

19 October 2012

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
Submission lodged online at www.aemc.com.au

Project Number: EPR0019

Dear Mr Pierce

Submission to: Transmission Frameworks Review Second Interim Report

This submission outlines Hydro Tasmania's response to AEMC's Second Interim Report: Transmission Frameworks Review (EPR0019). Hydro Tasmania appreciates the opportunity to review and provide input into this process. Hydro Tasmania is also a signatory to the submissions made by the National Generators Forum (NGF) and the Clean Energy Council (CEC) which it fully supports. This submission contains some additional complementary items.

Hydro Tasmania favours option 1 in the report which is the National Electricity Market's existing market arrangements. It rejects the Optional Firm Access (OFA) approach for all the reasons identified in the NGF and CEC submissions. Specifically, Hydro Tasmania sees the response as completely disproportionate to any problems which currently exist in the market. Hydro Tasmania does not believe that congestion and disorderly bidding are or will be material issues in the market. The AEMC have failed to define the problem they believe they are addressing and have, in our view, misrepresented the benefits of their proposed solution. Specifically we do not believe that it offers "firm" access, it is not optional (as a participant will need to be firm if his competitors choose to be firm), will not improve interconnector firmness or contract liquidity. All of these are addressed in the NGF submission in more detail.

The OFA model contains many shortfalls; the following points are expanded on below:

- Minimal benefit
- High implementation and ongoing costs
- Detrimental to inter-regional trade across regulated interconnectors
- Flawed allocation of transitional access
- Increased costs to customers

Minimal Benefit

AEMO's "The NEM Constraint Report 2011"¹ demonstrates that the market impact of constraints is relatively small (\$21M) in comparison to a Spot Market turnover of \$7.4B². The charts below have

¹ http://www.aemo.com.au/Electricity/Market-Operations/Dispatch/~/_/media/Files/Other/Dispatch/0200-0023%20pdf.ashx

been extracted for your convenience. In addition OFA only addresses about 30% of this value so in the unlikely event that it removed all the cost of thermal constraints, the benefit would only be about \$7m pa.

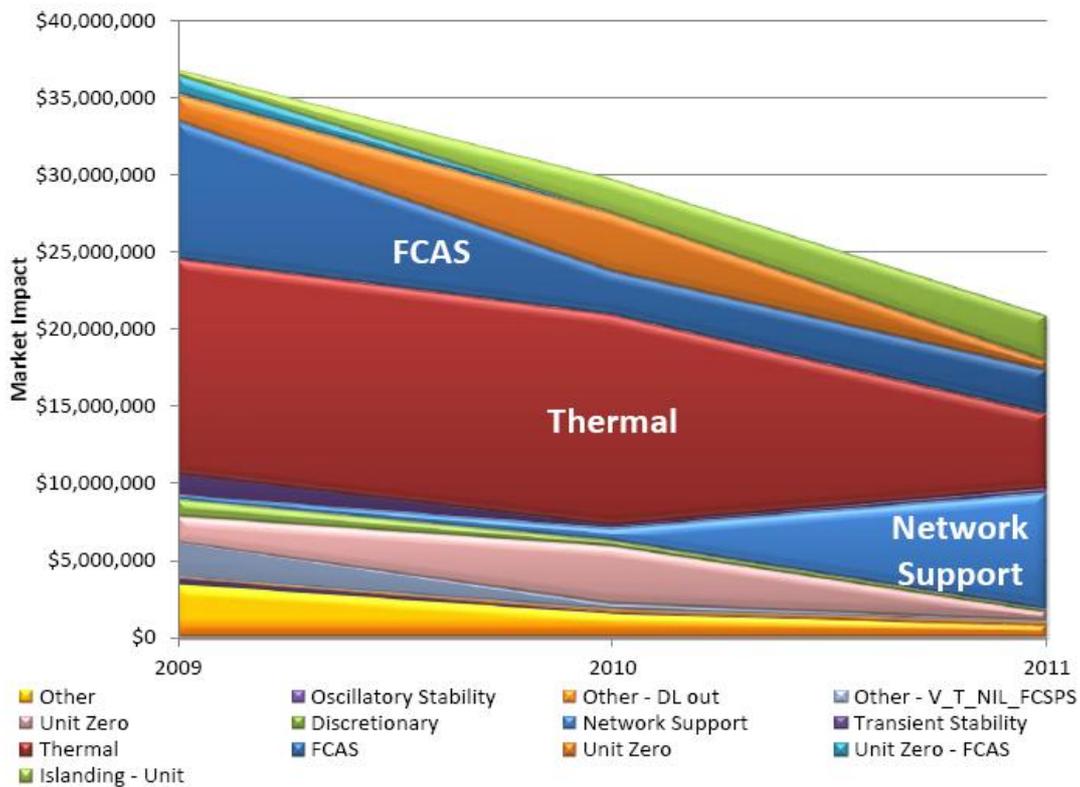


Figure 1: Market impact by constraint equation limit type

The downward trend in the impact on the market of constraints is clearly shown in this graph. It shows that the costs are small and decreasing.

It is Hydro Tasmania’s interpretation that the OFA model would only cover thermal constraints:

- FCAS constraints are excluded
- Stability constraint’s “flowgate” capacity varies by too much (over 1000MW in some examples) and are influenced by factors outside the TNSPs control such as demand, inertia etc.
- Discretionary constraints, which, by their nature, are not known in advance.

The graph above shows that thermal constraints make up a very small part of the total constraint picture. Our understanding is that OFA only addresses this small area.

