

Peter Adams
NECA

By E-mail: padams@neca.com.au

Dear Peter

Recovery of negative inter-regional settlement residues

Hydro Tasmania (HT) appreciates the opportunity to comment on this Code change proposal.

Although the Tasmanian region will be connected to mainland market regions by a Market Network Service Provider, and thus is not directly impacted by this issue, HT has an interest in the efficient operation of the wider market.

The actual change proposed seems to us a small but positive step, and hence is supported.

Our concern is that the issue of negative inter-regional settlement residues is not adequately described by NEMMCO. In particular –

- The two major potential causes of such negative residues are not explicitly mentioned,
- The fact that the mechanism for funding negative residues will remain grossly deficient after this proposed change is not mentioned,
- The fact that NEMMCO will continue to make anti-competitive interventions in the market to limit such negative residues is not mentioned.

The two major potential causes of negative inter-regional settlement residues are as follows.

1. The effect of the regional market settlement process in the case of a network limit that constrains both generators within a region and an interconnector flow. This situation results in differences between value in dispatch and value at settlement, and gives incentives that distort bid and offer formation by participants and these in turn may lead to negative residues. NEMMCO currently limits the effect from this cause by the use of anti-competitive constraint formulations that give priority to some generators at the expense of others. Charles River Associates in a report to the Ministerial Council on Energy has proposed changes to the market settlement process to manage this issue, but these changes are not planned for implementation except for a possible test application proposed by Snowy Hydro.
2. The physical arrangement of the transmission network, if it includes a limiting flow within a loop, can lead to negative residues as a characteristic of efficient dispatch. It should be emphasised that this is an outcome of the physical layout and not an artefact related to

constraint formulation. NEMMCO currently deals with this by the application of anti-competitive constraints on dispatch that are not related to any physical flow limitation.

These two issues have the potential to lead to settlement deficits much larger than those which are currently seen or discussed by NEMMCO in this Code change application. These larger deficits are prevented only by anti-competitive market interventions by NEMMCO. These interventions have taken the form of artificial constraints in dispatch (unrelated to network limits) or alternatively of constraints that give priority to some generators over others. NEMMCO has also adopted a policy of implementing a deliberate pricing error in certain circumstances to avoid settlement deficits (but not yet applied it).

We understand that NEMMCO is driven to make these anti-competitive interventions in the absence of a satisfactory funding arrangement for the substantial sums that could accrue in the absence of such interventions. We also understand that NEMMCO can argue that these anti-competitive interventions are authorised by Code derogation.

But however necessary these interventions are in the short-term, the fact that this proposal will not address these larger issues and thus eliminate the need for intervention is, to us, the most important fact about it. But this is not even mentioned by NEMMCO or by NECA.

We believe that NEMMCO in its application, and NECA in its consideration of the issue, should explicitly do so in this wider context, even if the larger issues cannot be immediately resolved.

If you have any questions in relation to the above comments, please call Ken Secomb on 03 6230 5356.

Yours faithfully

Stephen Davy
Manager Contract Trading
Hydro Tasmania