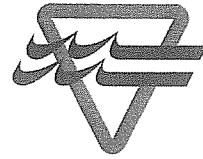


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**Hydro Tasmania**  
*the renewable energy business*

15 March 2007

Mr John Tamblyn  
Chairman  
AEMC  
Level 16, 1 Margaret St,  
SYDNEY NSW 2000

By email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Mr Tamblyn

**Draft National Electricity Amendment (Abolition of Snowy Region) Rule  
2007**

Please accept the attached submission from Hydro Tasmania on the Draft National Electricity Amendment (Abolition of Snowy Region) Rule 2007.

Hydro Tasmania is a party to a separate submission by the Southern Generators Group and supports the views of that submission and its request for the Commission to consider the results of modelling by ROAM Consulting.

The purpose of this separate submission is to reinforce specific aspects of that Southern Generators' position and to offer for consideration by the Commission a new option which has been developed from those previously suggested, and which we have every reason to believe is superior in terms of achieving the market objective.

**Why Hydro Tasmania opposes making the proposed rule now**

Hydro Tasmania is of the view that there is no need to make a change to the NEM regional structure at this time because:

1. Now that there is a working mechanism for managing the issues in and around the snowy region, the urgency of the matter has evaporated.

While these are currently implemented as a temporary derogation, there is no reason why they should not be extended in time or generalised to deal with similar conditions elsewhere.

2. There are higher level processes underway, to develop principles in relation to congestion management and boundary change. These should be resolved prior to the resolution of particular cases.
3. We are not convinced that the Commission has adequately developed a range of alternative NEM regional structures, and suggest that merely responding to a series of ad-hoc region change proposals is not the best approach<sup>1</sup>.

Hydro Tasmania is of the view that the particular way in which the AEMC has formulated its factual/counterfactual analysis means that it fails to take into account all relevant considerations which it ought to take into account, if it is fairly to assess the merits of the Snowy Hydro Rule proposal and test it against other possible ways of dealing with the issues which underlie the request for abolition of the Snowy region<sup>2</sup>.

Hydro Tasmania would like to offer for your consideration a development of the split region option, which preserves the correct pricing of Murray and Tumut generation, as well as the optimal market dispatch. That is, it allows counter-price flows to occur, where these arise from the loop configuration, as an outcome of efficient dispatch<sup>3</sup>.

### **The Split Region Option**

In the Commission's Draft National Electricity Amendment (Abolition of Snowy Region) Rule 2007, the commission proposes the abolition of the snowy region, citing factors other than economic modelling as driving this decision. However, the economic modelling showed that the 'split region' model<sup>4</sup>, (which was not a formal proposal) performed better than the alternatives which were considered<sup>5</sup>.

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<sup>1</sup> For example, the original Macquarie Generation proposal, the Snowy Hydro proposal, the Eraring suggestion, further developed by the AEMC and then supported by Macquarie Generation. This process has been instructive for the Market but does not give confidence that the best option has yet been discovered, nor that any current proposal is consistent with the long-term direction of the Market as indicated by the MCE. A further option is suggested later in this letter.

<sup>2</sup> For example, the implementation costs of the proposed boundary change have not been assessed. As the AEMC itself stated in its Congestion Management Directions Paper, "all policy interventions impose their own costs and should not be undertaken lightly".

<sup>3</sup> In fact, clamping counter-price flows or re-orientation of constraints lead to deliberate sub-optimal market outcomes, through mis-pricing of generation.

<sup>4</sup> The 'split-region' option was developed by the AEMC from a simpler model proposed by Eraring Energy, (presumably in an attempt to manage the impact on NEMMCO of potential negative settlement residues). This AEMC 'split region' model was later supported by Macquarie Generation.

