Hydro Tasmania
The power of natural thinking

25 January 2012
Mr Richard Owens
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Re: First Interim Report: Transmission Frameworks Review EPR0019

Dear Richard,

This submission details Hydro Tasmania's response to the AEMC First Interim Report: Transmission Frameworks Review (EPR0019). Hydro Tasmania appreciates the opportunity to review and provide input into this process.

With reference to consideration of the five high level packages of reform, Hydro Tasmania supports the position of the National Generators Forum (NGF), which is support for Package 1 (Open Access Regime) with minor enhancements.

As package 1 is mainly based on the arrangements that exist in practice in the NEM today, Hydro Tasmania does not feel that a strong enough case has been made to warrant the risk and expense in substantially changing market structure arrangements to deal with the perceived market inadequacies the other packages are meant to address. Hydro Tasmania does not feel that there is an actual current systemic congestion problem in the market structure.

Enhancements to package 1 essentially mean enhancements to the current arrangements. This submission will outline some simple enhancements that Hydro Tasmania believes would better equip the NEM to meet its main objective, which is "*to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity*".

Further, this submission will also provide direct comment on the planning and connection related issues canvassed in the First Interim Report. These comments are consistent with Hydro Tasmania's position on the review of the 5 proposed main packages, and suggestions in relation to these issues can also be considered enhancements to package 1.

Comments on Clause 5.4A

In the Commission's First Interim Report, in reference to clause 5.4A of the National Electricity Rules (NER), the Commission states that, to its knowledge, these provisions have never been used. Hydro Tasmania would like to state that whilst it has not used clause 5.4A to negotiate firm access to the network or to be compensated if access is unavailable, Hydro Tasmania has used this clause as a lever to negotiate incentive arrangements with a TNSP. From experience, it is Hydro Tasmania's view that clause 5.4A does have relevance to the current access arrangements wider than the ability to secure access or seek compensation if access is unavailable. Further, from our market experience, it is our view that the clause has been used in a similar way by other market participants. Hydro Tasmania strongly believes clause 5.4A should remain in the NER. Hydro Tasmania requests that this position be

considered by the Commission when deciding whether or not to remove this clause from the NER.

Comments on Transmission Outage Planning

Hydro Tasmania believes that efficient market outcomes would be encouraged by any changes or enforcement of the rules that improve transmission outage planning practices in relation to recognising and considering market impacts. Hydro Tasmania believes that the impact to the market of outage planning decisions is currently poorly and inconsistently considered leading to inefficient market outcomes. Essentially, TNSPs seem to be shielded from their, and others, impact on the market. Transmission outages can, on occasions, drive spot market prices very high. With some simple planning these high price events could be substantially ameliorated consistent with the NEO. This could be addressed through requiring TNSPs to consider and be expected to minimise their impact on spot market pricing outcomes as a part of their outage processes. This approach will help minimise consequences of unpredictable market events on market participants.

Appendix A contains a case study that supports this observation. It is Hydro Tasmania's view that any obligations that can be placed upon TNSPs in this regard would help better achieve the NEO.

Further, Hydro Tasmania believes that TNSPs should not need to be further "incentivised" to achieve such outcomes. As monopoly service providers TNSPs should not receive additional revenue for simply behaving in a way that better achieves the NEO. This position is consistent with the AER objectives of the Service Target Performance Incentive Scheme (March 2008 Section 1.4a). Hydro Tasmania sees this problem as a failure in the implementation of the NER. Such practices should be core to the workings of the NEM and failure to take account of such considerations should amount to a breach in obligations and leave the TNSP open to penalty.

Hydro Tasmania believes this position is consistent with the intent of clause 6A.7.4 in the NER. In fact, it is directly referenced in clause 6A.7.4.b.1. Further, it is noted in the "Electricity transmission network service providers: Service Target Performance Incentive Scheme March 2008" AER document, which addresses the requirements of clause 6A.7.4, that penalties can be applied for failure to meet the obligations of the scheme. Curiously, Section 4.3 of this document – Adjustments to Maximum Allowed Revenue for the market impact component of the scheme – only specifies positive revenue adjustments (0-2%).

