



**APPLICATION  
FOR  
GENERATION LICENCE**

**LAVERTON NORTH GAS POWER STATION**

## 1. INTRODUCTION

Snowy Hydro Limited ("**Snowy Hydro**") intends to construct and operate a peaking power station (referred to hereafter as "the Station") at Laverton North. The Station will help Victoria to meet its growing demand for electricity, will assist in maintaining the reliability and security of Victoria's electricity network, and will increase competition in the electricity market.

It is Snowy Hydro's intention to have the Station ready for commercial operation in December 2005.

Accordingly, pursuant to Section 18 of the Electricity Industry Act 2000 (Vic) (the "**Act**"), Snowy Hydro is applying to the Essential Serviced Commission ("**ESC**") for a licence to generate electricity for supply and sale.

## 2. APPLICANT DETAILS

### 2.1 Applicant

Snowy Hydro is a business enterprise jointly owned by the New South Wales, Victorian and Commonwealth governments, with ownership shares of 58%, 29% and 13% respectively. The company has annual revenues of around \$400 million, assets of around \$1.7 billion, and employs around 400 staff.

Snowy Hydro is a registered generator and a major player in the NEM, having approximately 10% of the installed generating capacity in the NEM and producing approximately 3% of the total energy generated in the NEM.

Snowy Hydro has over fifty years of experience building, operating and maintaining hydro-electric power generation and electricity transmission assets. The Snowy Scheme generators have supported Victoria's peak electricity needs for more than thirty years via the New South Wales to Victoria electricity transmission inter-connector.

Snowy Hydro is incorporated under the Corporations Act 2001 (Cth) and a copy of Snowy Hydro's Registration Certificate is provided in Annexure A.

### 2.2 Registered Office

Snowy Hydro Limited

Monaro Highway

Cooma NSW 2630

### 2.3 Address for Correspondence in relation to this Application

Graham Beatty

Manager, Markets Compliance

Snowy Hydro Limited

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### **3. DETAILS OF THE PROPOSED POWER STATION**

#### **3.1 Location**

The proposed Station site is located at Lot 2 127 Cherry Lane Laverton North, Victoria, 3026, approximately 15 km west of the Melbourne Central Business District - Melway map reference 53H4.

#### **3.2 Power Station Details**

The proposed Station will comprise two (2) open cycle gas-fuelled turbines with a combined rated generation capacity of 312 megawatts (MW). The station net maximum capacity is 342 MW.

#### **3.3 Fuel Supply**

The proposed Station will normally be fuelled by natural gas via a new gas pipeline connecting the Station to the existing Brooklyn-Lara gas pipeline. In the event of a gas supply shortfall the Station will be operated on distillate backup fuel.

#### **3.4 Network Connection**

Each generator will be connected to the Altona Terminal Station at 220 kV.

#### **3.5 Operation**

The Station will normally be operated remotely from Snowy Hydro's central control centre in Cooma, New South Wales but will be also equipped with full local control as a backup, and will normally be attended during weekday working hours.

The Station is expected to operate on an intermittent basis, to satisfy peak power demands or in the event of the failure of other generators in Victoria or capacity restrictions on the transmission network.

Operating hours of the Station will vary considerably from year to year but are expected to be no more than 10% of the time in any given year.

#### **3.6 Current Status of the Project**

(1) Consents Already Obtained

(a) Environment

A Works Approval (No WA 55267) from the Environment Protection

Authority Victoria has been obtained.

(b) Planning

A Planning Permit (No WYP3502) from Wyndham City Council has been obtained.

(2) Electricity Connection Agreement

A connection agreement for connection of the Station to the transmission network is currently being negotiated with SPI Powernet.

(3) Use Of System Agreement

A transmission use of system agreement for the Station is currently being negotiated with VENCORP.

#### 4. REASONS FOR PARTICIPATION IN THE VICTORIAN ELECTRICITY INDUSTRY

The 2004 Statement of Opportunities published by the National Electricity Market Management Company (“NEMMCO”), indicates that the electricity supply/demand situation in Victoria/South Australia for the summer of 2005/06 is marginally adequate and critically dependent on the commissioning of BassLink which is scheduled for November 2005. Beyond 2005/06 there is forecast to be a significant shortfall in generating capacity in the combined Victoria/South Australia region.

Snowy Hydro is a participant in the NEM as a generator and currently operates the Snowy Mountains Scheme. A key feature of Snowy Hydro’s business is the provision of risk management services, in the form of derivatives, to assist other market participants to manage the financial risk associated with volatile spot electricity prices. The risk associated with possible transmission constraints between the Snowy and Victorian regions imposes limitations on the ability of Snowy Hydro to provide those services to NEM participants operating in Victoria.

Snowy Hydro’s customers in Victoria have indicated a need for increased electricity risk management products from the 2005/06 summer. This is consistent with the above assessment of marginally adequate supply which is critically dependent on the commissioning of BassLink.

