20 March 2008

Independent Pricing & Regulatory Tribunal of New South Wales
PO Box Q290
QVB Post Office
NSW 1230

To whom it may concern,

Re: Frontier Economics Annual Energy Cost Review- March 2008

d-cyphaTrade welcomes this opportunity to draw IPART's attention to an oversight in the theory applied by Frontier Economics for the purpose of the Annual Energy Cost Review.

Frontier's decision to ignore freely available and independent market information from the electricity futures market, on the premise that the securities are "thinly traded" and inconsistent with prices generated by Frontier's WHIRLYGIG, is flawed. The following discussion provides:

1. Key statistics attesting to the size of the electricity futures market (and relevance of electricity futures prices) which exceeds the size of the underlying spot market for electricity by 49%[1]; and
2. An explanation of the critical flaw of ignoring competitively determined and independent futures prices in favour of reliance on a theoretical pool price model.

1. Key Statistics on the size and relevance of the electricity futures market

The following electricity futures and options trading statistics (relevant to the 2007 trading period) prove the significance and relevance of d-cyphaTrade SFE futures prices:

- Futures and options traded volume: 290.9 Million MWh;
- Futures and options traded volume 49% larger than underlying spot electricity market;
- Face Value of traded volume: Approximately $16.15 billion;
- Single-day value change in SFE open positions: up to $496 million[2];

See appendix 1 for more futures trading volume statistics.

2. Independent futures prices versus theoretical price prediction models

Futures prices reflect a market-consensus view of future pool price outcomes, determined by an independent market operator (the Sydney Futures Exchange). The Sydney Futures Exchange uses only the most current live market orders (including live bids, live offers and traded prices) provided by electricity generators, retailers, hedge funds, banks and other market experts which trade futures through the placement (via licensed SFE Participants) of orders in the live market place. Consistent with Adam Smith's 'invisible hand' theory of profit motivation, futures traders act (i.e. transact) to profit from any price arbitrage created by (in their view) any "incorrect" futures pricing released into the live futures market by other market participants. Futures traders know that if their view of forward price outcomes (reflected in the futures price at which they trade) is wrong, the trader will lose money. The fear of incurring financial losses prevents non-reflective bids or offers from remaining in the futures market and distorting futures prices.

In this way, the independent free-market mechanism (i.e. supply and demand of futures contracts) determines a transparent equilibrium forward price expectation for electricity. The conviction of each futures trader's view of future pool price outcomes is tested via

[1] During 2007.
[2] E.g. for the trading day ending 23rd April 2007

d-cyphaTrade
Level 32 | ABN Amro Tower | 88 Phillip St | Sydney | NSW | 2000 | Australia
P +61 2 8211 0615 | Toll-free: 1800 330 101 | F +61 2 8211 0640
w www.d-cyphaTrade.com.au

virtually immediate and ongoing profit or loss accountability, after placing a live futures market order and transacting.

Theoreticians such as pool price modellers are not subjected to such rigorous accountability and hence the outputs of their models should be discounted or ignored when in conflict with prices from a transparent, independent and accountable market-based price benchmark such as a futures market.

NEM Participants such as retailers may not have the luxury of ignoring prevailing financial market reality in favour of waiting to see if more advantageous hedge pricing becomes available at some time in the future. NEM retailers may be unable or unwilling to leave themselves exposed to the risk that futures prices and pool prices subsequently increase to the retailer's detriment, rather than decline toward a theoretical price estimate.

IPART and any other industry observer has the ongoing opportunity to access free electricity futures market price and volume data out to 4 years ahead via the d-cyphaTrade website www.d-cyphaTrade.com.au or to analyse more extensive liquidity and market pricing data via the d-cyphaTrade premium online data centre service. d-cyphaTrade also facilitates regular electricity futures and options market training courses for industry observers and market participants to provide a better understanding of the electricity futures and options market. The attached appendices provide an overview of these services.

Please contact d-cyphaTrade on 1800 330 101 for more information regarding the d-cypha SFE Electricity Futures Market.

