



Hydro Tasmania
the renewable energy business

2 September 2010

Mr John Pierce
Chairman,
Australian Energy Market Commission
PO Box A2449,
Sydney South NSW 1235

Submitted on-line via AEMC website

Dear Mr Pierce,

Re : Network Support and Control Ancillary Services ERC0108

Hydro Tasmania would like to thank the Commission for the invitation to comment on the Network Support and Control Ancillary Services Consultation Paper. Hydro Tasmania is also a party to a submission by the National Generators' Forum.

Hydro Tasmania generates hydropower in Tasmania and trades electricity derivative products and energy-related environmental products such as Renewable Energy Certificates in the Australian market. Our range of joint ventures includes Roaring 40s Renewable Energy Pty Ltd, which we hold with the CLP Group. At 30 June 2010, Roaring 40s owned three wind farms in Australia, with several other developments approved or in planning processes across a number of Australian states. Through our ownership of the Victorian electricity retailer, Momentum Energy Pty Ltd, we are gaining a deeper understanding of the issues of concern to retailers in the mainland NEM.

As a consequence of the above, we are well placed to assess the ways in which the provision of network support and control services can better achieve the National Electricity Objective, (NEO).

Hydro Tasmania welcomes the proposal to replace the definition of network Control Ancillary Services with a new service definition based on economic criteria as well as system security and reliability and to clarify the roles of AEMO and TNSPs. We believe that this will increase focus on achieving the NEO, through improved operational and economic outcomes rather than simply managing system security and reliability.

New Economic Criteria

We note the proposed definition of NSCAS includes two elements, the first of which is the traditional focus on maintaining a secure power system. This could, and in our view should, be extended to include consideration of critical inertia and fault-levels.

The second, and new element is consideration of achieving economically optimal dispatch through increasing the power transfer capability of the intra-regional network and, often more importantly, of inter-regional interconnectors..

The second element is significantly broader and may (or may not) be interpreted to include:

1. the participation of generating units in run-back schemes to nearly double the transfer capacity of some transmission corridors,
2. the dynamic control of reactive flows to optimise system voltage profile and significantly reduce energy losses in the power system – and hence increase achieved power transfer; and
3. the dispatch of lightly or zero-loaded hydro generating units to provide additional system inertia, and facilitate the dispatch of greater inter-connector flows and more (price-taking) wind generation than would otherwise be permitted.

That is, there are many network support and control services which, while not directly impacting on system security/reliability or increasing transfer capability of specific transmission corridors, do create greater benefits for producers, consumers and transporters of electricity. Hydro Tasmania would like to see these types of NSCAS explicitly catered for within the rule change.

In particular, there is an existing, constraint on Basslink import, which frequently binds when Tasmanian inertia is below a critical value. Significant economic value can be achieved by dispatching generating units to provide inertia as a network support ancillary service. Such generating unit dispatch would permit relaxation of the interregional transfer limit, without the need for excessive amounts of local fast FCAS response.

Cost Recovery

We support cost recovery from Market Customers in benefiting regions, but reserve comment on the proposed Regulation Benefit Ancillary Services Procedures until these are publicly available. In NEM regions where there are regulated retail price caps, we would anticipate that the detailed procedures would take into account the impact of unforeseen costs on retailers. In principle, the long-term costs should be reduced by NSCAS provision.

NTNDP

We note and support the concept of using the NTNDP as the mechanism for identifying NSCAS needs on a Market-wide basis, but would like to express our concern that the previous NTP failed to look beyond the George Town node in Tasmania.

If the NTNDP is to be of any use in revealing NSCAS needs in Tasmania, then it will be necessary to include some analysis of an appropriate range of dispatch conditions, to

explore the critical conditions in Tasmania and Victoria where the deployment of NSCAS in either jurisdiction could optimise system performance as a whole.

Inter-Regional Benefits

There seems to be some linkage between the proposed NTNDP review of NSCAS need, the intent to recover costs from Market Customers in benefiting regions and the separate AEMC consultation on the Inter-regional TUOS proposal.

