



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

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

Dear Dr Tamblyn

**Supplementary submission on Dispatch of Scheduled Network Services**

As the proponent of this Rule change proposal, Hydro Tasmania has reviewed the submissions from other parties and this submission addresses some of the more material issues which have been raised in those submissions. None of the issues raised necessitate any change to our proposed approach.

**1. Market developments have gone beyond situations anticipated in the Rules**

The existence of a Scheduled Network Service with the capability of transporting Frequency Control Ancillary Services (FCAS) was not explicitly anticipated in the Rules.

NEMMCO have put forward their view that their current practice is consistent with the Rules. We have put forward a different view. The existence of genuine but contrary views indicates clearly that a clarification of the Rules to deal with this unanticipated development is desirable.

Our proposal is to provide this certainty in a way which avoids future disadvantage to the existing provider of these services, and also avoids unreasonable risks being imposed on any new provider of such services.

While we do not suggest that further providers of such services are now likely, we do not believe that the Rules should discriminate against any future similar developments.

## **2. Major Issues**

There are three major issues which are fundamental to the concerns which have been raised. These issues are addressed in this section. The following section addresses several other minor issues which we would also like to draw to your attention.

### **a. Focus on exploitation of free service provisions**

All three submissions, in different ways, focus on how the market may exploit the provision of free FCAS transport service to benefit third parties. In adopting this focus, they overlook the more fundamental question of ensuring the continued provision of that free service.

TRUenergy is a partial exception here, in that they have suggested that a market mechanism could be developed to reward this service. However this suggestion has little detail. We see no arguments in principle against this suggestion, but we consider that (a) it is not a substitute for our proposal because of the lengthy development of the concept that appears necessary, and (b) the outworking of this concept is likely to be complex and hence its cost may outweigh its benefits, particularly as its application is likely to be limited to the Basslink interconnector.

The provision of FCAS transport is an outcome of the Tasmanian jurisdiction's decision to have a single FCAS market across Tasmania and the mainland. This lead to Basslink providing the service of transporting FCAS although the market has no explicit recognition of this service, or revenue for its provision.

However, this service is not committed to NEMMCO nor to the connecting network service providers, and could be unilaterally withdrawn by Basslink either for an extended period or when necessary to avoid counter-price flows.

We therefore suggest that it is short-sighted to claim the benefits of this service for third parties by requiring that the provider of the free service be disadvantaged through providing it.

### **b. Treatment of scheduled network service providers relative to other participants**

Our proposal has been subject to opposing criticisms in relation to the treatment of Scheduled Network Services providers relative to other participants.

Aurora Energy says that the proposal "would enable Basslink to be dispatched in a manner similar to market generators", which is true, but then they greatly overstate the consequences of this. Our proposal does not

"eliminate the co-optimisation process between energy and frequency control ancillary services" as claimed, but will only limit this when it would lead to violation of the market offer by Basslink.

On the other hand, TRUenergy and NEMMCO both claim that the proposal gives special status to Scheduled Network Service providers, relative to other market participants especially generators. This view is based on a misunderstanding of the current market processes and the Rules that support them.

Except in the difficult case of Basslink, the dispatch process is based on offer and bid prices and the constraints necessary for system security. The constraints result in dispatch at some locations being based on different, implicit, local prices. In the dispatch process the Regional Reference Node price does not exist, as it is an outcome of calculation following the dispatch, and has no status or effect within the dispatch process.

The authority in the Rules for "constrained-on" and "constrained-off" outcomes lies in the requirement for regional settlement, which implies that some participants may be settled at a price either above or below the local price implicit in their dispatch. [For completeness we note here that dispatch in accordance with the participant's offer includes all applicable offers ie both energy and FCAS]

The aim of our proposal is to ensure that a Scheduled Network Service provider is dispatched in accordance with its offer, as applies with all other participants, and is subject to the same risk through regional settlement.

Both TRUenergy and NEMMCO have inferred an offer from Basslink to transport FCAS. This is inconsistent with the Rules as no such service exists anywhere in the Rules. No payments have ever been made for FCAS transport. Furthermore, the definition of the capability of the alternating current parts of the network is based on consequences of credible contingencies and hence implicitly provides for the flow of FCAS without any additional constraints on dispatch.

