

30 January 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
Submission lodged online

Market Review Reference: EPR0039

Dear Mr Pierce

Submission to: Optional Firm Access, Design and Testing – Review Note

Hydro Tasmania appreciates the opportunity to respond to the Australian Energy Market Commission's (AEMC's) request for comment on the Optional Firm Access (OFA), Design and Testing review note. We are strongly opposed to the implementation of OFA and believe it would be detrimental to the National Electricity Objective (NEO). Our position and concerns have been outlined in previous submissions to the Transmission Frameworks Review (EPR0019) and more recently the current market review (EPR0039). Please see below our responses to the specific questions contained in the review note.

Why “major problems” are no longer relevant.

From Hydro Tasmania's perspective, the majority of congestion issues that have occurred historically have been transitory in nature. Whilst declining demand and oversupply have contributed to the reduced significance of congestion, Transmission Network Service provider's (TNSP's) exposure to the market via the Market Impact Component (MIC) of the Service Target Performance Incentive Scheme (STPIS) and congestion being built out have had more of an impact. Prior to 2011, significant market events caused by congestion that Hydro Tasmania was exposed to were predominately due to poor transmission outage timing and management decisions (N-1 and N-2 network configurations). Since the introduction of the MIC, we have observed a change in behaviour from TNSP's in terms of planning, rescheduling and management of transmission outages that have resulted in a significant reduction in market impact.

Envisaged circumstances in which “problems” could become relevant.

Due to the long lead times necessary for transmission capital investments, it is Hydro Tasmania's view that reactions to a number of market events were not given sufficient time to resolve through existing market mechanisms before regulators embarked on market reform reviews. It is our belief that the current market design is adequate to deal with congestion efficiently.

Alternatives

Hydro Tasmania does not see the need for major reforms to address what have been transitory market outcomes, rather we believe the NEO would be better served by small measured improvements to existing market mechanisms. For instance, we have observed occasions where the value of the MIC to the TNSP has been several multiples of impact on resource costs from an outage resulting in a disproportionate response by the TNSP. It would be worthwhile investigating changes to the MIC to make it symmetrical and to incorporate scaling based on the marginal value of binding outage constraints.

Conclusion

It has become apparent that OFA is a disproportionate solution to the problems it seeks to address. In addition, Hydro Tasmania's view is that these problems are not material now and will not become material in the foreseeable future. Hydro Tasmania suggests that the AEMC focus its efforts on incremental improvements to market design such as changes to the MIC for TNSPs to improve outage timing incentives and to ensure they are proportionate to the market impact.

Yours sincerely

A handwritten signature in black ink that reads "D. Bowker." with a horizontal line underneath the text.

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