



Hydro Tasmania  
*the renewable energy business*

Dr John Tamblyn  
Chairman  
AEMC  
Level 16, 1 Margaret St,  
Sydney NSW 2000

10 January 2007

Dear John,

**Clarification of the basis for market dispatch**

Hydro Tasmania proposes a change to the Rules of the National Electricity Market to clarify the basis of market dispatch. We have set out the basis for the change in an attachment to this letter, and will only summarise the case briefly here.

Basslink has often been dispatched for flow contrary to the energy price difference, leading to a requirement for Basslink to pay NEMMCO while providing an energy transport service to the market. These costs are passed on the Hydro Tasmania under the terms of a "Basslink Services Agreement".

Hydro Tasmania believes that these dispatch outcomes have been contrary to the requirement of clause 3.8.1(a) which includes a requirement that central dispatch must –

“... maximise the value of *spot market* trading on the basis of *dispatch offers* and *dispatch bids*.”

We believe that the dispatch of Basslink has not been on the basis of its dispatch offer, and hence is contrary to the Rules.

However, despite extensive discussions with NEMMCO, they remain of the view that the dispatch of Basslink has been consistent with the Rules.

Hydro Tasmania is therefore seeking to clarify the Rules to ensure that the dispatch of *scheduled network services* is made consistent with the dispatch of other market participants in that it will be on the basis of offers and bids. We note that Basslink is currently the only *scheduled network service* in the market, and hence the direct effect of the clarification is limited to Basslink. In the attachment we discuss the beneficial effects on the market at large.

We note that many participants are subject to settlement at prices different from those applying to their dispatch, but this is currently a requirement of the Rules and is different from the case that we are seeking to correct by this clarification, where the inconsistency lies within the dispatch process.

This rule change is specific to the dispatch process and does not impact on market settlement. The effect of the change on Basslink and any other *scheduled network service* is that -

- Like other market participants they will be dispatched on the basis of their offer price for a service compared with the value in dispatch of that service, and
- Again like other participants, *scheduled network service* providers will be exposed to the risk of settlement at *regional reference node* prices that differ from the value of the service inherent in dispatch

We further propose that your Commission consider this matter under your fast track procedure. As we have outlined above, we do not seek to change the intention of the market Rules, but rather to clarify the rules to avoid what we see as a misinterpretation.

We draw your attention again to clause 3.8.1(a) which requires NEMMCO's central dispatch to "maximise the value of *spot market* trading on the basis of *dispatch offers* and *dispatch bids*."

We submit that a *network dispatch offer* is a *dispatch offer* and hence that dispatch of a *scheduled network service* is already required under the Rules to conform to the *dispatch offer* (subject to reliability and security considerations).

On this basis we consider that our proposal is a clarification of the Rules which only directly affects Basslink, not a change from their intent, and should therefore be considered non-controversial. We submit that, given the serious adverse effects that we have described arising from the current misinterpretation of the Rules, that this clarification also satisfies the test of urgency.

The magnitude of the adverse financial effects of the current dispatch process can be judged by the negative settlement amounts in affected trading intervals. This has ranged up to \$140,000 per week, excluding the week in which NEMMCO directed Basslink (on 23 May 2006). The effect is highly volatile with a risk of much greater amounts. For example on the 23 May, before the direction by NEMMCO took effect, a loss of about \$250,000 was incurred by Basslink under the normal dispatch process, in only half an hour.

We consider that, on the grounds of urgency and of the absence of any change to the intention of the Rules, it is appropriate for your Commission to use its fast track process.

The proponent for this Rule change is –

Hydro Tasmania  
4 Elizabeth Street  
Hobart Tasmania 7000

If you have any questions in relation to this proposal please contact me on 03-62305775.

Yours sincerely

A handwritten signature in black ink, reading "D. Bowker.", with a horizontal line drawn underneath the name.

David Bowker  
Manager Regulatory Affairs

## **Attachment**

### **Proposal for Clarification of the basis for market dispatch**

The origin of this proposal lies in frequent dispatch of Basslink contrary to its market offer that has been observed in the market. This situation has led to significant financial cost to Basslink, and indirectly through contract arrangements, related financial losses to Hydro Tasmania.