It is certainly likely that there will be cases where the efficient provision of NSCAS in one region will enhance transfer capacity to an adjacent region, to the benefit of Market Customers in the importing region. We support measures to improve clarity in assigning responsibility for enhanced inter-regional transfer, so that opportunities to further the global national electricity objective are not missed through a narrow jurisdictional focus, based on TNSP home regions.

Residual NSCAS Procurement

The proposal for joint NSCAS responsibility and residual powers of AEMO is of concern to us, particularly in relation to the long 18-month period allowed for TNSP action after identification of an NSCAS need in the December NTNDP.

Whilst we understand that in some cases this timeframe may be appropriate, there is a danger that it would become a target, rather than a limit. It may also be difficult to determine the point in time for handover of responsibility from TNSP to AEMO, particularly if a TNSP has already started, but not completed, a process for meeting the identified NSCAS need. That is, if at the end of the 18-month period, the NSCAS service were still unavailable, (but close to completion, with significant sunk assets in place), then how would AEMO respond? Clearly, whilst AEMO retains powers of direction under 3.11.3(b)(2), system security will remain uncompromised, but it is not clear how a failure by a TNSP to act in a timely manner would be addressed in the above scenario. An NSCAS need driven by the wider NEO could remain unmet for a considerable time, with substantial loss in value to the market.

It may be more appropriate for the NTNDP assessment to include not only an assessment by AEMO of the NSCAS need, but also of the timeframe in which that need is to be met. Failure of the TNSP to achieve that target should automatically trigger the AEMO tender process.

In addition, the ability of a TNSP to provide NSCAS either as a regulated asset through the RIT-T or by tender to AEMO, does in our view create an unwieldy process with potential for distorted outcomes. We understand the tension between the two options for TNSP provision of these services, either using regulated network assets or alternatively by contracts with Market Participants. The role of the AER, in ensuring that least cost solutions are implemented, is critical to avoid biasing supply towards network solutions.

In the event that the local TNSP fails to meet the NSCAS need in the timeframe specified in the NTNDP, the problem then arises of how to ensure a tender process in which no party enjoys a competitive advantage as a result of its ownership structure or market participation status. It may be more appropriate to prohibit TNSPs from tendering for the provision of services to AEMO by the installation or use of assets in their own region. That is, TNSPs should only be able to tender for the construction of assets to provide services in NEM regions other than their own. This would tend to create separation between the regulated and contractual revenue streams. We believe that it is inappropriate to permit

TNSPs to tender for NSCAS in their own region, where they have already performed the roles of:

- identification of NSCAS sources available through connection agreements with Generators and Market Customers,
- application of the Regulatory Investment Test – Transmission to assess the viability of network solutions; and
- provision of NSCAS through either regulated transmission assets or contractual agreements with Market Participants in their region.

If a TNSP has failed to satisfy an identified NSCAS need in a timely manner, then it seems more appropriate to restrict the subsequent provision of NSCAS to merchant providers, (including possibly TNSPs from other NEM regions). We believe that this would create the right incentive for the local TNSP to meet the needs identified in the NTNDP.

Transitional Arrangements

Whilst we understand that strictly AEMO is not currently required to assess NSCAS need within the 2010 NTNDP, we believe that given that there has been substantial consultation on the process, it would be wise for some assessment to be conducted in 2010, in consultation with TNSPs. As an interim step, we would accept an 18-month delivery date for NSCAS needs identified by AEMO in the 2010 NTNDP.

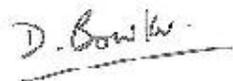
Closing Summary

In closing, Hydro Tasmania would like to encourage:

- a broad specification of NSCAS, to further the National Electricity Market Objective, either explicitly in the definition of NSCAS and/or by extending the definition of satisfactory operating state in Clause 4.2.2 to include for example, consideration of inertia;
- use of the NTNDP to identify not only the NSCAS need, but also the timeframe in which the need is to be met; and
- exclusion of the local TNSP from the AEMO tender process, to create a strong incentive to deliver the specified NSCAS and encourage a degree of competitive tension, which is sorely lacking from the provision of transmission-related services.

If you require any further information, please contact me on (03) 6230 5775.

Yours sincerely,



David Bowker
Manager Regulatory Affairs
Hydro Tasmania