

18 November 2008

Australian Energy Market Commission,
PO Box A2449,
Sydney South NSW 1235

By email: submissions@aemc.gov.au

Dear Dr Tamblyn,

Re : Review of Energy Market Frameworks in light of Climate Change Policies

Hydro Tasmania would like to thank the AEMC for the invitation to comment on the Scoping Paper in relation to the Review of Energy Market Frameworks in light of Climate Change Policies.

We are a party to a submission by the National Generators' Forum, and the Clean Energy Council but would like to make two points in our own right in relation to:

- the potential synergies between wind and hydro generation; and
- transmission planning, investment and access.

Synergies Between Wind and Hydro Generation

Whilst concerns have been expressed regarding the difficulty of integrating a large proportion of wind generation into the NEM, we at Hydro Tasmania believe that in the Tasmanian context at least, there are feasible technical solutions. The integration of large-scale wind generation is facilitated by the existence of significant hydro generation. Some adjustment to the market mechanisms may be required, eg perhaps a market for inertia and probably changes to FCAS cost recovery arrangements.

We would encourage the Commission to consider in its Review the opportunities for wind/hydro or wind/gas synergies that can overcome the often ill-perceived 'risks' of rapid roll-off of generation and other firming or network support requirements.

What is important in this context is the preservation of economic efficiency, by passing through to generation owners, the costs of any necessary support, whether voltage control, inertia or frequency control ancillary services. If this approach results in a

requirement for a higher carbon price or RET penalty to make viable the required additional renewable generation, then this is the most economically efficient outcome. Consideration of the necessary infrastructure investment, technical and/or financial support mechanisms for each renewable energy source, whether biogas, geothermal, wind or solar, should form part of the policy background when the RET/CPRS/Funding support schemes are designed. It is recognised that this aspect is outside the scope of the current Review, but is an important aspect for the review to note.

Transmission Planning, Investment and Access

In closing we re-iterate our strong support for the position that the current arrangements in relation to transmission planning, investment and access do not facilitate efficient development of the volume of new renewables required to achieve the Climate Change policy objectives.

In our view, significant adjustments to transmission access, planning and cost recovery are required to preserve dynamic efficiency in relation to the transmission/generation investment balance. We indicated our concerns in this area during the Commission's earlier Congestion Management Review, (CMR). We note the Commission's conclusion at that time, ie that transmission network congestion did not then constitute a material issue in the NEM. We did indicate in our submission to the CMR some possible solutions, which may now need to be considered to deal efficiently with foreseeable future congestion risks. We believe that this area should form a major element of the Scope of Work for the Commission's Review.

Finally, Hydro Tasmania would like to thank the Commission again for the opportunity to engage in preliminary discussions on the adjustments to the energy frameworks which may be needed to achieve the Climate Change policy objectives and ask that the AEMC address the two issues raised above in its Review of Energy Market Frameworks in the light of Climate Change Policies.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Bowker', with a horizontal line underneath.

David Bowker

Manager Regulatory Affairs