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Hydro Tasmania
the renewable energy business

27 March 2007

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

Dear Dr Tamblyn

Hydro Tasmania Rule Change Proposal – Efficient Dispatch of Regulation Services

Hydro Tasmania notes the letter from NEMMCO to your Commission on this issue on 7 March 2007, and takes this opportunity to comment on the issues raised by them.

Hydro Tasmania does not accept that the issues raised by NEMMCO provide a reasonable basis to defer consideration of our proposal.

Future of Delayed Service

NEMMCO has commented that the possible abolition of delayed services was raised by NEMMCO in a current review of FCAS.

We do not believe that it is either likely or desirable that the current NEMMCO review of FCAS will lead to the abolition of delayed services. First, we believe that the NEMMCO review, even if it supported this change, would be only the first step towards a rule change with this effect. Any actual change in the market should be the outcome of a rule change proposal and hence cannot occur soon.

Secondly, and more importantly, we note that the concept of abolition is based on observed under-utilisation of the service. This in turn is due to the provision of frequency control services by participants who are not enabled and hence not paid for the service (thus reducing or eliminating the need for action from the enabled service providers).

We suggest that the abolition of a necessary service on the basis of an assumption that it will continue to be provided by unpaid suppliers would be contrary to good regulatory practice. Such a change would clearly invite a market response in the form of suppression of these unpaid services, thus restoring the need for paid service provision. Thus there is a significant risk that such a Rule change would contain the seeds of its own destruction.

We conclude that NEMMCO, following further consideration, is unlikely to recommend a Rule change with this effect, and that even if it did, your Commission would need to carefully consider the complex issues at stake.

We therefore contend that our proposal should not be delayed on the basis of an unlikely outcome, which even if accepted, would apply only after a thorough review through the rule change process.

Anomalies in Cost Recovery

NEMMCO has also raised an issue in relation to anomalies in cost recovery.

However, as NEMMCO have noted, a Rule change proposed by NGF and being concurrently considered by your Commission should resolve the anomaly contemplated. We therefore believe that your Commission is justified in continuing with the parallel consideration of these related proposals.

Implementation issues

Finally, NEMMCO has raised the issue of implementation time. While we accept that changes to a moderate number of constraint equations would be required, we also note that the principle behind the change would be the same in each case, and hence the task would be less onerous than might first appear. This change is also a small change in the scale of some other contemplated changes.

In summary, Hydro Tasmania has considered the issues raised by NEMMCO and recommends to your Commission that our Rule change proposal should proceed in line with the expedited process.

This proposal will provide ongoing benefits to the market in the likely case that the requirement for delayed service in the market is supported in the current NEMMCO review.

Even in the case where abolition is recommended and eventually implemented, in our view an unlikely outcome, our proposal will provide benefits over a substantial period if promptly implemented.

Yours sincerely



David Bowker
Manager Regulatory Affairs