

13 February 2020

Mr. John Pierce
Chair
Australian Energy Market Commission (AEMC)
PO Box A2449
Sydney NSW 1235

Dear Mr Pierce

Mandatory Primary Frequency Response – Draft Determination (ERC0274)

Hydro Tasmania appreciates the opportunity to make a submission in response to the AEMC's Mandatory Primary Frequency Response (PFR) Draft Determination.

The AEMC is considering three rule change proposals through this consultation process. Hydro Tasmania appreciates the AEMC's approach to considering the interrelationship between the various aspects of the proposed changes. In summary, the AEMC has proposed a draft rule requiring scheduled and semi-scheduled generators to provide mandatory PFR to address the system frequency deterioration within the Normal Operating Frequency Band.

Hydro Tasmania provides in principle support for the AEMC's draft determination and draft rule. However, we would like to make the following observations on the Draft Determination:

- 1) **Incentive arrangements and forward work plan.** As expressed in our Consultation Paper submission, Hydro Tasmania's preference is for market based approaches to provide the signals and incentives for market participants to respond to.
 - a. This includes appropriate incentives for all system services needed by a transforming NEM such as providers of PFR being remunerated for the provision of this service.
 - b. However, we note the AEMC's draft position that '*... given the time needed to develop such arrangements, the Commission considers that it is not possible to implement an effective incentive arrangement at the same time as addressing the immediate system security needs.*' Instead, the AEMC propose to impose a sunset clause on the draft rule (to 4 June 2023) which will allow time for an appropriate incentive mechanism to be developed and implemented in the future.

- c. While we welcome and support the AEMC's commitment to develop an incentive mechanism, **Hydro Tasmania questions if a three year period is necessary to develop and implement an incentive arrangement.** Hydro Tasmania notes that it is important that an incentive framework is developed and implemented in a timely manner to guide maintenance and modernisation of existing plant and efficient investment in new plant and services. On this basis, we encourage the AEMC to consider if the sunset date could be brought forward to either 1 year or 2 years post commencement, with further detail added to 2020 work plan to reflect progression on this.

2) Deadband settings

- a. Hydro Tasmania recognises the Australian Energy Market Operator's (AEMO) concerns regarding the effective management of power system frequency in the NEM, and as such, we are supportive of the proposed PFR deadband setting of $\pm 0.015\text{Hz}$. However, Hydro Tasmania consider it appropriate that this deadband setting be further reviewed as part of the AEMC's forward work program. In particular, the appropriateness of this deadband range should be tested in conjunction with the development of any future incentive framework.

3) Primary Frequency Response Requirements (PFRR) and exemption process.

Hydro Tasmania notes that the Australian Energy Market Operator (AEMO) will soon be commencing a consultation process to develop the PFRR specification document.

- a. The PFRR will set the technical specification and exemption criteria for the provision of PFR in the NEM. We look forward to engaging with AEMO throughout this consultation process and appreciate the concurrent coordination of AEMO's consultation while the final rules are determined. This is particularly valuable as there is only a short period from which the Final Determination is expected (26 March 2020) and the rule change commencement date (4 June 2020).
- b. As noted in the Draft Determination, some assets could only meet the proposed PFR requirement through costly upgrades, or significant additional costs in on-going plant maintenance. This is particularly an issue of interest in Tasmania given the diversity and age of the hydropower fleet. Hydro Tasmania therefore welcomes the proposed criteria which AEMO would have regard to in assessing potential exemptions to the PFRR especially where the risks/costs of implementing the mandatory PFR are high and the provision of providing effective frequency response is limited in the region.

We look forward to ongoing engagement with the market bodies as this important work progresses. If you have any queries regarding any aspect of this submission, please contact John Cooper (john.cooper@hydro.com.au).

Yours sincerely



John Cooper
Regulatory Manager