



15 June 2009

Dr John Tamblyn
Australian Energy Market Commission
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Dear Dr Tamblyn

RULE CHANGE PROPOSAL – CAUSER PAYS FOR ANCILLARY SERVICES TO CONTROL THE TASMANIAN FREQUENCY – ERC 0082/2

Aurora Energy Tamar Valley Pty Ltd (AETV) welcomes the opportunity to provide comment on supplementary submissions provided by Hydro Tasmania dated 20 March and 13 May 2009, with regard to the above proposed Rule change.

AETV believes this additional information provides no further evidence that the proposed Rule change would contribute to achieving the national electricity objective. In fact, it is AETV's belief that the proposed rule change, along with Hydro Tasmania's bidding behaviour as observed during April 2009, would severely restrict or even eliminate any real competition within the Tasmanian market.

AETV's further comments on the proposed Rule change and related matters are set out below.

As a preliminary matter, AETV notes that Hydro Tasmania has now provided to the Commission:

- its original Rule change proposal dated 23 December 2008;
- a supplementary submission dated 20 March 2009; and
- a further supplementary submission dated 13 May 2009.

Each of these submissions has been provided by Hydro Tasmania before the Commission has made its Draft Determination. It is noted that Hydro Tasmania (and others) will be given a further opportunity once that Draft Determination is made.

In AETV's view, this approach to the process of seeking a Rule change is not consistent with the Commission's stated process.

The essence of Hydro Tasmania's Rule change proposal is that the operators of the new Tamar Valley Power Station (TVPS) should bear the cost of additional FCAS required, compared with what would have been required had the Tasmanian frequency operating standards not changed.

The key arguments raised in earlier submissions by AETV (and others) in opposition to the Rule change proposal included:

1. The Rule change proposal represents a significant shift in the allocation of costs of the FCAS market in the NEM for a number of reasons, including:
 - a. that it would require the TVPS operator to bear all costs of additional FCAS whether or not TVPS was dispatched at the relevant time.
 - b. that the proposal would result in all additional FCAS costs (both for FCAS raise and FCAS lower although this is now unclear as a result of supplementary submissions) to be paid by the operator of TVPS whereas presently, market generators pay for FCAS raise and market customers pay for FCAS lower.
2. The Rule change proposal does not reflect a fair "causer pays" methodology. A significant contributing factor to the increased FCAS requirements under the new frequency operating standards is the lack of inertia in the Tasmanian system. This has been acknowledged by Hydro Tasmania. Therefore under a true "causer pays" methodology generators who exacerbate the FCAS problem - like wind generation and Basslink (as an effective generator on import) - by not providing inertia should contribute to the impact that they cause to the higher FCAS requirement.

For example, due to its hard transfer capability limits, its "no go" zone and the design of the Basslink frequency control system protection scheme (FCSPS), Basslink is a key factor in determining the local FCAS requirement and any additional local requirement, although it has no obligation to contribute to the cost impact that it creates. Therefore this Rule change proposal does not implement a true causer pays principle.

3. The supplementary Rule change amendment of 20 March 2009, proposes that only the first new entrant generator is the "causer" of the new frequency operating standards. This amendment is clearly aimed at targeting AETV, whilst protecting Roaring 40's from incurring additional costs with future wind developments.

In summary AETV would like to refer the Commission to the first round submissions made by Aurora Energy, AETV, Gunns and NEMMCO in response to this Rule change proposal.

In addition, AETV notes that there is nothing in Hydro Tasmania's supplementary submissions that address, in any substantial or satisfactory way, the key arguments raised by AETV and others in opposing the Rule change proposal.

Hydro Tasmania's further supplementary submission focuses on:

- the additional costs to Hydro Tasmania of the local fast raise service as a result of the implementation of the new frequency operating standards in Tasmania;
- recent changes made by NEMMCO with the assessment of inertia in the NEM; and
- amendments to the proposed Rule change aimed at addressing the impediments to and the costs of implementing Hydro Tasmania's Rule change proposal.

AETV submits that none of these points are relevant matters for the Commission to take into consideration when making its Draft Determination in respect of Hydro Tasmania's Rule change proposal.

Firstly, the question of the costs of the additional local FCAS required as a result of the change in the Tasmanian frequency operating standards was relevant to the cost benefit based determination by the Reliability Panel as to whether or not those operating standards should be changed.

That question has now been authoritatively determined by the Reliability Panel and cannot be 'reopened' by way of the current Rule change proposal.

Secondly, the market will continue to change under the standard process adopted by NEMMCO or via future Rule changes. The costs of implementing this Rule change (or any future proposal) is only relevant if the Commission has first determined that in making the Rule it would or is likely to contribute to the achievement of the National Electricity Objective.

On 21 May 2009 the Commission invited interested parties to provide relevant written observations about the information provided by Hydro Tasmania in its additional submission, particularly in the context of NEMMCO's revised approach to calculating Tasmanian market ancillary service requirements. Therefore AETV would like to make the following observations in addition to its initial submission on the Rule change.

