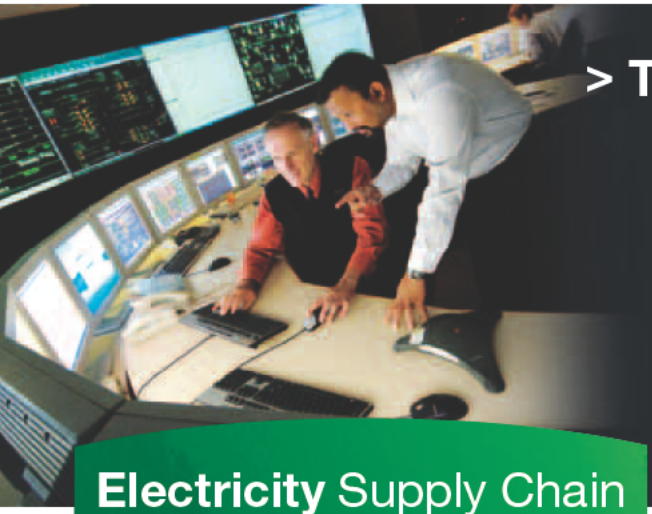
KEEPING THE FACTS FLOWING

OPTIMISING OUR ENERGIES



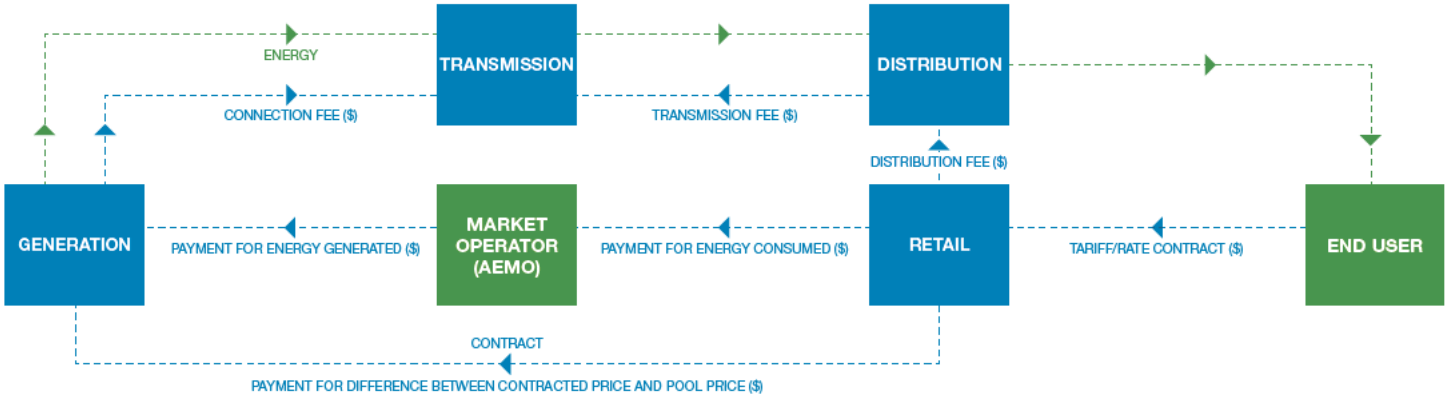
> The National Electricity Market (NEM)

The NEM, which commenced in 1998, is the wholesale market for the supply of electricity to retailers and end-users in Queensland, New South Wales, Victoria, the Australian Capital Territory, Tasmania and South Australia.

The NEM was created to improve competitiveness of the electricity sector, provide choice for electricity consumers and to help match the supply and demand requirements among participants across the eastern states.

The NEM is growing at more than 1000MW per annum and, in years to come, more hotter and colder days can be reasonably anticipated, placing greater demands on peaking capacity in the electricity system.

Electricity Supply Chain



SNOWY HYDRO'S ROLE IN THE NEM <

Electricity is a product that can't be stored so it must be readily available during peak consumption times.

Snowy Hydro is not a major generator of electricity in the huge National Electricity Market (NEM), we currently generate less than 2% of the total electricity demand.

Snowy Hydro is more of an insurance company. Insurance products, known as hedging contracts, are offered to other NEM participants (retailers and other generators) who are seeking protection to limit the price risk they face in the volatile NEM.

Snowy Hydro is able to offer these contracts due to its ability to draw on large-scale, fast start generation capacity at very short notice. Snowy Hydro then hedges the risk on those contracts by generating electricity as required and selling it for the higher prices on the spot market.

However, being in a National Park, the Snowy Mountains Scheme's capability to serve the growing electricity market can not be significantly increased.

In the long term, this ability is also threatened by declining spring inflows and reducing snow pack.

To remain competitive in the NEM, Snowy Hydro has invested in other areas to provide on-demand electricity.

Investment in gas-fired generation

There is an increasing gap between what the Snowy Mountains Scheme can supply and what the electricity market demands. Like major players AGL and Origin Energy, Snowy Hydro is filling the gap by investing in gas-fired electricity generation options.

To date, Snowy Hydro has two gas-fired plants in Victoria with a total capacity of 620MW.