Yours sincerely,

Dean Price

General Manger

d-cyphaTrade
Level 32 | ABN Amro Tower | 88 Phillip St | Sydney | NSW | 2000 | Australia
P +61 2 8211 0615 | Toll-free: 1800 330 101 | F +61 2 8211 0640
w www.d-cyphaTrade.com.au

Appendix 1: Trading Statistics during 2007

Table 1: Summary of exchange-traded market statistics for 2007 trading period

	2007 Trading Period
Futures, Caps & Options contracts traded	136,092
Avg Daily Volume	542 contracts 1,158,951 MWh
% physical market demand	149%
Total Traded MWh (approx.)	290.90 million
Face Value Traded (approx.)	$16.15 billion
Open interest (COB end December 2007)	41,265 contracts
Face Value of Open Interest (COB end December 2007)	$5.4 billion
Contract volume is quoted in a 1 MW calendar quarter equivalent	

Chart 1: Traded MWh on the Sydney Futures Exchange vs. electricity consumed in the underlying physical market during 2007

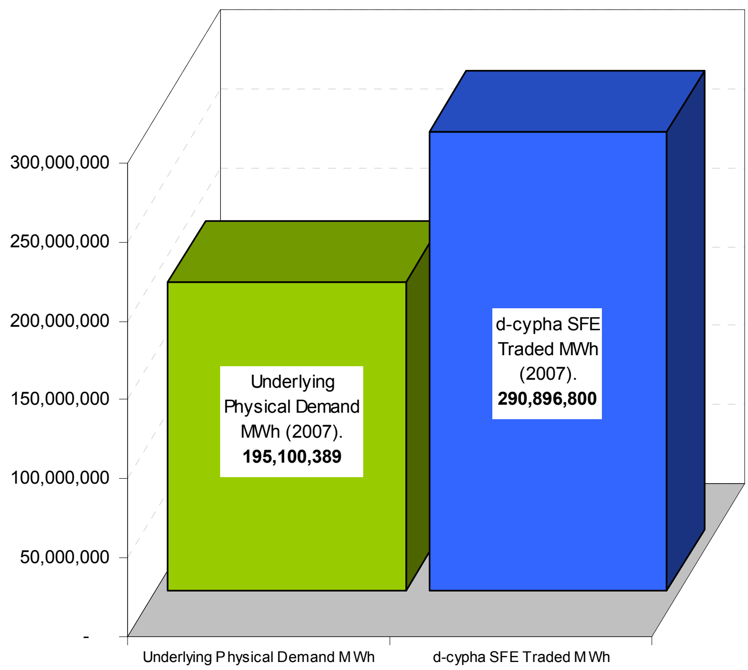
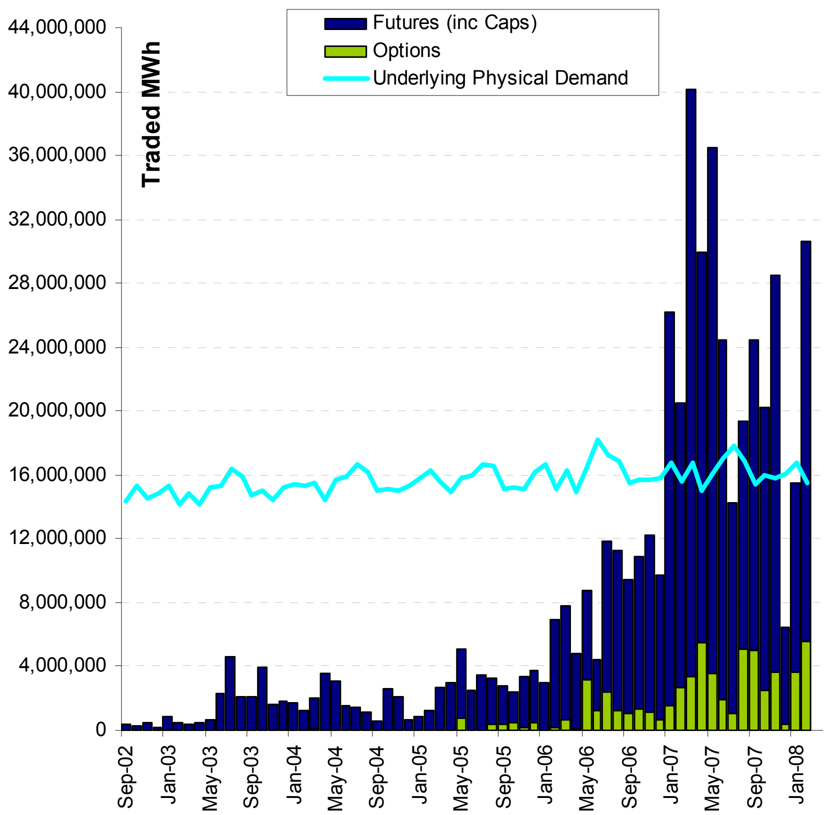


Table 2: The following relates specifically to the 2007 trading period, for futures and options with contract terms covering FY09/10.

