

4 September 2014

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 First Interim Report

Hydro Tasmania takes this opportunity to respond to AEMC's first Interim Report on the Optional Firm Access (OFA) proposal. We re-iterate our view that a case to consider an OFA model has not been made.

Despite the additional detail in the OFA design, Hydro Tasmania's concerns remain largely unchanged from those raised in our submission to the Transmission Frameworks Review (EPR0019). Our concerns are that the OFA model adds unnecessary complexity for questionable benefits and contrary to the aims of the OFA, it will be detrimental to inter-regional trade across regulated interconnectors (particularly in the foreseeable future) and will result in reduced contract market liquidity.

We have further concerns that the OFA:

- will result in high implementation and ongoing costs
- has a high risk of resulting in unintended consequences
- will create avenues for gaming the market
- will result in increased costs to customers

Hydro Tasmania acknowledges the significant effort from the AEMC to develop an elaborate model. It is our view that this is neither the correct model to deliver improvements to the National Electricity Market (NEM) nor the correct time to be making such fundamental changes. The NEM has already been subjected to an extended period of regulatory and policy uncertainty as well as a paradigm shift in market dynamics. It would be ill-advised to embark on such a complex and unnecessary change, particularly with reduced demand forecasts and with the market recovering from a period of over investment in generation and transmission assets. It is Hydro Tasmania's view that the market would be better served by improvements to the Transmission Network Service Provider's (TNSP's) incentives scheme under the existing framework.

Assessment Framework

Hydro Tasmania expects the significant costs and risks associated with an untried model to substantially outweigh any of the questionable benefits that OFA offers.

It is our view that in most circumstances, market participants' own asset risk exceeds that of their transmission risk. This combined with uncertainties surrounding the effective amount of "firm" access at any given time is likely to result in participants contracting less not more.

Given that generators within a region are likely to value access more highly than those in remote

regions and the fact that the proposed initial transitional access highlights that there is no remaining access capacity once it has been fully allocated to generators within a region, any “firm” interregional access will require sufficient funds to physically upgrade an interconnector. In the current oversupplied market, this is unlikely to occur in the foreseeable future and will therefore lead to reduced interregional trade.

The proposed TNSP incentive scheme and the additional settlement mechanisms created by OFA opens up additional avenues for participants to game the market. Hydro Tasmania is concerned that participants may use their influence over flowgate (constraint) capacity to intentionally restrict flows to extract “compensation payments”. The potential for participants that have portfolios with both positive and negative participation factors in flowgates to manipulate outcomes for financial gain is of particular note.

Firm Access Standard

To cater for dynamic thermal and stability constraints the Firm Access Planning Standard (FAPS) would need to define parameters outside of the TNSPs control such as:

- ambient temperatures
- wind speed/direction
- solar radiation
- inertia
- interregional flow

In order to protect against TNSP liabilities under the FAPS, the worst case values for each of these parameters is likely to be chosen. Since the coincident occurrence of these is unlikely to occur in reality, less network capability will be available under the standard than if a probabilistic approach were taken.

Whilst deviations from the FAPS and Firm Access Operating Standard (FAOS) core elements may have made it more workable for TNSPs, the risks have simply been passed on to generators. These risks may result in reduced contract market liquidity which would reduce competition in the market.

TNSP incentive scheme

The reality is that under either option 1 ("Target Shortfall Factor") or option 2 ("Annual Target Shortfall Amount"), market participants will have their effective access reduced either in real-time or annually. The uncertainty surrounding the size of this reduction will result in participants contracting less than their allocated access minus their expected shortfall.

Issuance of the long-term inter-regional issuance mechanism

Through our retail business Momentum, Hydro Tasmania has strong interests in the ability to trade interregional products. However, for the reasons outlined in the assessment framework section above, we believe OFA will be detrimental to interregional trade, particularly in the initial stages.

Short-term firm access

Hydro Tasmania would support incentives that seek to maximise the utilisation of the existing network. We note that options such as complete dynamic thermal line ratings have only been adopted in Tasmania and to a lesser extent in Victoria and Queensland. The application of these and other control system solutions such as tripping schemes offer relatively low cost options compared with physical upgrades and should be encouraged.

Access settlement parameters

Hydro Tasmania would oppose the whole market moving towards a 5 minute settlement, based on the significant cost that would be incurred with little perceived benefit. It is noted that NEMMCO thoroughly investigated the possibility of a 5 minute settlement period in its report, '5 Minute Dispatch and 30 Minute Settlement Issue: Draft Final Report' dated 19 June 2002, with a clear recommendation of a "No Change" option and further noting that it "*did not propose to further consider the matter in the foreseeable future*". The impact and costs of changing both the contract market and spot trading systems for the whole NEM would be a significant burden. In a time of significant constraint on investment in the electricity industry, a move towards the significant costs of implementing such a change would appear totally unjustified.

Initial Transitional Access Allocation

The proposed approach to calculate the initial transitional access creates modelling artefacts that could result in unnecessary network upgrades. Increasing demand only at the regional reference node will result in flowgates limiting the amount of access available despite these flowgates being unrestricted either under the FAPS or in reality. Should a participant wish to purchase access to a level which they currently receive they would need to fund a network upgrade that may never be utilised.

Conclusion

Hydro Tasmania does not support OFA. Work undertaken to date to contemplate a new model demonstrates this is a highly complex approach with questionable and likely negative unanticipated consequences for the NEM. To this end the AEMC should bring to an end additional work on OFA.

Hydro Tasmania suggests to AEMC that, rather than pursuing an OFA model, concerns around transmission utilisation may better be addressed by providing incentives to maximise the use of the existing network via options such as dynamic line ratings and tripping schemes.

If there are any questions relating to this response, please contact Peter Nesbitt by email at peter.nesbitt@hydro.com.au.

Yours sincerely



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