In summary, our proposal seeks equivalent treatment of Scheduled Network Services providers and other participants, despite the technical complexities which call for different dispatch techniques to achieve this equivalence of outcome.

c. **Should the value of trade be maximised at the expense of a participant?**

Both TRUenergy and NEMMCO have advocated maximising the value of trade even though the dispatch is contrary to the Basslink offer. We have opposed this in principle, and continue to do so. We believe that a policy of respecting participant offers, unless security would be at risk, is in the long-term interest of customers.

However, even if this argument on market policy is set aside, the proposed outcome is likely to prove harmful to the immediate interests of end-use electricity customers.

The first issue involved in trading off benefits in the FCAS market against dis-benefits in the energy market is the large disparity in settlement volumes. The settlement volume, summated over all FCAS provisions is much smaller than the settlement volume for energy. Hence a trade-off based purely on price where energy benefits are sacrificed for FCAS gains, will generally raise the total cost to customers.

The second issue is the effect over time. The effect of the current practice is commonly to "trap" the dispatch outcome in the wrong flow direction relative to energy prices. This may continue for significant periods.

If the dispatch process were able to examine the forward consequences of this, the optimum solution would usually be to reverse the Basslink flow direction, and following a brief elevation in FCAS prices during the reversal, enjoy benefits in both energy and FCAS markets following the reversal.

Our proposal avoids this trap and hence is more consistent with optimisation beyond the current dispatch interval, and hence benefits to customers.

For both these reasons, the proposition that the principle of respecting the market offer be abandoned for scheduled network services does not even achieve the short-term customer benefits claimed for it.

### **3. Other Issues**

In addition to the three major issues above, there are several other points made in the submissions on which we provide comment.

#### **a. Is the NEMMCO proposal a satisfactory alternative?**

Both NEMMCO and Aurora have advocated a NEMMCO proposal (as described in the NEMMCO submission) as an alternative to our Rule change. This proposal has adverse consequences in both a practical sense and also in terms of regulatory principles.

In practical terms, as revealed by NEMMCO analysis, this proposal would deal with only a fraction of the relevant cases. More importantly, in our opinion, there is now uncertainty over the meaning of that part of the Rules in the cases dealt with by our proposal. Our analysis and that by NEMMCO have led to opposing conclusions on the meaning of the relevant provisions. The proposition that our Rule change should simply be rejected, so that the NEMMCO proposal can proceed, would do nothing to resolve this uncertainty.

In our view, one Scheduled Network Service provider, Basslink, has been inadvertently subjected to additional risks beyond those applicable to other participants. We seek to eliminate this.

If, on the other hand, the Commission were to take the view that these additional risks should continue, we submit that the nature and extent of these additional risks should be clear from the Rules, and not reside in an ambiguity about the meaning of the Rules.

**b. Should FCAS transport become a market service?**

TRUenergy have proposed that a payment to Scheduled Network Service providers for the transport of FCAS would provide an alternative solution.

We do not oppose this in principle, although we do not see it as alternative to our proposal. We suggest that –

- This would prove complex to implement, and hence the cost may not be justified by the benefits.
- The time required to develop and implement this arrangement, even if it were justified, would be such that an interim arrangement, such as our proposal should be applied in the meantime,
- The relationship between FCAS transport volume (as affected by the no-go zone) and the energy volume are such that additional FCAS price differences would be needed to make the provider indifferent to counter-price energy flows. Thus, as a minimum, the ability to offer prices for FCAS transport would be needed to make the arrangement work. This further reinforces our concern about complexity.

In summary, we are sceptical about the benefits of this proposal, but would not oppose its consideration for later implementation. However, we do not see it as an alternative to a timely resolution to the current issue.

**c. Could non-zero transport offers for energy resolve the situation?**

TRUenergy has suggested behavioural remedies including the use of higher energy transport offers by Basslink. The use of such offers has implications for competition between Tasmanian suppliers and mainland suppliers and has been restricted by the Tasmanian government.

Even if this were not so, the use of non-zero transport offers would not be a remedy. These offers must under the market rules have increasing price for increased flow and therefore tend to limit flow. However, the issues of concern apply at relatively low flows and hence limiting flows would aggravate, not mitigate, the issues.

**d. Comparison with regulated interconnectors**

TRUenergy has drawn an analogy between the dispatch of a Scheduled Network Service provider and a regulated interconnector. This ignores the important differences, in that a Scheduled Network Service provider makes

market offers, and is financially reliant on dispatch outcomes. We therefore submit that this analogy should not be relied on.

If you require any further clarification on the issues we have covered, please contact me on 03-62305775.

Yours sincerely,

D. Bowler.

David Bowker  
Manager Regulatory Affairs