

7 November 2008

Mr Ian Woodward
Chairman, Reliability Panel
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
SYDNEY NSW 2000

Dear Mr Woodward

**FREQUENCY OPERATING STANDARDS FOR TASMANIA
PARTICIPANTS FORUM 30 OCTOBER 2008 SUPPLEMENTARY SUBMISSION**

This letter is submitted by Aurora Energy (Tamar Valley) Pty Ltd (AETV) trading as AETV Power as a supplementary submission in response to Hydro Tasmania's submission dated 29 October 2008 and participants' forum held in Hobart on 30 October 2008, we would like to make the following comments.

As highlighted at the participants' forum and in AETV's earlier submission dated 1 October 2008, the implementation of any new standard is likely to be a critical factor and AETV is seeking for these changes to take effect by 20 April 2009. AETV is concerned that without any incentive, participants could potentially frustrate the process at the detriment of benefits to the market. Therefore, we suggest that the Reliability Panel sets parameters for when the draft standards could take effect and the role for setting a date be left to the jurisdiction. This way the jurisdiction, through potentially the role of the Jurisdictional System Security Coordinator, could coordinate activity between entities and set a timeframe that is reasonable whilst providing a date for participants to work towards.

With regard to Hydro Tasmania's submission a number of assertions were made albeit no data was provided to facilitate a review. As a result the following comments are based on the statements made within their submission.

1. With respect to the benefit cost analysis, Hydro Tasmania has stated that the new thermal generator will only set the Tasmanian price for about 10% of the time. The ROAM modelling submitted by Alinta Energy indicates a net benefit of about \$40M per annum for the new frequency standard with a 144MW contingency size over the existing frequency standard. This outcome is from a credible model of the NEM that was subject to a tuning process using historical NEM data. The difference between the two scenarios is the addition of the new thermal generator in the new frequency standard case. The net benefit is the difference between the savings in energy cost less the increase in FCAS costs and any reduction in Basslink benefits. A net value of \$40M (equivalent to more than a 12% reduction in the annual energy cost) would seem to suggest that the new generator is setting the marginal price or causing a drop in the marginal price for significantly more than 10% of the time.

2. Hydro Tasmania also argues that the Basslink inefficiency is under-estimated because it does not consider the Victorian impacts. If the Victorian impacts are going to be included for the Basslink inefficiency, then this should also apply to the energy cost savings. The following points are made in this regard:
 - a. If the price curve in Tasmania is changed to include the addition of a cheaper base load generator (Hydro Tasmania assertion is that this generator is not the marginal generator for 90% of the time), then for a significant number of dispatch periods the Tasmanian price will be reduced, resulting in the energy cost savings indicated by CRA or ROAM. This price reduction will result in a decrease of imports from Victoria, or an increase in exports to Victoria if Basslink is available. In both cases the Victorian price is likely to be reduced compared to a price curve without the cheaper base load generation, due to the displacement of the marginal generators in Victoria. Thus an energy cost saving in Victoria should be attributed to the benefits of the new frequency standard in Tasmania that allowed the addition of this cheaper generation.
 - b. Each dollar saving in the Victorian spot price would result in five times the energy cost saving in Tasmania due to the volume ratio of the two States. If the marginal price curves in both States were similar, then an energy cost saving in Tasmania would result in 5 times the energy cost saving in Victoria (Basslink constraints will limit the extent of any linear relationship). The reduction in the Victorian price would have a flow on effect to the other regions in the NEM. The benefits accrued by other regions, as a result of the lower Victorian price should also be credited to the Tasmanian frequency standard change.
 - c. The savings would occur for every dispatch period when Basslink is available (more than 95% of the time) and subject to constraints.
 - d. Is it reasonable to assume in the Hydro Tasmania submission that the energy cost savings should be increased by say some \$15M to account for the Victorian benefits? It is unlikely that this energy cost saving would be less than \$8.7M given that the Tasmanian energy cost saving is estimated at \$3.2M (Hydro Tasmania estimate) or \$16M (CRA estimate) or more than \$40M (ROAM estimate from market modelling). Thus giving a positive benefit based on Hydro Tasmania's own analysis.
3. Hydro Tasmania on page 6 of their submission assert that contingency size has a direct relationship to the availability of R6. They then assert that the contingency size was less than 120MW for 90% of the time limited by the availability of R6. The graph on page 6 could in fact just reflect the drought conditions experienced by Hydro Tasmania during financial year 2007/08. This data could easily be reflective of machines dispatched within the period, efficiency dispatch points of these units as opposed to maximum output and/or management of environmental flows within some catchments. Irrespective of Hydro Tasmania's trading decisions, to suggest that TVPS be restricted to 110MW whilst other market participants' are able to operate up to 144MW is inequitable.
4. On page 9 of the Hydro Tasmania submission, they suggest that the implementation of any new standard be delayed until sufficient R6 is available. The ROAM market analysis identifies that sufficient R6 is currently available for dispatches of at least 144MW and for 160MW for up to 40% of the time. It does not seem reasonable to consider a delay with implementation of a new standard based on this information and argument.
5. On page 9 of the Hydro Tasmania submission, they suggest that the implementation of any new standard be deferred until after a Rules change on causer pays has been delivered. The issue of causer pays for ancillary services has been considered by NEMMCO in their FCAS Review July 2007. This issue is not new, nor is it as a result of the frequency standard review. What is

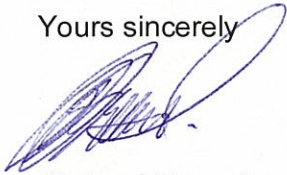
new is that a new frequency standard raises the possibility of greater competition. The mainland regions have competition, but have not been vocal in requesting Rule changes for a causer pays philosophy. Therefore AETV would object to such a proposal for the following reasons:

- a. The frequency standard review should seek to provide a market that gives the greatest net benefits.
- b. The causer pays philosophy is a mechanism for allocating costs required for power system security. A Rule change can be initiated (and accepted) if there is a desire (proven) to improve a cost allocation process. The two events can and should be treated quite separately.
- c. There is no real justification to delay moving the market operation to a more efficient level because a cost allocation process may be improved. That improvement can be initiated at any time and be implemented after due process has been conducted, quite separately from the changes to deliver a more efficient market.

AETV once again acknowledges and supports the significant step taken by the Reliability Panel to introduce a standard that can now accommodate thermal and CCGT units in Tasmania.

Please contact Shaun O'Loughlin on 0418 139 002 if you have any queries on these matters.

Yours sincerely



Michael Brewster
Chief Executive Officer