



Extension Hill Pty Ltd

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Chris Brown
Acting Assistant Director
Electricity Market Surveillance
Economic Regulation Authority
Level 6,
197 St Georges Terrace,
Perth WA 6000
PO Box 8469, PERTH BC WA 6849.

Dear Mr Brown,

RE: Prohibition and restriction on Synergy and Verve Energy under the Electricity Corporations Act

Extension Hill Pty Ltd welcomes the opportunity to comment on the Economic Regulation Authority's discussion paper on the "Prohibition and restriction on Verve Energy under the Electricity Corporations Act".

This is pertinent to Extension Hill Pty Ltd's current situation. Extension Hill Pty Ltd currently has initiated a process to secure 1,100GWh pa and 150MW capacity from the market, connected to the SWIN. Given the scale of our business it makes little sense to prevent Extension Hill Pty Ltd from contracting directly with Verve Energy, without having to become a retailer ourselves. A large base load, such as Extension Hill Pty Ltd, presents opportunities for Verve to better utilise its assets and improve returns on its existing assets, which are ideally suited to supplying base load power. One potential area of optimisation relates to the overnight low loads, which are technically difficult to manage and economically draining.

Extension Hill Pty Ltd believes that Verve Energy should be allowed to retail to large commercial and industrial (C&I) customers. The customer size threshold could initially be set high and reduced over time. In determining the customer threshold, the aggregate of a customer's loads should be used.

Verve Energy's generation portfolio, market knowledge and strong credit rating provide an attractive value proposition to Extension Hill Pty Ltd. We value these attributes in a counterparty and would look favourably on the opportunity to contract directly with Verve Energy, if they were competitive and Verve was permitted to do so.

Extension Hill Pty Ltd recognises that the retail moratorium was put in place at the time of market reform to overcome concerns that Verve could leverage its dominant position in the wholesale market to raise customers' costs in the retail market. However, we believe that the weight of reasoning has changed, so that the retail moratorium is no longer needed. As discussed below, the retention of the 3,000MW cap effectively prevents Verve from abusing its market dominant position on the SWIN.

The 3,000MW cap has some real, restrictive, competitive consequences for Verve. For instance, Verve is unable to install new capacity above the 3,000MW without retiring some of its existing plant to stay within the 3,000MW cap. This places it at a competitive disadvantage as it cannot compete against a competitor's new gas based generation.

Verve can only compete within the narrow band created by, making use of unused or underused capacity and energy within its current generation assets.

If Verve wishes to better utilise its position as a base load provider, especially as coal generator, it will have to retire plant to increase the coal component. Given the uncertain position of Griffin Energy and the EPA's recent recommendation against the development of Aviva's coal mine in the mid west, Verve is the only prospective coal base energy supplier in the market. As it is now, and will remain so with the 3,000MW cap, if Verve wanted to utilise more of its plant in a base load category, it will have to contract for capacity with another generator to replace the mid merit to peaking capacity that it would have transferred to base duties.

This are very sensible market outcomes. This is no different from Synergy contracting with independent generators for new capacity. It does not make sense to prevent Verve from using its existing asset base more effectively. To do so increases cost to all electricity consumers on the SWIN.

Verve's market share has declined substantially and the measures that would remain in place, including Verve's Vesting and Displacement contracts, the 3,000 MW capacity cap and the wholesale electricity market surveillance regime effectively control any residual ability Verve might have to abuse its market power in the wholesale market. C&I customers in particular could potentially backward-integrate into the retail market themselves (as some have done) were any retailer to seek to exercise market power in their negotiations with such customers.

If further information is required on any of the issues discussed, I can be contacted on 9216 2653

Yours sincerely

Yours sincerely,

EXTENSION HILL Pty Ltd

A handwritten signature in black ink, appearing to read 'M. Duxbury', with a long horizontal stroke extending to the right.

MATT DUXBURY

Manager Infrastructure Services