² “State of the Energy Market 2011” AER

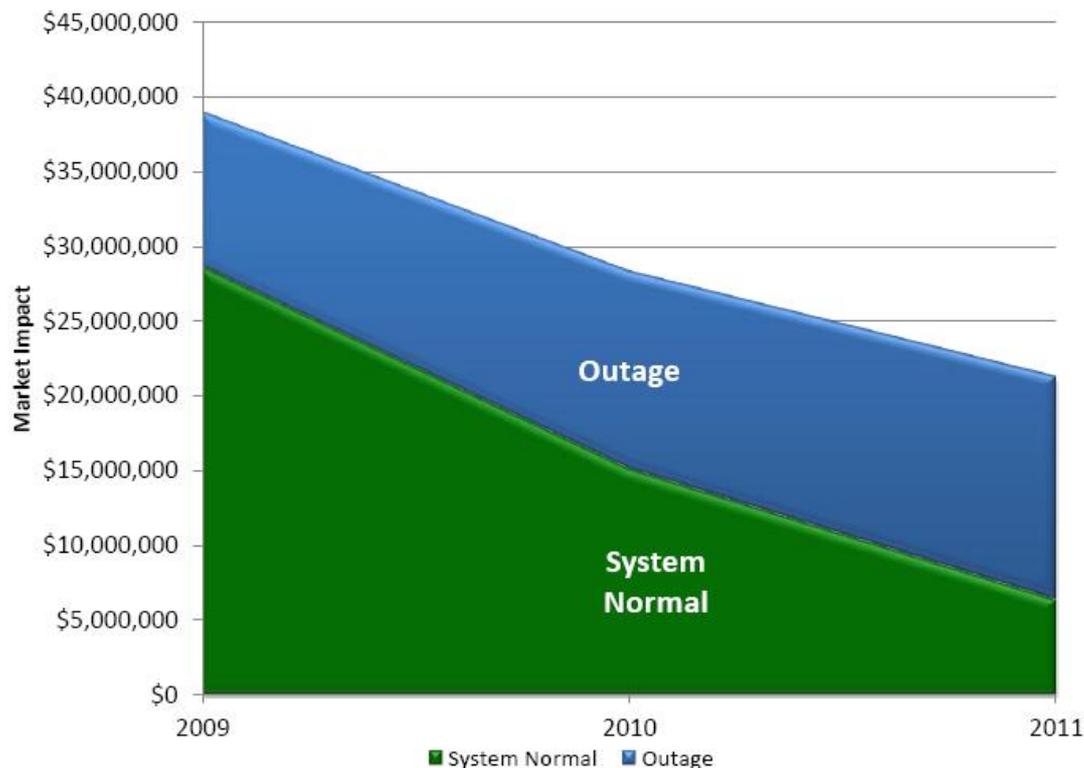


Figure 2: Market impact by system normal and outage

As indicated in the above AEMO chart³, almost 70% of the constraint impacts occur due to planned outages. The OFA fails to focus on ensuring that the right incentives exist for having transmission outages at times of minimal market impact. Instead it caters for the firm access to be simply stated and reduced by the TNSPs during the planned outage. It appears that a TNSP will have an incentive to be conservative in the capacity it makes available during network outages.

High implementation and ongoing costs

Due to the sheer number of constraints in the system, the proposed model will introduce considerable additional analysis workload on TNSPs for questionable benefits. TNSPs will be required to assess each constraint and make assumptions that will minimise their exposure to penalties under the incentive regime when determining the amount of access available. These assumptions would have to include items such as voltage, temperature, wind speed and the amount of constrained on generation as these all impact on the “flowgate” capacity.

There will also be increased burden on generating participants who will each have to develop their own set of risk management and spot operational tools to analyse and monitor hundreds if not thousands of “flowgates”.

³ http://www.aemo.com.au/Electricity/Market-Operations/Dispatch/~/_/media/Files/Other/Dispatch/0200-0023%20pdf.ashx

Detrimental to inter-regional trade across regulated interconnectors

It is Hydro Tasmania's view that in most instances there will be little or no Firm Inter-regional Rights (FIR) available on regulated interconnectors as the hybrid "flowgate" capacity will be assigned to generators in the transitional access period. This assigned capacity is likely to be small and will be continued in perpetuity under the current OFA proposal. Therefore, the firmness of interregional trade will be less under the OFA unless someone is willing to fund an interconnector upgrade.

AEMC state that interconnectors will be firmer under OFA. Our understanding is that some volume of the inter-connector will be firmer but the volume is likely to be very low. Consequently, the benefit claimed by the AEMC is significantly overestimated.

Hydro Tasmania urges the AEMC to assess the practicalities using actual system constraints before and if considering the OFA model any further.

It is Hydro Tasmania's interpretation that there will be no mechanisms for FIR holders to receive payment when price separation is caused by FCAS constraints. In 2011, both QNI and Vic-SA had their limits set by binding FCAS constraints 4% of the time.

Flawed allocation of transitional access

Hydro Tasmania questions whether assigning transitional access based on historic bidding patterns and generation type is appropriate given the changing nature of generation profiles since the introduction of a carbon price. The arbitrary segregation of transitional access into peak and off-peak periods based on generation type is unnecessarily restrictive. (i.e. peakers would value access at all times as they contract in peak and off-peak)

Increase cost to consumers

The complexity and additional analysis will increase costs to the industry (as it already has in responding to the proposal). These costs will flow through to customers as the additional costs for transmission, additional rule changes and AEMO charges. AEMC need to establish whether the benefits actually outweigh these costs.

Hydro Tasmania appreciates the opportunity to provide comments about the AEMC second Interim Report: Transmission Frameworks Review (EPR0019). We look forward to engaging further in this process.

If you require any further information please contact me on (03) 6230 5775

Yours sincerely,



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