	Contract terms covering FY 09/10	NSW contract terms covering[3] FY 09/10 (Relevant to the IPART Annual Energy Cost Review)
Futures, Caps & Options contracts traded	47,763	7,221
Total Traded MWh	104,713,890	15,583,191
Face Value Traded	$5,026,206,193	$785,650,033
Contract volume is quoted in a 1 MW calendar quarter equivalent		

Appendix 2: Monthly Volume Charts

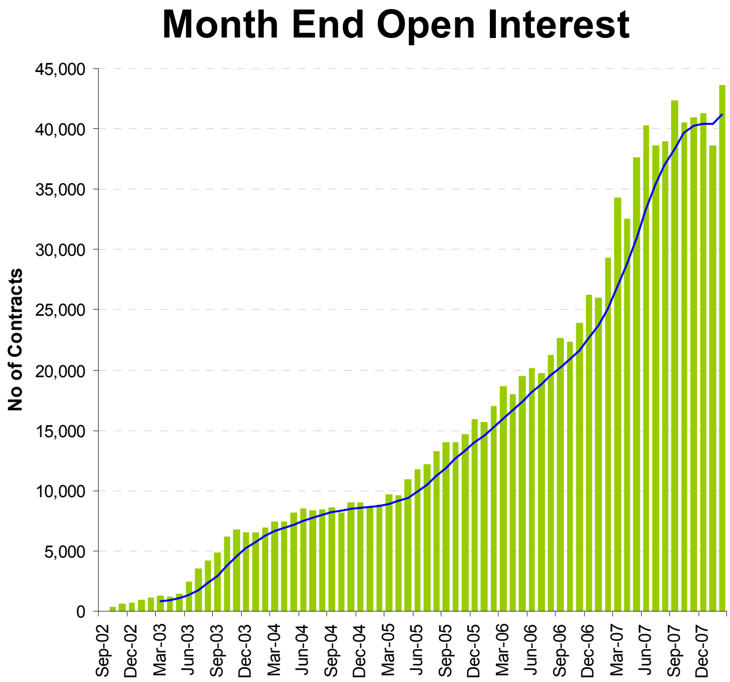
Chart 2: Exchange traded market eclipses the underlying physical market from January 2007



[3] Contracts covering all or part of FY 09/10, to the extent that FY 09/10 is covered by the contract term.

d-cyphaTrade
Level 32 | ABN Amro Tower | 88 Phillip St | Sydney | NSW | 2000 | Australia
P +61 2 8211 0615 | Toll-free: 1800 330 101 | F +61 2 8211 0640
w www.d-cyphaTrade.com.au

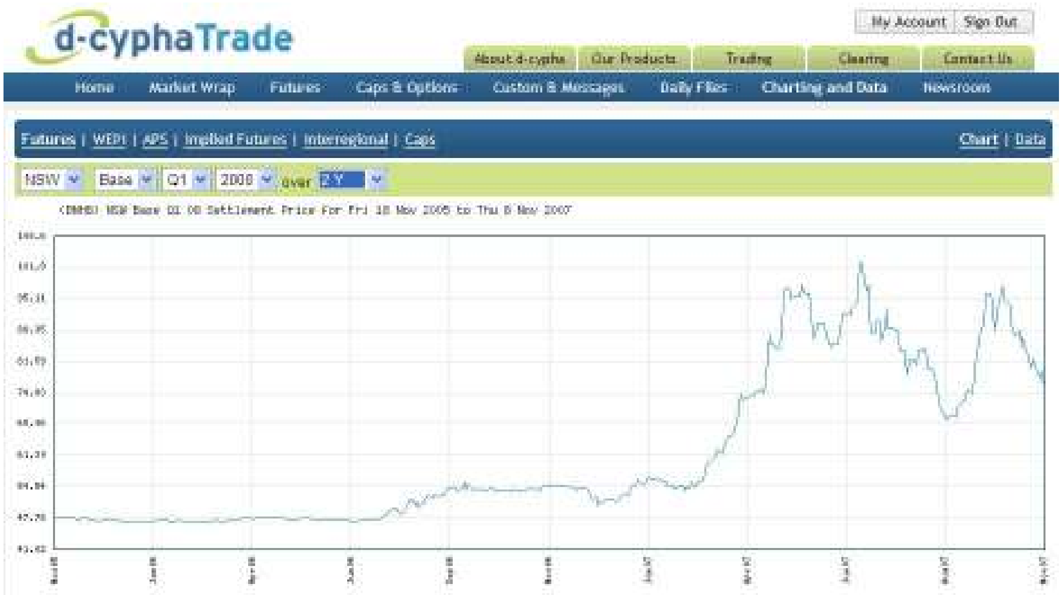
Chart 3: End of month recorded Open Interest



