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Australian Energy Market Commission
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Dear Commissioners

The Tasmanian Government wishes to raise a number of points in response to the AEMC's Consultation paper on the Rule change request concerning Negative offers from scheduled network service providers (RULE CHANGE - ERC0140).

1. MNSPs and Generators should be treated the same

Scheduled Network Service Providers (SNSPs) and specifically Market Network Service Providers (MNSPs) are not common in the NEM. Of the three that have been built only one (Basslink) survives as a MNSP. The other two (Murraylink and Directlink) have become regulated links. A contributor to the decisions to become regulated has been the difficulties MNSPs have in gaining sufficient revenue from inter regional trading.

An MNSP can only make a return if there are periods of price separation between the regions it interconnects. During such periods there is a need to maximise flows over the interconnector. This desire to maximise dispatch is the same for generators. All generators are faced with the same Rules in how they can bid and get dispatched and the Tasmanian Government sees no reason to treat SNSPs any differently. If generators can bid negatively then so should all SNSPs.

Indeed, it would be the expectation of any investor that an MNSP would have the same ability as a generator to bid into the market and be 'dispatched' during high price events. To remove the ability to bid negatively would greatly reduce the ability of an MNSP to enter into any contract arrangements with generators and retailers across the link and to manage their risks during price separation events. Given the experience of previous MNSPs in the NEM it would be less likely any new MNSPs would be constructed if this rule change were to be made. If the result of this rule change is that all future investment in SNSPs was to become less likely, the Tasmanian Government would see that as detrimental to consumers and thus not supporting the National Electricity Objective (NEO).

2. Sovereign risk

There is a prima facie case that the expectation of being able to maximise flows would have been a major aspect of the circumstances in place at the time that investors committed to the Basslink project. Any change to the rules now would manifest a regulatory risk to the detriment of the Basslink MNSP. This in turn would be a deterrent to any and all other investors in major infrastructure in the National Electricity Market (NEM). Investors need to have confidence that Rule changes detrimental to their investment will not be made without very good reason. Any changes to the Rules which are detrimental to the economics of an existing MNSP should not be made retrospectively.

3. Current situation is in consumer's interests

The Tasmanian Government believes the current arrangements generate net market benefits for Tasmanian and Victorian customers. The negative bidding arrangements provide Hydro Tasmania with an additional revenue source to help fund Basslink, a piece of infrastructure which provides very substantial benefits to the Victorian generators and customers at different times. Benefits that these parties effectively do not pay for, as opposed to the situation if it were a regulated link.

We also believe the proposed rule change does nothing more than transfer wealth from one group of participants to another with no benefit for end consumers. It is not clear what assurance there is that the rule change would result in a more efficient and lower cost dispatch of energy in the NEM. There is nothing in the NEM that allocates benefits among generators according to some notion of fairness - nor is this required under the NEO. Nor is there a sustainable argument for efficiency in dispatch – line losses by themselves are an inadequate consideration. Thus, we do not believe the proposed rule change provides any advancement to the NEO.

4. The -\$1000 constraint implemented by AEMO

We understand that AEMO constrains the negative bid on the Basslink MNSP to be -\$1000 per MW in its NEMDE calculations. It's not clear where the authority to do this comes from. Since the bid price for Tasmanian energy in the Victorian market is a combination of the Tasmanian pool price and the MNSP transport offer, the result of the -\$1000 limit is to put downwards pressure on the Tasmanian pool price. When a constraint exists, Victorian generators bidding large negative values can do so in the assurance the pool price will be higher than their bids. However, the Tasmanian pool price does take effect and negative pool prices can have perverse consequences such as forcing some Tasmanian generators to back off generation. It is arguable that the AEMO imposed limit on the MNSP should be revised downwards from the AEMO value of -\$1000 rather than being set to zero as proposed in this rule change. The Tasmanian Government is of the view that any rule change that imposes a floor on SNSP bidding needs to show benefit to the NEO. Should AEMO require an effective limit on negative bids for the operation of NEMDE the Tasmanian Government suggests a floor of -1*market price cap could be considered.

5. Rule changes should not be made during a broader review of the role of interconnectors

The Productivity Commission has recently been tasked with undertaking a review into Electricity Network Regulation. The terms of reference for the PC's review include "to examine whether the regulatory regime, with respect to the delivery of interconnector investment in the NEM, is delivering economically efficient outcomes".

As described in the Productivity Commission's Issues Paper on Electricity Network Regulation, "Some stakeholders argue that there are significant constraints on the efficient use of interconnectors" with issues noted including:

- the ability of generators to connect to the transmission network resulting in localised congestion on that network, constraining the role of interconnectors; and
- the general inability of interconnectors to be able to secure all of the benefits of their investments, such as those that improve system reliability.

The Tasmanian Government suggests that any changes being made to the regulatory framework that impacts on MNSPs should take the findings of the Productivity Commission's work into consideration.

If you have any queries, please contact Tim Astley on 03 6233 3091 or by email on Tim.Astley@dier.tas.gov.au

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Bryan Green', with a long, sweeping underline that extends downwards and to the left.

Bryan Green MP
Minister for Energy and Resources