<sup>5</sup> The commission declined to consider the current arrangements as an alternative to the proposals before it, because these arrangements are enabled only by a time limited derogation. An alternative Rule change proposal, by the Southern Generators, seeks to clarify that the current arrangements are a valid option for consideration and justifies this on

If the Commission decides not to retain the existing market arrangements, at least until a revised process for region definition is in place, then Hydro Tasmania requests that an alternative 'split region' be considered, with the Murray node as the regional reference node for the new Murray region, and Dederang remaining in Victorian region. As a result, the mis-pricing at Tumut and Murray will no longer occur. It is noted that this arrangement will potentially give rise to counter-price flows, with the associated funding issues for NEMMCO.

It has been noted that the existence of counter-price flows is not an aberration, but an outcome of efficient dispatch. The problem is rather that of how to preserve the most efficient overall market dispatch whilst managing the settlement residue impacts. The objective of this proposal is to retain the correct pricing associated with the 'split region' option, without losing the value associated with efficient counter-price flows associated with the loop flow, ie dispatch to maximise the value of trade as required under the Rules.

It is suggested that the settlement impacts of counter-price flows could be managed in a similar way to the existing Southern Generators derogation, which allows any negative residue accumulation on the loop to be offset by the associated positive accumulation<sup>6</sup>.

If the Commission proposes a regional structure of the NEM with separate Murray and Tumut regions, then our new proposal is effectively an adaptation of the Southern Generators'-style Rule change, added onto the original Eraring proposal<sup>7</sup>. We therefore propose that the Murray node be the regional reference node of any new Murray region and further that the Dederang node remains within the Victorian NEM region.

## **Relative Implementation Costs**

Hydro Tasmania is concerned that there has been no proper assessment of the implementation cost associated with the proposed snowy region boundary change. Clearly, the cost associated with maintaining the present arrangements, (known as the 'snowy trial') would be small.

The proposed abolition of the snowy region would require considerable work by NEMMCO. The cost of this has not yet been made public, but needs to be known before Market Participants can properly assess the cost/benefit ratio. One impact arising from significant changes to constraint equations, is the use of scarce expert resources within NEMMCO and the consequent unavailability of the same resources to deal with operational changes.

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the basis that continuation of the present arrangements provides the greatest dispatch efficiency and least implementation cost.

<sup>6</sup> In 2005, the Southern Generators recognised that, positive and negative settlement residues on the Snowy regions' interconnectors are a natural outcome of the accurate pricing of the Murray group in the presence of loop flows and that clamping or reorientation to limit negative settlement residues leads to inefficient market outcomes. The Rule change proposed by the Southern Generators allowed any negative residue accumulation on the loop to be offset by the associated positive accumulation.

<sup>7</sup> Given that the sets of constraint equations for the proposed split region have not been finalised, it is premature to formulate a specific Rule proposal in the form used for the Southern Generators' Rule.

It is anticipated that the split region option would require less work than abolition, but more than maintaining the current arrangements. This is because in our view, most of the current VIC-SNY constraints would become VIC-MUR and the SNY-NSW would become TUM-NSW. New MUR-TUM constraints would be required, with testing and other resource costs as indicated by NEMMCO in their recent letter.

## **Conclusion**

Hydro Tasmania's first preference is for the retention of the existing arrangements until a revised process for region definition is in place.

Our second preference is for consideration of a split-region arrangement. However, by using the Dederang node as the regional reference node for the proposed new Murray region, the current 'split region' option deliberately mis-prices Murray generation and leads to a dispatch outcome, which is less optimal than in the case with appropriate incentives for Murray generation.

Hydro Tasmania contends that its suggested enhancement of the 'split region' proposal supports the Single Market Objective to a greater extent than the original Eraring 'split region' or the modified Macquarie Generation version with the regional reference node at Dederang and hence distorted incentives for Murray generation.

However maintaining the existing arrangements, at least until after the completion of the reviews of congestion management and regional boundaries principles, is our preferred way forward.

Yours sincerely,

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

David Bowker  
Manager Regulatory Affairs