Hydro Tasmania believes that clause 6A.7.4, and the accompanying Service Target Performance Incentive Scheme(s), needs to be changed to define and include negative adjustments to maximum allowed revenue calculations for market impacts.

Comments on Planning Issues

Concerning the five possible enhancements to current planning arrangements, Hydro Tasmania supports those changes that improve market consistency, transparency, co-ordination within the market as well as activities that allow a better assessment of cost v benefit considerations in decision making in the NEM. Hydro Tasmania believes that the following five proposed enhancements meet these requirements.

The only specific comment concerns the introduction of reliability standards for interconnectors. Hydro Tasmania supports this suggestion on the proviso that it does not include market network service providers (MNSPs) on the basis that their reliability standards are already negotiated as part of their existing connection agreements as well as via commercial arrangements with wholesale market counter-parties.

Concerning the other options suggested for more significant reform, Hydro Tasmania makes the following specific comments:

- Enhanced co-ordination of the National Transmission Network Development Plan and Annual Planning Reports. Hydro Tasmania supports this option as it believes this change would improve market consistency, transparency, co-ordination within the market.
- Harmonised regime based on current South Australian arrangements. Hydro Tasmania supports this option as it believes this change would improve market consistency, transparency, co-ordination within the market.
- A single NEM wide transmission planner and procurer. Hydro Tasmania does not support this option. Hydro Tasmania agrees with the position of the Commission that a compelling case has not yet been made.
- Joint venture planning body established by TNSPs. The option is directly connected to package 5; consequently Hydro Tasmania does not support this option.

Comments on Issues Related to Current Connection Arrangements

Two proposals have been suggested to resolve current ambiguities in the rules pertaining to:

1. Connection services – what exactly comprises connection services; and
2. Shared transmission services – what exactly comprises shared transmission services.

Hydro Tasmania believes that these issues have been adequately addressed in the Feb 2009 changes to Chapter 6A and Chapter 11 (11.6.11). We believe that there has been no case put forward that would require further changes. Additionally, this is a complex section of the NER and Hydro Tasmania considers that there is significant risk of unintended outcomes arising from further amendment to Chapter 6A. In our view a stronger case for change is required to merit further amendments at this time.

Concerning the proposals to resolve current ambiguities in the distinction between assets and services, namely the categories of services for economic regulation purposes:

1. Prescribed transmission services;
2. Negotiated transmission services; and
3. Non-regulated services,

On the basis that this proposal will proceed, it is Hydro Tasmania's view that for negotiated and non-regulated services, the WACC should be considered a ceiling rather than a floor in relation to pricing for services. With a lower regulatory and reporting burden associated with negotiated and non-regulated services a case can be made that these services should be cheaper for a TNSP to provide. TNSPs seem to already enjoy a very strong negotiating position which is only partly addressed through the AER approved negotiating framework. Hydro Tasmania's view is that this is a possible area for further investigation by the AEMC and that further reform and improvements could significantly improve outcomes for connecting parties and ultimately customers.

Comments on Economic Regulation of Connection-related Services

Hydro Tasmania support the implementation of proposal 2, being enhancements to the negotiating framework. Consistent with our comments in the previous section, with this proposal the WACC should be considered a ceiling rather than a floor in relation to pricing for services.

Comments on Providing and Accessing Extensions to the Shared Network

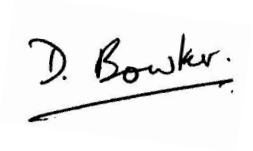
Hydro Tasmania does not believe that ownership, operation and control of extensions should be limited to TNSPs.

Further, Hydro Tasmania believes 3rd Party access to extensions should be clearer and codefied in the rules. Hydro Tasmania is supportive of this proposal as long as these access rules are not strictly open access i.e. the "no-disadvantage" test must be clearly applied. The "no disadvantage" test refers to the idea that the current owner/user must not be disadvantaged in facilitating access by a third party to the transmission assets in question.

Hydro Tasmania appreciates the opportunity to provide comments about the AEMC First Interim Report: Transmission Frameworks Review (EPR0019). We look forward to engaging further in this process.

If you require any further information please contact Christopher Gwynne via email on christopher.gwynne@hydro.com.au.