1. The cost estimations of \$3.5m p.a. by Hydro Tasmania provide no additional clarity or justification around these costs. In effect the inefficiencies referred to by Hydro Tasmania in trading across Basslink already occur under the existing standard, therefore it is not clear whether these costs are a result of the new standard, lack of inertia or related to the original Basslink design. Hydro Tasmania has even questioned the accuracy of its own figures by stating "These cost estimates are extremely difficult to undertake due to the complexity of the FCAS market". Further, there appears to be an error in the calculation of the figures in attachment 1 in the amount of \$440,000.
2. The arguments presented by Hydro Tasmania are based on the extremes of the Tasmanian power system operation and could be misleading without further context being provided. For instance, in its submission of 20 March 2009, Hydro Tasmania argues that an increase in FCAS R6 of 31MW on a 900MW system is an "increase of greater than 25% which is material". It should be noted that in Tasmania a 900MW system occurs less than 1% of the time.

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3. Also within this same example the underlying assumption is that Basslink will be importing at or greater than 400MW in conjunction with existing on island generation. With the completion of AETV's 203MW CCGT base load generator, Basslink imports could reduce by 200MW. Should Hydro Tasmania wish to keep Basslink imports at current levels then it will receive the benefit of improved water storage position that in turn provides an opportunity for an increase in commercial returns from an improved capacity to export. Any such benefits should be factored into any estimate of costs associated with the increased requirement for FCAS services.

Benefits to Hydro Tasmania from the entry of the CCGT that have not been recognised include increased hydro generation FCAS R6 capability and increased energy recovery from water inflows arising from reasonably expected increases in storage levels; in particular, from Gordon and John Butters schemes.

4. Without doubt the AETV plant will provide significant inertia to the Tasmanian system providing greater stability, but this needs to be taken into consideration by NEMMCO when determining generator contingency events. AETV's new CCGT will displace either lower inertia hydro generation or zero inertia Basslink. Local FCAS requirements for Tasmania are predominantly determined by the manner in which Basslink is being operated. In very simple terms should the new CCGT displace Basslink imports then inertia levels in the Tasmanian system would remain substantially unchanged from pre-NEMMCO inertia changes of 21 May 2009.

The revised inertia assessment provided by Hydro Tasmania in table 1 is again at the extreme. Providing such examples is fraught with danger as there are many variables and assumptions in determining a particular dispatch outcome.

To arrive at these inertia figures then Basslink would need to be at maximum import with significant wind generation and the CCGT at full output. This would result in a significant decrease in Hydro Tasmania's generation from current levels.

The assumptions made by Hydro Tasmania in this example may not be realistic but nevertheless would provide an improved water storage position for Hydro Tasmania again resulting in potential for commercial benefit through an improved export capability.

Should Hydro Tasmania wish to maintain Basslink imports at the current high levels then it would be the "causer" of the increased FCAS requirement and as a result it is only appropriate it should cover the cost of the impact to FCAS requirements without imposing an inappropriate burden on AETV.

5. AETV believes the calculation that discounts the inertia of the CCGT is based on an incorrect residual inertia assumption. The calculation should use a higher residual inertia rather than that assumed. The calculation should in fact reduce the net inertia by an amount equivalent to the inertia of 200MW of hydro generation (being displaced by the CCGT) and not that of the CCGT.
6. Another key point to understand in determining the amount of local R6 requirement within Tasmania is the important role that Basslink plays. The main drivers for local R6 arise from:

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- a. To cover the loss of Basslink on import;
 - b. Basslink transfer at zero;
 - c. Basslink operating at less than about 150MW export;
 - d. Basslink operating at more than about 350MW import.

Based on analysis undertaken by AETV the operation of the CCGT would reduce the R6 requirement to cover the loss of Basslink and the R6 required to cover the loss of the CCGT could be covered by global FACS in most cases.

7. The MASS revision undertaken by NEMMCO and released on 5 May 2009 has amended the frequency ramp rate in Tasmania. This revision has resulted in an increased R6 and L6 capability of hydro generation, providing a benefit to Hydro Tasmania's overall FCAS capability.

As has clearly been demonstrated this proposed Rule change by Hydro Tasmania is very unclear regarding what is or is not included and would appear to be aimed at restricting a competitive energy market within Tasmania than a true "causer pays" methodology. In summary:

- AETV's new CCGT is a baseload plant and as a result will attract more than its share of ancillary service costs under the existing cost allocation methodology;
- Hydro Tasmania is able to determine the quantity of local FCAS required in Tasmania through its control over Basslink flows;
- Hydro Tasmania has significant market power in setting the price for local FCAS requirements in Tasmania (as demonstrated by their FCAS bidding behaviour during April 2009); and
- Hydro Tasmania is proposing this Rule change to recover additional costs from its competitor as a result of the introduction of the new frequency operating standards that was determined on its own merit.

AETV maintains its opposition to the Rule change proposal, for the reasons expressed in both its initial submission and this submission, and submits that the Commission should reject the proposal.

Our contact person regarding this matter is Shaun O'Loughlin on 03 6237 2542.

Yours sincerely



Michael Brewster
Chief Executive Officer