Accordingly Snowy Hydro is proposing to construct the Station in direct response to both its customers and the community’s need for additional generating capability.

#### 5. ESSENTIAL SERVICES COMMISSION OBJECTIVES

The objectives of Snowy Hydro and those of the ESC in respect of this proposal are mutually consistent, as outlined below.

(1) To protect the long term interests of Victorian consumers with regard to the price, quality and reliability of essential services.

(a) Protection of consumers with regard to price will be enhanced because of the increased ability of Snowy Hydro to offer price risk management

services to other NEM participants operating in Victoria.

- (b) Reliability of electricity supply in Victoria will be enhanced by the additional capacity which will be available to supply peak demands.

- (2) To facilitate efficiency in regulated industries and the incentive for efficient long-term investment.

The proposal is an example of an efficient investment response to market signals in the form of reserve forecasts and price outcomes in peak demand periods.

- (3) To facilitate the financial viability of regulated industries.

The proposal, by enhancing Snowy Hydro's ability to offer price risk management services in Victoria, facilitates the financial viability of the electricity industry.

- (4) To ensure that the misuse of monopoly or non-transitory market power is prevented.

The proposal increases competition in the NEM.

- (5) To facilitate effective competition and promote competitive market conduct.

The proposal increases competition in the NEM.

- (6) To ensure that regulatory decision making has regard to the relevant health, safety, environmental and social legislation applying to the regulated industry.

Snowy Hydro has a long history of being a good corporate citizen in the Snowy Mountains area and has a strong commitment to environmental responsibility and to occupational health and safety through its "Clean, Green and Safe" program. This commitment is audited and meets the requirements of ISO 14001 Environmental Management certification and ISO 9000: 2000 Quality certification. Snowy Hydro is also currently implementing a program to achieve AS 4801 Safety Management certification.

- (7) To ensure that users and consumers (including low-income or vulnerable customers) benefit from the gains from competition and efficiency.

The proposal represents an efficient form of investment in response to market and consumer demand, increases competition in the generation sector of the NEM and provides Snowy Hydro with greater capability to offer risk management services to other market participants, thereby facilitating efficient market outcomes and price stability.

## 6. TECHNICAL CAPACITY

In accordance with Section 19(5) of the Act, the ESC does not have to be satisfied as to Snowy Hydro's technical capacity to comply with the conditions of a licence.

However, the following information is provided to assist the ESC in its assessment of this application.

Snowy Hydro owns, maintains and operates the Snowy Mountains Scheme which has generating assets with a capacity of 3764 MW spread across 7 power stations with 31 individual generating units.

Snowy Hydro or its subsidiary, Snowy Hydro Trading, has been registered with NEMMCO as a generator since the commencement of the NEM. Prior to that time the Snowy Mountains Hydro-Electric Authority (now Snowy Hydro) had many years of experience maintaining and operating the Snowy Mountains Scheme in the pre-market electricity industry environment. Accordingly, with approximately 400 staff, Snowy Hydro has considerable knowledge of, and experience in, the electricity industry and the NEM and in maintaining and operating generating plant.

Several of Snowy Hydro's directors have been on the board for a number of years and therefore have significant relevant experience. Other, more recently appointed directors have varying degrees of prior relevant experience and have been directors of Snowy Hydro since December 2003.

Senior management with electricity market responsibilities have been involved in the NEM since its commencement, have a thorough understanding of market operations and associated National Electricity Code compliance requirements and have overseen the development of associated systems and procedures. Accordingly, Snowy Hydro has the capability to meet the requirements of a licence.

## **7. FINANCIAL VIABILITY**

As Snowy Hydro is not applying for a retail licence, detailed information on financial viability is not provided.

However, Snowy Hydro is a substantial company with assets of approximately \$1.7 billion, annual revenue of around \$400 million and is rated BBB+ by Standard and Poor's.

## **8. CROSS OWNERSHIP**

Snowy Hydro holds neither a controlling interest nor a substantial interest in any other licensee (as defined for the purposes of Part 3 of the Act).

Accordingly, if granted a licence, Snowy Hydro will not hold a prohibited interest under section 68(2) of the Act.

## ANNEXURE A: CERTIFICATE OF REGISTRATION OF SNOWY HYDRO LIMITED

### Certificate of Registration of a Company

This is to certify that

**SNOWY HYDRO LIMITED**

**Australian Company Number 090 574 431**

is a registered company under the  
Corporations Law of New South Wales.

The company is **limited by shares**.

The company is a **public** company.

The day of commencement of registration is  
the **twenty-seventh day of June 2001**.

Issued by the  
Australian Securities and Investments Commission  
on this twenty-seventh day of June, 2001.



David Knott  
Chairman



CERTIFICATE