



Hydro Tasmania
the renewable energy business

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Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Emailed: submissions@aemc.gov.au

Comprehensive Reliability review

Hydro Tasmania would like to thank the AEMC for the opportunity to assist the Commission in its review of the National Electricity Rules, (NER) in relation to the comprehensive reliability review.

Hydro Tasmania believes that the market is working as well as can be expected and providing the right kind of investment decisions. All fears of a lack of investment have proved unfounded. Efficiency gains have been enormous, capacity has been built and efficiency has been enhanced with inter-connector upgrades. Our concerns relate mainly to the dampening effect on investment of regulatory and government intervention.

Intervention is the main risk

Intervention in the market is likely to have had an adverse affect on contract market liquidity and would almost certainly have discouraged new players from entering the market. Any further intervention is likely to increase this impact. Examples of such negative impacts during "interventionist tweaking" have been observed in the North American electricity markets. If lack of confidence in the market processes leads to regulatory or jurisdictional intervention, with consequential reduction in private investment incentives, then this arrangement will be self-defeating. Intervention will then become a first-level response rather than a safety net.

VoLL, USE and CPT

Perhaps the best way to address investment concerns is to focus on areas of intervention which discourage investment. A prime example of this is the VoLL cap at \$10k. Should this cap be moved to say \$20k, this would almost certainly provide a stronger signal for investment in capacity. However it is arguable that since the existing VoLL value has achieved USE well below 0.002%, the level of the VoLL price cap is too high. A counter view is that the market is currently relying on residual excess baseload capacity.

Hydro Tasmania's view is that given the number of different external factors which affect market outcomes and investment timing, the situation is too uncertain to allow a precise assessment of the optimal values of VoLL and CPT.

We note the conclusion of the MMA report (submitted by the National Generators' Forum to this market consultation) that the selection of the classes of load subject to load shedding in each NEM jurisdiction can have significant bearing on the theoretical optimal value of USE for that jurisdiction.

Regulatory Stability is Needed

We are concerned about the impact of regulatory uncertainty on the investment climate – frequent changes to the value of VoLL, CPT arrangements or the USE target would, in our view, undermine investor confidence in the Australian energy-only market. Consequently, we support a policy of no change to the basic structure but are open to consider proposals for a change to the values used for VoLL, USE and CPT, if these are backed by some analysis.

Hydro Tasmania does not support the view expressed in the above MMA report that annual reviews of VoLL, CPT and USE are the best course of action. We believe that the MMA analysis ignores the very real implementation and investor impacts of such a course (factors which MMA were not asked to consider). In addition, we believe that the savings from mothballed plant are overvalued in the MMA analysis. We propose that reviews should occur every 5 years but could be initiated earlier on the request of 5 participants.

NEMMCO's Role

Hydro Tasmania welcomes NEMMCO's role in improving the treatment of the forecasting of underlying demand. The reporting of net demand; as the sum of scheduled and large-scale non-scheduled generation is a positive move. We look forward to seeing this treatment of true demand reflected in NEMMCO's SOO and ANTS in a consistent manner. As environmental issues drive less centralised forms of generation, this issue will become increasingly significant.

We are pleased that NEMMCO has initiated improvements in the data used for generation unit forced outage rates and would welcome the early use of this data, in conjunction with a realistic representation of load diversity, in an updated assessment of generation reserve levels.

In summary therefore, Hydro Tasmania supports:

1. Limiting reviews of the values of VoLL/CPT and USE to five-yearly intervals, unless initiated earlier on the request of 5 participants.
2. In the short term, no change to the values used for VoLL, USE and CPT,
3. Early implementation by NEMMCO of a more open, consultative and consistent process for the determination of reserve levels required to achieve the USE target and
4. limiting regulatory & government intervention and allowing the market to work.

If you wish to discuss any aspect of this submission, please feel free to contact David Bowker on 03 6230 5775 or by email on david.bowker@hydro.com.au.

Yours sincerely

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