Yours sincerely,



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Appendix 1 - Case Study: Market Event April 22 2010

The Victorian region saw abnormally high prices on three consecutive days: 20, 21, 22 April 2010. The scenario below looks more closely at the market activity that occurred on the 22 April, where several outages occurred within close proximity at a time of high market volatility.

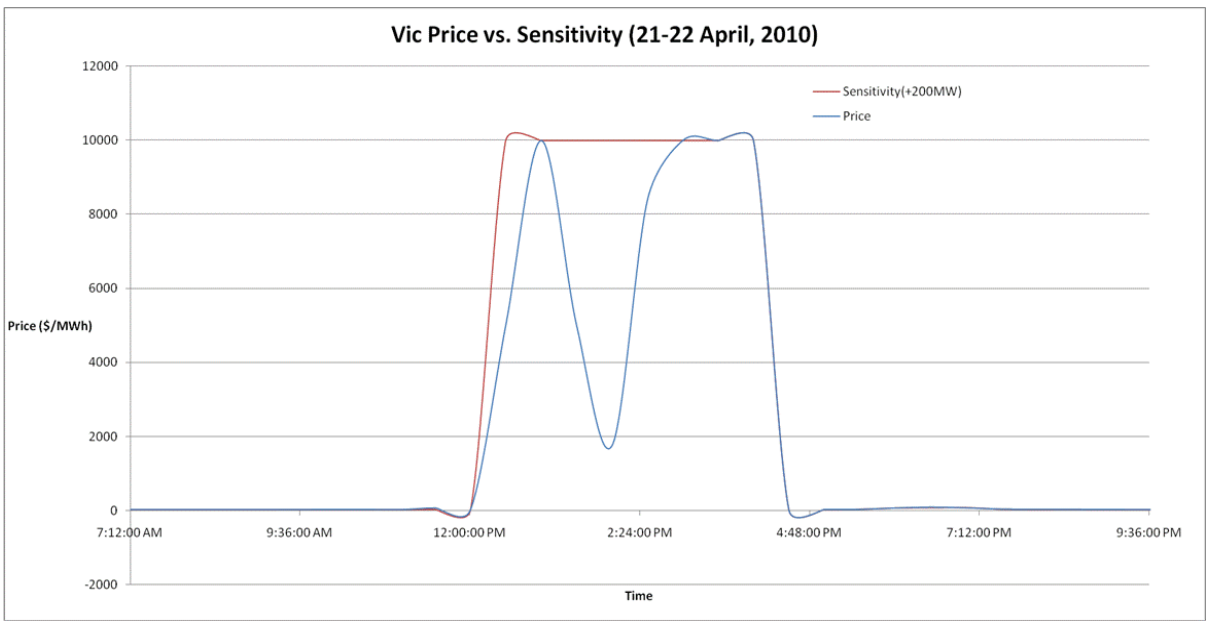
*"On Thursday 22 April 2010, the spot price in Victoria exceeded $5000/MWh over seven trading intervals from 12.30pm to 4:00pm inclusive, reaching close to the price cap. Planned network outages restricted imports into Victoria from SA and NSW, and Basslink was out of service following its unplanned outage on 17 April. Day ahead bidding by International Power saw significant capacity at Hazelwood and Loy Yang B priced at close to the price cap…."**

In this instance planned network outages were progressed which restricted imports into Victoria from both NSW and SA:

- Heywood-Moorabool 500kV line (Victoria - South Australia); and
- Dederang-South Morang 330kV line (Victoria – NSW).

On April 17, Basslink had been subject to a forced unplanned outage. The impending market sensitivity was easily visible as Basslink was a known forced outage. This is supported by the visible pricing strategies of market participants referenced by AER above. Weather related factors were not seen to be influencing demand and thus not the contributing factor to the market volatility.

If these outages had been differently timed around this market volatility, the affects would have been far less severe. The graph below represents the volatility (Vic Price sensitivity with a 200MW increase in demand) and resultant price on the day of the 22nd, April 2010. The volatility as a result of taking the network outages could have been observed and abandoned by the TNSP most likely reducing adverse market outcomes.



It is noted that this incident impacted a number of market participants who were constrained off over this period. Transmission network planning cognisant of such market impacts could better minimise congestion related issues in the first instance.

* AER Report Electricity Spot Prices above $5,000/MWh 22 April 2010 Victoria