Appendix 3: d-cyphaTrade premium online futures data service

The d-cyphaTrade Online Data Centre enables subscribers to access a central data source, containing a comprehensive set of electricity futures market data including daily settlement files, historical data and a daily trade log for all electricity futures products listed on the SFE. Additionally, a database of key market statistics has been developed for any historical period and can be easily exported in CSV format.

A) Example of the historical charting feature:



d-cyphaTrade
Level 32 | ABN Amro Tower | 88 Phillip St | Sydney | NSW | 2000 | Australia
P +61 2 8211 0615 | Toll-free: 1800 330 101 | F +61 2 8211 0640
w www.d-cyphaTrade.com.au

d-cyphaTrade

B) Example of d-cyphaTrade's Datamine which contains key market liquidity statistics:

d-cyphaTrade

My Account | Sign Out

About d-cypha | Our Products | Trading | Clearing | Contact Us

Home | Market Wrap | Futures | Caps & Options | Custom & Messages | Daily Files | Charting and Data | Datamine | Newsroom

Datamine

1 Feb 2008 to 7 Feb 2008 5 trading days Dig | Download as CSV

Volume

State	Base Futures	Peak Futures	Caps	Cal Options	Peak Option	Total	Average	Block	EFP
NSW	1,427	25	0	45	0	**1,497**	299	350	0
QLD	1,099	0	0	50	0	**1,149**	230	80	0
SA	128	0	0	0	0	**128**	26	0	0
VIC	1,132	70	0	95	0	**1,297**	259	405	0
Total	3,786	95	0	190	0	**4,071**	814	835	0

Quarterly Equivalent Volume

State	Base Futures	Peak Futures	Caps	Cal Options	Peak Option	Total	Average	Block	EFP
NSW	1,427	25	0	180	0	**1,632**	326	470	0
QLD	1,099	0	0	200	0	**1,299**	260	230	0
SA	128	0	0	0	0	**128**	26	0	0
VIC	1,132	70	0	380	0	**1,582**	316	630	0
Total	3,786	95	0	760	0	**4,641**	928	1,330	0

MWh

State	Base Futures	Peak Futures	Caps	Cal Options	Peak Option	Total	Average	Block	EFP
NSW	3,121,824	23,250	0	394,200	0	**3,539,274**	707,855	1,004,640	0
QLD	2,400,624	0	0	438,000	0	**2,838,624**	567,725	502,800	0
SA	279,984	0	0	0	0	**279,984**	55,997	0	0
VIC	2,476,080	64,200	0	832,200	0	**3,372,480**	674,496	1,314,150	0
Total	8,278,512	87,450	0	1,664,400	0	**10,030,362**	2,006,072	2,821,590	0

Face Value

State	Base Futures	Peak Futures	Caps	Cal Options	Peak Option	Total	Average	Block	EFP
NSW	$145,065,837	$1,929,750	$0	$19,622,400	$0	**$166,617,987**	$33,323,597	$47,600,862	$0
QLD	$107,300,335	$0	$0	$21,900,000	$0	**$129,200,335**	$25,840,067	$25,392,720	$0
SA	$22,229,453	$0	$0	$0	$0	**$22,229,453**	$4,445,891	$0	$0
VIC	$108,215,860	$5,223,113	$0	$42,398,400	$0	**$155,837,373**	$31,167,475	$65,844,748	$0
Total	$382,811,485	$7,152,863	$0	$83,920,800	$0	**$473,885,147**	$94,777,029	$138,838,329	$0

