

9 October 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submission lodged online at: www.aemc.gov.au

Project Number: EPR0165

Dear Mr Pierce

Generator ramp rates – Draft Rule Determination

Hydro Tasmania supports the AEMC's draft rule determination to reject the AER's rule change to require that ramp rates reflect the maximum technical capability of generating plant. We agree with the AEMC's assessment that the AER rule change was:

- Disproportionate to the issues raised;
- Would be difficult to apply in practice; and
- Cause perverse incentives for flexible and peaking plant, as these generators have greater ramp rate capability and would be disproportionately impacted.

Although the Commission does not support the AER's proposed rule and acknowledges that the current minimum ramp rate requirements provide sufficient capability for AEMO to manage the secure operation of the electricity system, the Commission considered that the existing rules may prevent this from being achieved at the lowest cost. The Commission has proposed a more preferable draft rule. We have interpreted three key principles underpinning the AEMC's more preferable draft rule:

1. Ramp rates are a commercial parameter.
2. Regulatory obligation on generators should be the minimum required for AEMO to fulfil its system security obligations.
3. The revised minimum ramping requirements would be applied consistently and proportionally to be competitive / technology neutral to all generators regardless of generator size, plant configuration or technology type.

Our submission proposes a minimum requirement based on 0.5% would be more consistent with the recognition that ramp rates are a commercial parameter. Finally, we highlight that the draft rule will impact transmission access and hence the rule commencement date requires an adequate transition period.

Minimum ramping capability should be no more than 0.5%

We agree with the Commission that “commercial incentives are, and should be, the key driver for generators investing in, and maintaining, ramping capability¹”.

Our analysis shows that the Draft Rule of 1% exceeds AEMO’s current requirement to maintain system security. This is likely to lead to several permanent derogations for large machines which cannot achieve 1%.

With the current over supply of generation and transmission which is sufficient to meet reliability standards for at least another 10 years we argue that the current regulatory ramping requirement exceeds AEMO’s quantity to allow it to maintain system security. In line with the AEMC stated principles of ramping being a commercial parameter, the regulatory amount being the minimum requirement, and competitive / technology neutrality we propose that the minimum ramping capability should be no more than 0.5%.

Anything higher than 0.5% hinders commercial incentives to have flexible plant. In our view, there would be no system security issue in Tasmania with the 0.5% proposal.

Transition Provisions

The Rule change materially affects transmission access in the market. This could be a significant reduction in transmission access for some plant thereby significantly reducing the capability of this plant to hedge sold forward contracts. Therefore any Rule which changes ramp rates will impact on the ability to cover sold forward contracts.

To provide cashflow certainty to meet fixed costs a large proportion of a generators hedge contracts are sold at least out to 3 years.

The Rule Commencement Date must reflect and recognise this increase hedge contract risk and have an appropriate transitional notice period to allow participants to adjust their risk profiles.

We suggest a Commencement Date no earlier than 1 January 2017 (i.e. 2 years notice) to allow Market Participants to manage their risks.

¹ AEMC Draft Determination, page i

In summary

Hydro Tasmania commends the AEMC for rejecting the AER's rule change proposal. The Commission has correctly identified that the rule change is disproportionate to the issues identified, would be difficult to implement, and would create disincentives to invest in peaking and flexible generation plant.

Consistent with the low growth environment, decrease in overall market volatility, and recognition that ramping capability is a commercial parameter we question whether the draft rule requirement of 1% exceeds and is inconsistent with overall ramping requirements. We therefore advocate that the minimum ramping requirement should be no more than 0.5% which we do not believe will compromise system security requirements.

Finally we highlight the fact that regulatory ramping requirements impact on transmission access and hence this impacts on the ability of participants to manage the risk of sold forward contracts. In recognition of this risk an appropriate transition period is required for Market Participants to re-adjust their portfolios and risk profiles. We therefore advocate the Commencement date for the Rule should be no earlier than 1 January 2017.

Hydro Tasmania appreciates the opportunity to respond to this consultation. Should you have any enquires on this submission please contact the undersigned on 0418136493 or david.bowker@hydro.com.au

Yours sincerely,

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

David Bowker
Regulation Manager