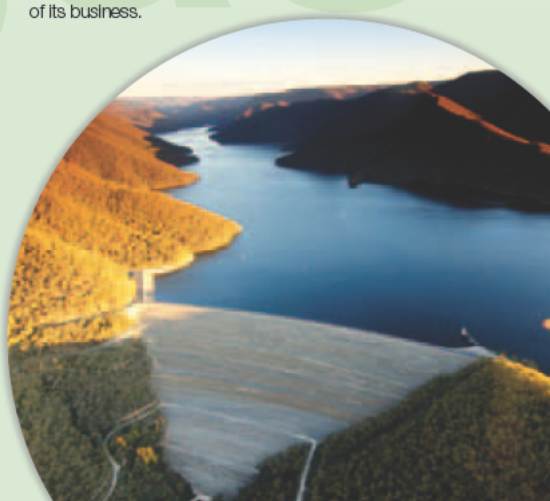
How a Snowy Hydro Hedge Contract operates

A Snowy Hydro contract guarantees that a retail customer will get its electricity at a fixed amount and will never have to pay more than the agreed price. This is effectively a 'price insurance policy' for the Snowy Hydro customer.

If the prices rise above that agreed amount, Snowy Hydro compensates the retailer for however much electricity they bought at the higher price.

To cover the cost of compensating the customers Snowy Hydro quickly generates electricity and sells it on the spot market at the current price.

These 'insurance policies' are the primary way Snowy Hydro generates revenue. Simply generating electricity to sell on the spot market constitutes only a small part of its business.



VERTICAL INTEGRATION IS VITAL FOR **SNOWY HYDRO'S FUTURE**

Snowy Hydro's **competitors** are growing rapidly

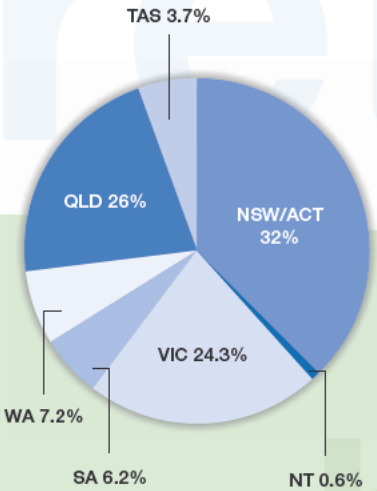
A Market reform in the electricity industry has had a significant impact on Snowy Hydro's ability to be an important participant in the National Electricity Market.

The reform offers consumers a choice of electricity retailer, resulting in increased price competition.

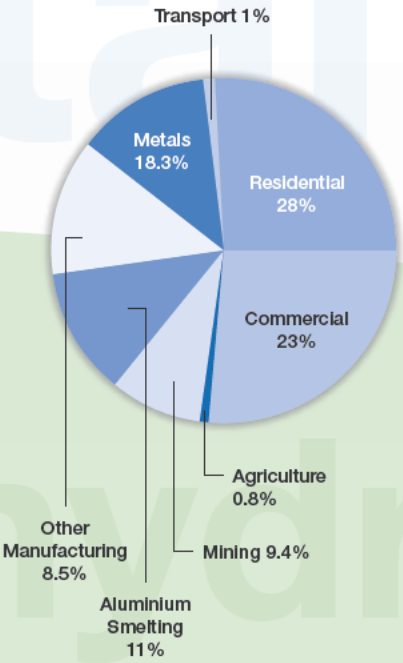
Due to this, larger energy companies such as Origin Energy and AGL have been successfully increasing their generation capacity as well as building retail and small business customer bases. This is a great way for them to build a strong, profitable business. At the same time it reduces their risk that Snowy Hydro currently underwrites with hedge contracts.

Vertical integration in the industry will result in less demand for electricity price risk hedging products, putting Snowy Hydro in a difficult position. To combat this shift in the market, Snowy Hydro has also made the move into vertical integration. Snowy Hydro currently owns a retail business called Red Energy. Red Energy has around 250,000 electricity and gas customers in Victoria, SA and New South Wales, but we need to do more.

> Electricity consumption by state



> Electricity consumption by sector



Source: Electricity Gas Australia 2010, ESAA

The NEM accounts for approximately **92.2%** of the total Australian electricity consumption

> Structure of the National Electricity Market

The NEM currently comprises five interconnected regions

- **NSW (inc. ACT)**
- **Victoria**
- **South Australia**
- **Queensland**
- **Tasmania**

NEM regions and state boundaries are closely aligned. To facilitate the flow of electricity between the different NEM regions they are interconnected by more than one physical transmission line, with the exception of Tasmania, which has a single interconnector, Basslink.

In 2008, the Snowy region was abolished and its assets split between the NSW and Victorian NEM regions.

> Maximum demand by region

Region	Max demand (MW)
QLD	8,677
NSW	14,274
VIC	10,415
SA	3,331
TAS	1,760

Source: Electricity Gas Australia 2010, ESAA

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To find out more information about Snowy Hydro email your questions to **info@snowyhydro.com.au** or go to **www.snowyhydro.com.au**

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