These financial losses are not due to the outworking of any provision of the National Electricity Rules and hence were unexpected. We submit that in addition to these outcomes being an unexpected extension beyond the Rules, these dispatch outcomes are also undesirable in the context of the market objectives. Therefore we submit that the Rules should be clarified to prevent these dispatch outcomes, which we believe to be inconsistent with the market objective (as discussed below).

Basslink, as a registered scheduled network service in the NEM, makes network dispatch offers to the market. The meaning of such offers is covered in the Rules under 3.8.6A (f) and (g). In brief, these are offers to transport energy between defined connection points provided that the net revenue from market settlement exceed the rate defined by the relevant offer price if it were based on the relevant connection point prices.

On many occasions, the dispatch of Basslink by NEMMCO has been inconsistent with the market offers received by NEMMCO in relation to Basslink. Instead of Basslink receiving net revenue consistent with its offer, the dispatched flow has been such that Basslink has been required to **pay** NEMMCO while at the same time providing its energy transport service to the market.

For example, over the 3½ month period from May to mid August 2006, Basslink was dispatched 39% of the time so that Basslink was liable to pay NEMMCO while providing an energy transport service to the market.

### **Complex interaction with free service provision**

This situation has arisen from complex interactions between the energy transport service that Basslink offers to the market and the ability to transfer market ancillary services which is provided by Basslink without reward.

We do not assert that NEMMCO set out to utilise the services of Basslink without paying the offer price. This outcome appears to have arisen as an unforeseen outcome of complex interactions between energy transport and ancillary service transport, given the technical characteristics of Basslink.

While in the narrow context of these technical considerations, these dispatch outcomes may appear valid, we believe that it is harmful to the achievement of the market objective for the service offered by Basslink to be used for the benefit of other market participants, while forcing Basslink to pay NEMMCO.

### **NEMMCO could dispatch Basslink in accordance with its offer**

Hydro Tasmania has discussed the issues raised here with NEMMCO representatives at length.

NEMMCO do not agree with Hydro Tasmania's view that NEMMCO should dispatch Basslink in accordance with its market offer under the market Rules as currently drafted.

However it has become clear in these discussions that NEMMCO could enhance its dispatch process so that dispatch in accordance with the offer could generally be achieved (with exceptions as discussed below). Indeed we understand that NEMMCO is contemplating making most of the necessary changes for other reasons.

We are therefore proposing this Rule change to give NEMMCO certainty that they should adopt the approach that we are recommending, and hence remove the uncertainty that exists now in the application of the Rules.

### **Exceptions to the dispatch of a market network service in accordance with its offer**

In proposing that scheduled network services, such as Basslink, should in general be dispatched in accordance with their market offer, Hydro Tasmania recognises that there should be exceptions on grounds both practical and of public policy.

The practical consideration of that the flow through a scheduled network service may be subject to specific rate-of-change limits. Dispatch purely based on the market offer could result in a rate of change beyond this limit and hence an exception should be allowed so that this limit is respected.

The question that has a public policy dimension is whether NEMMCO should be entitled under the Market Rules to dispatch a scheduled network service contrary to its offer under particular circumstances.

We recommend that your Commission adopt the view that NEMMCO should be entitled to dispatch a scheduled network service contrary to its offer if this dispatch is necessary to enable NEMMCO to satisfy its requirements for the reliability or security of supply to customers, but not otherwise.

We note that NEMMCO has a broad power to direct, and hence could achieve this outcome by other means.

We believe that the specific exception proposed above, for system security, will enable a faster and more convenient resolution of relevant reliability and security issues than NEMMCO's use of the power of direction.



### **Other consequences of current dispatch process**

We noted above that the current dispatch process has often led to dispatch of Basslink contrary to its market offer. In addition to this undesirable outcome, there are other undesirable outcomes with wider effects on the market. These relate to both security of supply, and competition in the energy market.

- **Adverse security implications of current dispatch process**

The current dispatch process, which does not respect the market offers of scheduled network service providers, also as a by-product may cause security objectives to be breached unnecessarily. This was illustrated by events on 23 May 2006, where the market ancillary services required for security were not dispatched over a period of about half an hour. This was a direct consequence of the dispatch of Basslink contrary to its market offer.

The proposal presented here would prevent recurrence of this unnecessary security threat.

- **Suppression of competition due to current dispatch process**

The current dispatch process, in not respecting the market offers of scheduled network service providers, also leads to the suppression of competition between generation in Tasmania and on the mainland.

