

Loy Yang Marketing Management Company Pty. Ltd.

AGL Southern Hydro Pty. Ltd.

International Power (Hazelwood, Synergen, Pelican Point, Loy Yang B and Valley Power)

TRUenergy Pty. Ltd.

NRG Flinders Pty. Ltd.

Hydro Tasmania

20th July 2006

Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Emailed: submissions@aemc.gov.au

Draft Rule Determination - Management of Negative Settlement Residues in the Snowy Region

The group of Southern Generators (Loy Yang Marketing Management Company (LYMMCo), AGL Southern Hydro, International Power, TRUenergy, NRG Flinders and Hydro Tasmania) would like to thank the AEMC for the opportunity to respond to the Commission's Draft Rule Determination (Management of Negative Settlement Residues in the Snowy Region) 6 June 2006.

Our comments are in relation to section 6.9, Implementation.

We support the Commission's view that given the potential benefits to the market of this Rule proposal, and that the benefits are likely to accrue over the summer period, it is important that this proposal should be implemented prior to the coming summer period. In our view the latest date that this could occur to ensure it is in place before these potentially high demand periods is the 1st November 2006. This is consistent with the Commission's preferred date for commencement.

Potential impediments to achieving implementation by this date could arise from two areas namely:

- Settlement residue auction time frames, where due to the change participants may wish to terminate Settlement Residue Distribution Units (SRDU), and
- NEMMCO system development time frames.

We note that neither NEMMCO¹ nor the Commission consider the settlement residue process to be an impediment to timely implementation. The Commission has noted that although it would be preferable to be able to re auction surrendered units it is unlikely that the benefits from this process would outweigh the benefits of implementing the proposal before the summer period. We agree with this view.

In relation to the NEMMCO system development process, we note NEMMCO's preference² for including this rule change in their next Market Management System (MMS) release which we agree is good business practice. However NEMMCO's letter indicates that there is a risk that implementation may not occur prior to December 2006 and could be delayed to 1 June 2007, unless the change is implemented by a process external to the MMS. This view is based on the time frames for a draft and final determination and allowing time to develop, test and release new software to manage the settlement of the new Rule.

In our view this Rule change should be implemented by a specialised process external to the MMS if this is necessary to achieve implementation by 1 Nov 2006 Because:

- the increases in market efficiency and the increase in NEM wide competition, dispatch efficiency and inter-regional trading, occur entirely during the summer months,
- implementation of this proposal will significantly reduce the incidence of negative settlement residues as a result of the more efficient price incentives on Murray generation, making the use of the external system less likely than the current arrangement, and
- it is likely that this rule change will only remain in place for a short period of time, i.e. until the completion of the current regional boundary review.

In our view the risks of audit or stability issues which may arise from a specialised external process to the MMS are far outweighed by the benefits of early implementation as well as the avoidance of the costs of implementation of a process in the MMS which is likely to become redundant in the immediate future.

¹ NEMMCO letter to the AEMC dated 28 April 2006

² *ibid*

We note that the current CSP/CSC trial which commenced on 1 October 2005 was implemented as an external process³ due to tight time frames and being a trial there was uncertainty as to its enduring nature. It is only now being integrated into the main MMS for the forthcoming summer.

We have advised NEMMCO verbally of our view however we would be extremely concerned if implementation was delayed, because the risks associated with early implementation are minimal and are far outweighed by the advantages to the NEM.

If you wish to discuss any aspect of this submission, please feel free to contact Roger Oakley on 03 9612 2211.

Yours faithfully

.....
Ken Thompson
General Manager
Loy Yang Marketing Management
Company Pty. Ltd.

.....
Alex Cruickshank
Manager NEM Development
AGL Southern Hydro Pty. Ltd.

.....
Ben Skinner Regulatory Manager
Wholesale Markets, Truenergy Pty.
Ltd.

.....
Stephen Orr
Commercial Director
International Power

.....
David Bowker
Manager Regulatory Affairs
Hydro Tasmania

.....
Reza Evans
Manager Regulation & Market
Development
NRG Flinders

³ This approach is practical because the mechanisms codified by rule 8A, part 8, all affect NEMMCO's settlement processes rather than dispatch processes. As settlement processes occur over a 4 week timeframe rather than in real-time, part-manual systems are feasible. NEMMCO have successfully achieved this for the Tumut CSC/CSP trial without incident or error, transferring significant sums into and out of settlement residue funds. This proposed rule change is simply a minor modification to those settlements, and would be implemented into the same manual and automatic systems being used by it.