

22 February 2007

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Dear Dr. Tamblyn,

**RE: COST RECOVERY OF LOCALISED REGULATION SERVICES- SUBMISSION FOR
RULE CHANGE**

Thank you for the opportunity to make a submission on the NGF's Rule change proposal regarding Cost Recovery of Localised Regulation Services.

NEMMCO supports the principles behind the NGF's Rule change proposal, and believes that scaling up the existing causer pays factors is a pragmatic and sufficiently accurate approach to the regional recovery of regulation FCAS costs in the event of regional islanding.

NEMMCO notes that the regional recovery of regulation FCAS costs is a likely prerequisite for any co-optimisation of regulation and delayed FCAS. The potential co-optimisation of regulation and delayed FCAS is currently being considered as part of NEMMCO's review of the FCAS markets, as well as being the subject of a current Hydro Tasmania Rule change proposal.

NEMMCO also understands that the NGF's Rule change proposal will not lead to any changes to the current calculation of causer pays factors. In particular, NEMMCO understands that:

- data from dispatch intervals during which there is an islanding event will continue to be excluded from the causer pays factor calculations; and
- causer pays factors will continue to be calculated separately for Tasmania as the power system frequency in Tasmania is not synchronised with the frequency on the mainland.

However, there may be some value in clarifying these issues if there is any doubt.

Lastly, NEMMCO would like to point out that should the NGF Rule change proposal be accepted, it would still take many months to implement the changes in NEMMCO's market systems.

Typically, the development cycle takes about 9 months, including 3 months to develop functional requirements, and 6 months to develop, test and implement the software. The

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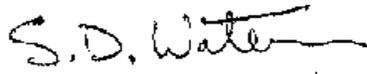
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earliest NEMMCO would generally be prepared to commit to development of a modification to the market systems would be at the time of issue of the draft determination by the AEMC. Although this carries significant risk of a change to the requirements, this has been NEMMCO's practice for some of the more urgent changes to the National Electricity Code in the past.

It is also worth noting the cycle may be under particular pressure later this year if the proposed abolition of the Snowy region proceeds, and that would impact this implementation. NEMMCO can provide firmer comments on the timeframes once a draft determination is published.

If you have any queries relating to this matter, please contact Michael Sanders – Market Development Specialist on (02) 9239 9136.

Yours sincerely,

A handwritten signature in black ink that reads "S.D. Waterson". The signature is written in a cursive style with a horizontal line extending to the right.

DAVID WATERSON

Head of Wholesale Market Development