Count

State	Base Futures	Peak Futures	Caps	Cal Options	Peak Option	Total	Average	Block	EFP
NSW	241	2	0	3	0	**246**	49	21	0
QLD	220	0	0	3	0	**223**	45	4	0
SA	24	0	0	0	0	**24**	5	0	0
SA	$22,229,453	$0	$0	$0	$0	**$22,229,453**	$4,445,891	$0	$0
VIC	$108,215,860	$5,223,113	$0	$42,398,400	$0	**$155,837,373**	$31,167,475	$65,844,748	$0
Total	$382,811,485	$7,152,863	$0	$83,920,800	$0	**$473,885,147**	$94,777,029	$138,838,329	$0

Count

State	Base Futures	Peak Futures	Caps	Cal Options	Peak Option	Total	Average	Block	EFP
NSW	241	2	0	3	0	**246**	49	21	0
QLD	220	0	0	3	0	**223**	45	4	0
SA	24	0	0	0	0	**24**	5	0	0

C) Example of daily futures price settlement files:

d-cypha Australian Electricity Futures Settlement Prices											30-Jul-07
NSW	PEAK	OFFPK	BASE	VIC	PEAK	OFFPK	BASE	QLD	PEAK	OFFPK	BASE
Q3 07	115	41.85	74.15	Q3 07	116.5	52.03	80.5	Q3 07	100	38.08	65
Q4 07	140	44.29	85.25	Q4 07	142	39.73	83.5	Q4 07	220	34.23	115
Q1 08	144	40.74	84	Q1 08	152	42.63	87.7	Q1 08	230	46.71	123.5
Q2 08	93	33.07	59	Q2 08	102	30.26	61.3	Q2 08	86	38.11	58.5
Q3 08	95	29.74	59	Q3 08	95	36.08	62.5	Q3 08	86	25.11	52
Q4 08	90	16.57	48	Q4 08	78.5	27.8	49.5	Q4 08	118	27.77	67
Q1 09	150	20.93	76.5	Q1 09	125	41.72	77	Q1 09	140	34.63	80
Q2 09	70	25.59	44.5	Q2 09	57.3	41.1	48	Q2 09	50	26.77	36.5
Q3 09	75	30.13	50.25	Q3 09	59.25	41.58	49.5	Q3 09	55	24.56	38
Q4 09	75	26.49	47.25	Q4 09	62.4	31.98	45	Q4 09	55	25.81	38.5
Q1 10	78.25	60.25	68	Q1 10	108	35.13	66	Q1 10	77.75	69.41	73
Q2 10	48.5	42.48	45	Q2 10	49.5	38.7	43.3	Q2 10	41.5	28.15	33.65
Q3 10	49	42.02	45.15	Q3 10	56.5	41.09	48	Q3 10	42.5	41.6	42
Q4 10	43	38.11	40.2	Q4 10	64.85	26.65	43	Q4 10	37.25	45.65	42
Q1 11	78.25	49.36	61.8	Q1 11	108	24.72	60	Q1 11	77.75	43.51	58.25
Q2 11	48.5	30.95	38.3	Q2 11	49.5	26.27	36	Q2 11	41.5	22.79	30.5

For further information on the d-cyphaTrade Data Centre please go to www.d-cyphaTrade.com.au.

Appendix 4: Electricity Futures & Options Workshops

d-cyphaTrade runs introductory workshops designed to increase understanding of the d-cypha SFE Australian Electricity Futures and Options Products. Topics covered include:

- Characteristics of a Centrally Cleared Market
- d-cypha SFE Australian Electricity Futures & Options Contract Specifications
- Daily Settlement Procedures
- SFE Trading Mechanisms
- Margining at SFECC
- Worked examples of Initial and Variation margins

d-cyphaTrade also run more advanced electricity options trading workshops for experienced derivative traders.

If you'd like to enrol into a workshop please contact a member of the d-cyphaTrade team on 1800 330 101 or for further information please go to www.d-cyphaTrade.com.au.

d-cyphaTrade
Level 32 | ABN Amro Tower | 88 Phillip St | Sydney | NSW | 2000 | Australia
P +61 2 8211 0615 | Toll-free: 1800 330 101 | F +61 2 8211 0640
w www.d-cyphaTrade.com.au