We ask you consider, as one example of many, the dispatch of the market at about 10:45 on 8 November 2006. The Tasmanian energy price was about \$10/MWh while the Victorian energy price was about \$86/MWh. Despite this price discrepancy, NEMMCO continued to dispatch southward flow from Victoria into Tasmania.

This dispatch resulted in Tasmanian generation being denied the opportunity to compete in the supply to Victoria, despite a favourable price differential.

The Rule change proposal made here would allow competition in this situation.

The current dispatch process leads to dispatch contrary to the scheduled network service offer because it trades energy market benefits against ancillary service benefits. This often prevents a reversal of Basslink flow that is desirable in terms of energy market competition. We acknowledge that complying with the *network dispatch offer* may lead to a transient increase in ancillary service prices as such a flow reversal occurs.

However, we submit that, firstly it is inconsistent with the market objective for the market to violate the scheduled network service offer simply to provide economic benefits to other participants, and secondly that allowing competition in energy in this situation will lead to greater overall benefits to customers than suppressing energy competition to avoid transient ancillary service costs during a Basslink flow reversal.

### **Effect of the proposed Rule change**

The proposed Rule change will, with the exceptions noted above, require that the dispatch of a scheduled network service be in accordance with the relevant market offer. This affects the dispatch process only and does not alter the market settlement process.

This would bring the dispatch of a scheduled network service onto the same basis as other types of market participants.

The fact that other participants are dispatched in accordance with their offers is not immediately evident in the market, because the energy values applicable to individual participants in dispatch are not published. When, for example network constraints are binding, the energy value applicable to a participant may be significantly higher or lower than the relevant regional network price, but this is not evident because only the RRN prices are published.

Another issue that may lead to a view that dispatch of some participants is not consistent with their market offer is the linkage of different offers. A participant may define a linkage between the dispatch of a generating unit for energy and the dispatch of one or more ancillary services. Thus the dispatch outcome will depend on the values of all the linked services, not just the energy value. This can give the appearance of dispatch contrary to the offer if only part of the linked offers is considered.

This issue is not applicable to Basslink because Basslink makes no offers for ancillary services.

The appearance of dispatch contrary to market offer can also arise when a rate-of-change limit is reached.

In summary, despite appearances, participants other than Basslink are currently dispatched in accordance with their offers or bids, and the effect of the proposal is to make the dispatch of scheduled network services, such as Basslink, consistent with this.

The rule change is specific to the dispatch process and does not impact on market settlement. Thus the effect of the change on Basslink and any other scheduled network service is that -

- Like other market participants they will be dispatched on the basis of their offer price for a service compared with the value in dispatch of that service, and
- Again like other participants, scheduled network service providers will be exposed to the risk of settlement at regional reference prices that differ from the value inherent in dispatch (due for example to network constraints)

**Contribution of the proposed Rule change to the achievement of the national electricity market objective**

The entry of a *scheduled network service* provider into the market, unlike the entry of regulated network assets, does not of itself impose a cost on electricity customers.

In the operation of the market, the use of the transport service of a *scheduled network service* provider will occur only when the benefit to the market outweighs the payment to the *scheduled network service* provider.

We therefore support the existing rules in facilitating the entry into the market of *scheduled network service* providers.

However, because of the lack of clarity in the Rules, there are currently situations where a *scheduled network service* provider may have their offer of service accepted while their offer price is not respected. Indeed they may suffer both their service being used and a net charge from NEMMCO.

This creates a risk for the scheduled network service provider that is contrary to the broader objective of facilitating such market entry, and a risk that is not specifically authorised or contemplated in the Rules.

We contend that the achievement of the market objective will be enhanced by the elimination of this undue risk.

The proposal also has favourable outcomes in relation to the market objective through both eliminating unnecessary security breaches due to the current dispatch process and ensuring that competition in energy supply is permitted across Basslink when this does not threaten reliability or security of supply.



**Proposed Rule change**

Add new 3.8.6A(k) as follows –

NEMMCO must dispatch each scheduled network service in accordance with its current network dispatch offer, interpreted under 3.8.6A (f) and (g), unless –

- (i) such dispatch cannot be achieved because of a limited rate of change applying to that *scheduled network service*, or
- (ii) dispatch contrary to the current *network service offer* is necessary to allow NEMMCO to dispatch in accordance with requirements for reliability of supply to customers or *power system security*