

Sydney

7 March 2007

Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box H166  
AUSTRALIA SQUARE NSW 1215

Dear Dr Tamblyn,

**Re: Hydro Tasmania Rule Change Proposal – Efficient Dispatch of Regulation Services**

Thank you for the opportunity to make a submission on Hydro Tasmania's rule change proposal titled "Efficient Dispatch of Regulation Services".

Although NEMMCO agrees with the objectives of Hydro Tasmania's rule change proposal we do have concerns about the timing because:

- the future of the delayed service is currently under review;
- it could increase anomalies in FCAS cost recovery unless all local regulation costs can be recovered locally; and
- it may be impractical and inefficient to implement the rules change before the previous two issues have been resolved.

Consequently, NEMMCO believes that the Hydro Tasmania proposal is unlikely to meet the National Electricity Law objective if it was implemented at the moment. NEMMCO's reasons are discussed in greater detail below.

**Future of the Delayed Service**

The future of the delayed service is currently under review. Hydro Tasmania is proposing that regulation and delayed FCAS should be co-optimised. However, there may be no net benefit in co-optimising the two services if the delayed service is soon to be abolished.

NEMMCO is currently reviewing the operation of the FCAS markets. This review is required under the Rules, and was referred to in Hydro Tasmania's rule change proposal. NEMMCO published an issues paper last year to formally start the review, and one of the topics identified in that paper is the future of the delayed service. Delayed FCAS seldom contributes to the frequency management of the power system, but the NEM's frequency standards have generally been met despite this low contribution. Consequently, there is a question mark over whether delayed FCAS is necessary.

**Mansfield Office**  
PO Box 2516  
Mansfield QLD 4122  
Tel: (07) 3347 3100  
Fax: (07) 3347 3200

**Melbourne Office**  
Level 12  
15 William Street  
Melbourne VIC 3000  
Tel: (03) 9648 8777  
Fax: (03) 9648 8778

**Norwest Office**  
PO Box 7326  
Baulkham Hills BC NSW 2153  
Tel: (02) 8884 5000  
Fax: (02) 8884 5500

**Sydney Office**  
Level 22, Norwich House  
6-10 O'Connell Street  
Sydney NSW 2000  
Tel: (02) 9239 9199  
Fax: (02) 9233 1965

## **Anomalies in Cost Recovery**

The rule change would increase anomalies in FCAS cost recovery. Hydro Tasmania's proposal could lead to an increased tendency for the costs of local FCAS requirements to be shared across the market, which would be contrary to the direction in which the FCAS markets have evolved.

The rule change proposal would require regulation services to be procured as a substitute for delayed services whenever it was cheaper to do so. This means that local regulation FCAS could be used to meet local delayed FCAS requirements. However, local delayed FCAS costs are recovered locally, whereas local regulation FCAS costs (with the exception of Tasmania) are shared across the market. In other words, regulation FCAS that was enabled to meet a local delayed FCAS requirement could be paid for by other regions, even though those other regions would gain no benefit from the local requirement, and participants in those other regions would be unable to influence the costs.

The AEMC is currently consulting on an NGF rule change proposal titled "Cost Recovery of Localised Regulation Services" that – if accepted – should resolve this anomaly.

## **Implementation Issues**

Hydro Tasmania's proposal would require changes to NEMMCO's market systems. Typically, the development cycle takes about 9 months, including 3 months to develop functional requirements, and 6 months to develop, test and implement the software. However, the development cycle may be under particular pressure later this year if the proposed abolition of the Snowy region proceeds, and it may be impractical to advance the Hydro Tasmania proposal in parallel with the Snowy region changes due to resource constraints.

It may also be inefficient to advance the Hydro Tasmania proposal in parallel with the Snowy region changes. Hydro Tasmania's proposal would require modifications to around 340 FCAS constraint equations used in the dispatch algorithm. These 340 constraints may need to be modified again depending on resolution of the delayed FCAS issue. Furthermore, if the Hydro Tasmania proposal is approved prior to a Snowy region boundary change is implemented, it would be necessary to create two versions of 230 of these equations – one set for the current region boundary model and one set for the new model.

If you have any questions on this submission, please contact Michael Sanders on (02) 9239 9136.

Yours sincerely

  
**Brian Spalding**  
Chief Operating Officer

cc. submissions@aemc.gov.au