



14 October 2011

Mr James Cox AM
Acting Chairman
Independent Pricing and Regulatory Tribunal
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Dear Mr Cox,

REVIEW OF SYDNEY CATCHMANT AUTHORITY'S PRICES AND OPERATING LICENCE FROM JULY 2012

Eraring Energy appreciates the opportunity to provide input into the review of the SCA's pricing and operating licence arrangements from July 2012.

New Operating Arrangements for Eraring Energy

In forming our comments, you should be aware of new commercial and operational arrangements under which Eraring Energy (both the Eraring Power Station and the Bendeela and Kangaroo Valley Power Stations) now operate.

As of 1 March 2011, Eraring Energy and Origin Energy now operate under what are called GenTrader contracts. In simple terms, Origin bids all three power stations into the national electricity market and receives pool revenue. In exchange, Origin makes specific payments to Eraring based on Eraring achieving a specified level of plant availability. If the target level of plant availability is not achieved, then Origin is entitled to receive damages from Eraring. These payments are termed "availability liquidated damages" or "ALD". These damages may stem from a number of sources, for example, plant limitations within the power station itself.

ALDs can also be caused by external factors – principally in Kangaroo Valley and Bendeela's case through the activities of the SCA. It is an essential point to note that both the SCA and EE contribute to the availability of the Shoalhaven scheme. SCA's operating and maintenance activities that impact on the availability of the Kangaroo Valley Power Station and the Bendeela Power Station will have a flow-on effect to the level of ALD payments. The GenTrader model leaves Eraring as a cost-centre without the financial capability to absorb ALDs and ultimately the financial risk of liquidated damages is borne by the State Government.

Comments on the Proposed Operating Licence

1. Pricing

The development of a price between Eraring and the SCA through bilateral negotiations is set out in the Sydney Catchment Authority and Eraring Energy Operation and Maintenance Agreement for the Shoalhaven Scheme. This document summarises the operations and maintenance rights and responsibilities of the two entities.

In addition, the commercial arrangements between Eraring and Origin Energy are set out in the GenTrader contract. The GenTrader contract recognises the operations and maintenance Agreement between Eraring and the SCA.

To the extent that your review may contemplate SCA pricing changes that impact on Eraring Energy, the Tribunal should note Eraring Energy's ability to negotiate changes with Origin Energy will be limited by the commercial terms of the existing GenTrader contract.

2. *Cryptosporidium and Giardia Review*

Due to the substantial impact that outbreaks of these infestations can have on generation and pumping availability, an annual formal review of the expected risks should be undertaken. That review should be communicated to the stakeholders including Eraring Energy.

3. *Capital Expenditure*

To the extent the projects listed below result in any increase in Eraring capital expenditure or maintenance costs as a result of more pumping, the Tribunal should make specific allowance for SCA contributions. On a user-pays basis, these higher pumping costs are most appropriately allocated to the SCA and water users. Specific comments on potential capital expenditure proposals are provided below.

- *Upper Canal*

Rehabilitation /augmentation of the Upper Canal (running from the Upper Nepean storages to Prospect Reservoir storages) would provide a greater capacity path for water from the Wingecarribee to Sydney via this route, which could allow larger volumes of water to be pumped from Shoalhaven.

- *Environmental flow infrastructure at Warragamba*

Eraring believes that there is potential for doing this with potential impact on the amount of pumping required from Shoalhaven.

- *Upgrade of Shoalhaven Transfers*

A tunnel from Burrawang to the Avon Dam by 2025 would increase the transfer capability from Tallowa to Sydney, the Illawarra and the Southern Highlands and would allow for increased pumping from Shoalhaven via this route.

- *Tallowa Minimal Operating level at 1 metre below FSL.*

This would result in more frequent but shorter duration pumping. This has the potential to adversely affect Eraring Energy pumping equipment as the starting cycle on these pumps is equivalent to around 50 hours of running at steady load. Starting and stopping cycles of these pumps is carefully managed by EE to ensure their reliable operation. Eraring Energy would not support changes to the current operating practice for this reason.

4. SCA Asset Management

EE has a strong interest in timely and efficient asset management practices and minimisation of availability liquidated damages to Origin Energy. The SCA revenue decision should be cognisant of SCA's impact on liquidated damages and provide adequate resources to allow prudent operating and maintenance activity to support GenTrader availability.

5. Ministerial Moratorium on pumping finishes on November 2011.

It is recommended that the SCA licence be in place for a period of at least 5 years. This will provide an environment to enable longer-term planning to be effective. This duration is consistent with other similar infrastructure providers (e.g. transmission companies) and it also provides a period over which performance can be reviewed.

Yours faithfully



PETER JACKSON
MANAGING DIRECTOR