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**Causer Pays for Ancillary Services to Control Tasmanian Frequency;
ERC0082/3**

International Power (IPRA), TRUenergy and Loy Yang Marketing Management Company make this submission in response to the Commission's draft determination on the Rule change proposed by Hydro Tasmania on "Causer Pays for Ancillary Services to Control Tasmanian Frequency".

We make this submission because we believe that this draft determination wrongly characterises a provision of the existing Rules, with the effect of pre-judging any future consideration of allocation of cost according to causation.

The derogation proposed by Hydro Tasmania would have had the effect of modifying the distribution of the costs of certain market ancillary services. The distribution of these costs is specified in clause 3.15.6A (f) of the Rules. In the draft determination this provision is characterised as being a "causer pays" methodology. For example, this view is put in the second paragraph of section 1.4, and also in the first paragraph of section A.9.

We contend that this characterisation is not justifiable. Furthermore, we consider it likely that the Commission will, at some time in the future, need to address the question of whether the distribution of costs should be changed so that it fits the description "causer pays" and that the Commission should not pre-judge this future issue in its current determination.

In relation to the meaning of the term "causer pays" we accept the description given in the draft determination in the first paragraph of section A.9, which reads as follows

"In the context of market ancillary services, "causer pays" is a term used to describe a cost recovery methodology that requires the market participants to contribute to FCAS costs in proportion to the extent to which that participant contributed to those costs."

The way in which market participants contribute to the need for the relevant market ancillary services can be seen from the way in which AEMO defines the dispatch requirement for the services. This takes the general form –

FCAS \geq contingency - load relief

Where FCAS refers to the required amount of the service to be dispatched,
contingency refers to the critical credible contingency relevant to the service,
and
Load relief is a value determined by AEMO based on compliance with the
Frequency Operating Standard.

It is clear from this formulation that only generating units which constitute a credible contingency larger than the current value of the load relief parameter could, under any conditions, cause a need for the relevant market ancillary service and hence contribute to the costs.

Based on these considerations, and the actual experience of market ancillary service dispatch and costs, we estimate as follows –

- About 75% of the generating units charged for these services could not, because of their small size, make any contribution to the cost of the services,
- About 30 – 40% of the costs distributed under clause 3.15.6A (f) are distributed to these units that make no contribution to causing the costs.
- The distribution of costs between those generating units that do potentially make some contribution to causing the costs, is very far from proportional to their respective contributions,
- The largest individual cause of such costs, namely a transmission system contingency on 23 July 2008, was not associated with any allocation of costs. This was despite these costs in few hours being equivalent to several years of costs due to all other causes.

We contend that, given these departures from the requirements of “causer pays” (as defined by the Commission), the characterisation of the current provision as a “causer pays” methodology is not accurate.

We therefore recommend that the Commission reconsider its use of references to the current Rule as “causer pays” and thus leave open the possibility that in future it may consider that a change to a “causer pays” regime for these costs is justified under the National Electricity Objective.

Yours sincerely



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