current approach also runs the risk of a reduction in SRA proceeds as Auction Participants are forced into factoring in large SRA auction fees in the SRA bidding. Such risk premiums would reduce the SRA proceeds available to customers as SRA Participants discount the value of the SRA units and offer lower bids to acquire the units.

Therefore Snowy Hydro supports NEMMCO's proposal to recover negative residues from future auction proceeds. We believe this is the most efficient method of the range of options explored by NEMMCO.

Further to this, we would like to suggest that the Code Change Panel also consider **not** netting off the weekly positive inter-regional settlement residues as part of recovering any negative settlement residues. Any netting of positive residues in the billing week (or in any other period) ultimately reduces the effectiveness of the SRAs as a hedging tool. Snowy Hydro believes it is more efficient to deduct all negative settlement residues from future auction proceeds only.

To discuss our submission further, I can be contacted on (02) 9278 1862.

Yours sincerely,

Kevin Ly
Manager, Market & Regulatory Strategy