



Hydro Tasmania
the renewable energy business

Dr John Tamblyn
Chairman
AEMC
Level 16, 1 Margaret St.,
Sydney NSW 2000

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Dear John,

More efficient dispatch of FCAS

Hydro Tasmania proposes a change to the Rules of the National Electricity Market to provide more efficient dispatch of Frequency Control Ancillary Services.

The change proposed is minor and, we believe, so clearly in accordance with the market objective that your Commission may find it possible to fast track its processing as non-controversial.

Statement of the Issue

The eight Frequency Control Ancillary Services in the NEM are not fully independent. NEMMCO has long recognised that *regulation service* (raise or lower) can service in place of the corresponding *delayed service*. However, it should be noted that the converse is not true as *delayed service* cannot substitute for *regulation service*.

NEMMCO currently recognise these facts by reducing the quantity of delayed service by an amount of regulation service.

This falls short of efficient dispatch in two ways –

- It does not use additional regulation service to reduce the dispatch of delayed service where regulation service happens to be offered at a lower price than delayed service, and
- The amount of regulation service by which the delayed service requirement is reduced is NOT the amount dispatched in the current dispatch interval, but rather the amount in the previous dispatch interval.

For much of the period for which the FCAS markets have operated in the NEM, the second defect has had little practical effect. This was because the amount of regulation service dispatched was highly stable, and hence the miss-alignment of time generally had no effect.

Now that Basslink is in service this second defect has greater significance, since the amount of regulation service enabled on either the mainland or in Tasmania can change significantly from one dispatch interval to another, because of the transmission of the service across Basslink.

In this situation, this defect in dispatch can lead, at different times, to the enablement of too much or too little of a delayed FCAS service. In one case it is economically inefficient, in the other it is a reduction in system security.

These defects have persisted because the Market Rules do not make provision for pricing or for cost recovery in the case where the offer of one service is utilised to economically service the requirement for another.

The function of this Rule change proposal is to put in place the pricing and cost recovery provisions to allow NEMMCO to achieve more economical, and at times more secure, dispatch of FCAS.

Implementation of these changes would require NEMMCO to –

- Change some constraint equations defining FCAS requirements, but not change the dispatch process itself, and
- Change some details of the FCAS settlement process.

Rule changes proposed

Revise 3.9.1(a)(6A) as follows (change marked from current Rule)–

when an *ancillary service price* is determined for an *ancillary service* or a set of ancillary services, it applies to purchases of that *ancillary service* or set of ancillary services;

Add at the beginning of 3.15.6A(f), 3.15.6A(g), and 3.15.6A(h) –

“Subject to 3.15.6A (p),”

Add new 3.15.6A(p) as follows –

Whenever NEMMCO has dispatched *regulation raise service* or *regulation lower service* in addition to the quantity determined by NEMMCO as necessary for regulation, the cost of the additional quantity will be included in the cost of *delayed raise service* for the purpose of 3.15.6A(f) or *delayed*

lower service for the purpose of 3.15.6A(g) as appropriate, and excluded from the cost of the regulation services for the purpose of 3.15.6A(h).

Effect of proposed Rule change on the achievement of the national electricity market objective

The proposed changes will enhance the achievement of the national electricity market objective by –

- Improving the security of supply by ensuring that the market dispatch process can enable the amounts of FCAS services determined by NEMMCO as necessary in certain situations where this cannot be assured now,
- Allowing the dispatch of the offered FCAS services in the most economical combination in certain circumstances where the current dispatch process does not allow this.

Hydro Tasmania contends that these improvements should be made as early as possible. We are aware that NEMMCO is required, at some time, to review market ancillary services in general, but we believe that this review has not commenced yet, and will probably take a substantial period to complete.

We understand that a proposal with similar effect was made by NEMMCO to NECA in 2003, but was not approved by NECA (although we believe that it was supported by NECA staff).

If you have any questions in relation to this proposal, please call me on 03 6230 5775.

Yours faithfully

David Bowker
Manager Regulatory Affairs
Hydro Tasmania