



**Hydro Tasmania**  
*the renewable energy business*

10 September 2009

Dr John Tamblyn,  
Chairman, Australian Energy Market Commission,  
PO Box A2449  
Sydney South NSW 1235

Sent online

**Causer Pays for Ancillary Services to Control the Tasmanian Frequency  
(ERC0082)**

Dear Dr Tamblyn,

Thank you for the opportunity to comment on the draft determination.

Hydro Tasmania believes that the rationale for the proposed rule change still applies but understands and accepts the draft determination on the rule proposed to address the inequity of the TFOS review determination.

As noted in Hydro Tasmania's 17 July submission, consideration of FCAS implications was an important part of the overall cost benefit analysis in 2008 that underpinned the Reliability Panel's decision to change the Tasmanian frequency operating standards. The context for this was the fact that it was common ground and clearly understood by all involved that available supplies of R6 FCAS from the hydro system were already stretched.

It is important to keep in mind that:

- It has never been in dispute that thermal plants are technically much better suited to providing fast contingency FCAS than hydro plants.
- To have an efficient mix of generation in Tasmania, it is obvious that FCAS will need to come from a wider range of sources including thermal plants.
- Owners and proponents of new thermal plants made clear representations that new plant would have FCAS capability and that this capability would be made available.

In light of this, the increased FCAS capability from new thermal plant was one of the benefits taken into account for all options considered in the cost benefit analysis (as clearly stated in Appendix B to CRA's Final Report to the Reliability Panel). This was obvious to everyone involved at the time, but has been completely overlooked in the recent regulatory debate.

No obstacles which might prevent gas-fired generation from providing fast contingency FCAS were identified at any stage during the frequency standards review. Nor was there any suggestion that gas-fired generators should not be expected to provide FCAS capability. On the contrary, it was assumed that new entry would increase the supply of both energy and FCAS.

The only issue identified was the pressure from low-priced mainland FCAS supplies which set the market price for so much of the time, making it unattractive to provide local FCAS (as acknowledged in the CRA Final Report).

The representations made by Alinta<sup>1</sup> as to the FCAS capability of CCGT plants such as the AETV plant and Gunns show that new entrants had been assuming they would provide FCAS capability as a normal part of new entry.

None of this was in any way controversial.

The TFOS final determination was very clear in its finding that a new TFOS was justified on an, albeit small, net benefit basis. However to achieve this net benefit a "package of changes"<sup>2</sup> were required.

The determination could achieve two of the three components of that package while the third, "obligations for new entrants to procure additional services", was beyond the scope of the Reliability Panel.

CRA advised the Reliability Panel that<sup>3</sup>:

- "In our view, changing the standards and relying on the market to bring forward the additional FCAS required is the most direct and robust from a regulatory perspective but carries some risk"
- "Adopting a market approach, where incremental FCAS is a shared responsibility and cost, would therefore carry some risk that availability and price will be stretched."

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<sup>1</sup> The representations of the new owner Aurora Energy, in various regulatory processes, are certainly not consistent with the perspective presented by Alinta to the TFOS.

<sup>2</sup> Extract from CRA Final Report for Reliability Panel Draft Determination 27 Aug '08 Page 8: ... "a package of changes that include a limitation on contingency size, and obligations for new entrants to procure additional services together with a narrowing of frequency bands within the standards, are warranted and provide a net benefit."

<sup>3</sup> See page 48 of CRA Final Report for Reliability Panel Draft Determination 27 Aug '08

- “However, if the standards were changed in conjunction with an amended approach to cost allocation either by changing the formal cost allocation in the rules or imposing requirements for additional private costs to be borne by new entrants, incentives may be altered.”

The Panel suggested possible cost recovery mechanisms which would provide such incentives for new entrants to provide FCAS (such as forms of “runway pricing”) could be addressed via potential rule changes.

This was the context in which Hydro Tasmania put forward the rule change proposal in December 2008, based on the suggestion from the Reliability Panel.

However, the issues have since become clouded as a result of commercial decisions taken by Aurora as owner of AETV<sup>4</sup> not to provide any FCAS capability from gas-fired plant and not to take transfer from Hydro Tasmania of the Bell Bay thermal units which had been providing FCAS up until 31 March 2009.

As a consequence of these commercial decisions, and AETV’s resulting exposure to spot prices, Aurora and AETV are now asserting that gas-fired generation cannot, or should not be expected to provide any FCAS capability on the grounds of “inefficient supply”. This has led to inaccurate characterisations of Hydro Tasmania as a monopoly provider of FCAS and misleading assertions about the capability of hydro plant to provide increasingly large quantities of FCAS with little or no economic cost.

This is in stark contrast to the reality that Hydro Tasmania loses an average of 4MW of energy to provide 1MW of R6 FCAS, has limited capacity due to water resources and has limited ability to forecast the constraint on its capacity due to the variable nature of inflows to its storages. This limited availability from hydro plant was clearly recognised by AEMO (then NEMMCO) in 2008.

In this current climate of inaccurate and misleading information, it is very difficult for AEMC to undertake a proper assessment of the rule change put forward by Hydro Tasmania, particularly as this involves the objective impact on investment signals and objectivity has been completely lost in the present situation.

For example, one of the absurdities in the present situation is that gas-fired generators (accepted last year as being more suitable providers of fast FCAS than hydro plant) are arguing they are unable to provide FCAS while wind generators (traditionally assumed to be unsuitable for FCAS) are now looking at providing FCAS capability given the system security challenges of the future and the availability of technology that allows wind generation to do this

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<sup>4</sup> Neither AETV or Aurora have confirmed that it is still their intention to provide contingency raise FCAS in any of the subsequent regulatory processes, including this rule change consultation.

for both raise and lower services (as noted by Roaring 40s in its recent submission to OTTER).

Meanwhile, the third component required to realise a net benefit from the TFOS changes has not been delivered. This concern is being exacerbated by AETV's lack of provision and apparent lack of intent to provide FCAS (evidenced by its activities in other regulatory forums). Without the complete package then the risk of not achieving a net benefit from the TFOS change will become reality. This will be manifested as an increased cost of electricity supply to consumers.

If you have enquiries on the attached submission, please call the undersigned on 03-62305775.

Yours sincerely,

A handwritten signature in black ink that reads "D. Bowker." The signature is written in a cursive style and is underlined with a single horizontal line.

David Bowker  
Manager Regulatory Affairs