



15 June 2009

Dr John Tamblyn
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Dear Dr Tamblyn

PROJECT REFERENCE CODE – ERC 0082/2

Supplementary Submission to National Electricity Amendment:

CAUSER PAYS FOR ANCILLARY SERVICES TO CONTROL THE TASMANIAN FREQUENCY

Aurora Energy Pty Ltd (Aurora) appreciates the opportunity to submit observations on Hydro Tasmania's supplementary submissions (20 March and 13 May 2009) supporting its proposed Rule change *Causar Pays for Ancillary Services to Control the Tasmanian Frequency*.

As declared in our submission of 13 March 2009, Aurora opposes the proposal to change the National Electricity Rules, on the basis that it does not advance the National Electricity Objective (NEO). The supplementary papers do not alter this position. Neither of the Hydro Tasmania supplementary submissions negates the objections raised in Aurora's initial round submission to the Rule change, that is: the lack of a positive contribution to the NEO; added inconsistency and complexity in the NEM; inappropriate application of the causer pays principle; and the suppression of competition in the wholesale energy market.

Aurora's frame of reference

Although Aurora Energy's Divisions and subsidiary represent three or more distinct functions in the National Energy Market, the comments in this Paper reflect the interests of Aurora as a retail market participant and representative of energy end use customers, particularly in the Tasmanian region. As a market customer Aurora focuses its observations on promoting competition in the wholesale market and minimising wholesale energy costs. We understand that the issues impacting on Tasmania's new generation market participant, Aurora Energy Tamar Valley will be addressed in a separate submission.

Supplementary Rule change amendment of 20 March 2009

Hydro Tasmania's first supplementary paper modifies its proposed rule change such that only the first new entrant generator would become liable as the "causer" of the new frequency operating standard and 'bear the cost of additional FCAS required, compared with what would have been required had the Tasmanian frequency operating standards not changed'.

Firstly, Aurora does not accept the assumption that the new Tamar Valley Power Station (TVPS), nor any other individual generator can be labelled the 'causer' of the revised Frequency Operating Standards in Tasmania. The reasons for the new frequency standard, listed in Appendix C of the *AEMC Reliability Panel Tasmanian Frequency Operating Standard Review* (the Review) Final Report (18 December 2008), relate to its value to the National Electricity Objective, for example, where the changes removed a substantial technical barrier, unique in the NEM, for the entry of least-cost new electricity generation technology.

In its previous submission Aurora noted that the Review was scheduled by the AEMC Reliability Panel to assess the opportunity to align the frequency standards in Tasmania more closely with those of the National Market. It was not, for instance, set up in response to a request from an individual generator seeking market entry, thereby 'causing' the changes.

Hydro Tasmania has since resubmitted that TVPS caused the timing of the introduction of the new standard, rather than the need for it. Aurora disagrees. The need for energy security in the Tasmanian NEM region demanded a new base load generator in Tasmania, and efficient thermal plant was not just the least cost technology, it was the only option available. The timing of the introduction of a frequency standard that enabled this technology to connect was caused by the need for electricity quality, reliability, security of supply, and electricity price, especially in the long term. It clearly promoted 'efficient investment in, operation and use of electricity services for the long-term interests of consumers of electricity'. So only the National Electricity Market itself could be seen as the 'causer' of the new Tasmanian Frequency Standards, and the 'causer' of the timing of their introduction.

Aurora continues to question the veracity of the allocation of 'cause', which appears to be the rationale for the rule change proposal and the supplementary changes.

The proposed application of the Rule change is inconsistent with the application of the causer pays principle evident in the National Electricity Rules for allocation of Regulation FCAS at Rule 3.15.6A.

Secondly, the revised Rule change proposal, although now targeted at one specific generator, will inevitably be seen as an ongoing disincentive for other prospective wholesale energy competitors (not affiliated with Hydro Tasmania) who may otherwise consider entering the Tasmanian region. Although probably intended to counter this argument, the revised Rule change proposal retains its negative impact on competitive outcomes and is contrary to the claim in the original proposal that it minimises actual or perceived regulatory risk to efficient investment in electricity infrastructure. The acceptance of the proposed derogation by regulatory bodies would display acceptance of the controlling influence of a dominant generator and create a further disincentive to entry into the already challenging Tasmanian energy generation market, thereby further reducing the chance of lower wholesale energy prices driven by competition.

Finally, the redesigned Rule change proposal does not alter the fact that the proposed rule would not advance the National Electricity Objective, as argued in Aurora's submission of 13 March 2009. In addition Aurora observes that the revised Rule change proposal appears to transgress key principles of the operation of the AEMC, specifically the mission statement of the AEMC where it says:

'to deliver high quality and impartial energy market Rules and ... promote efficient, reliable and competitive energy markets in the interests of all Australians';

and the Australian Energy Market Agreement objectives:

- (a) the promotion of the long term interests of consumers with regard to the price, quality and reliability of electricity and gas services; and
- (b) the establishment of a framework for further reform to:
 - (i) strengthen the quality, timeliness and national character of governance of the energy markets, to improve the climate of investment;
 - (ii) streamline and improve the quality of economic regulation across energy markets to lower the cost and complexity of regulation facing investors, enhance regulatory certainty, and lower barriers to competition'.

The obstruction of key tenets for an effective and efficient National Market is further demonstrated in the revised Rule change proposal's contravention of the National Competition Policy Objective that notes the intent:

'to develop a more open and integrated Australian market that limits anti-competitive conduct and removes the special advantages previously enjoyed by government business activities, where it is in the public interest to do so'.

The supplementary submission of 13 May 2009

The second supplementary submission provides information on the derivation of the \$3.5 million figure calculated as additional costs of the fast raise service as a result of the implementation of the new Tasmanian frequency operating standard; and the costs of implementing Hydro Tasmania's Rule change proposal. From a customer's point of view, the costs of the additional fast raise service requirement should have been the subject of the Review of Tasmanian Frequency Operating Standards. That review is complete, including a cost benefit analysis. Aurora accepts now that there will be added fast raise requirements and that customers will inevitably pay the costs of these, but anticipates that these costs will be outweighed in the long term by the benefits of wholesale competition.

The first part of the second supplementary submission represents an attempt to quantify the costs of the fast raise service, but these will be incurred by the market regardless of the Rule change proposal. The calculations do not reduce the impact of these costs on energy consumers and don't change the substance of arguments for and against the Rule Change proposal.

The submission goes on to detail how the costs of the proposed Rule change would be reduced. Aurora challenges the direct relevance of this research to the proposed rule change or to advancing the NEO. Aurora does, however, acknowledge the effort being undertaken to minimise and itemise the FCAS costs. Hydro Tasmania and NEMMCO have put substantial work into this, but from the Market's perspective, these calculations only serve to demonstrate that the proposed Rule change would


result in further costs for which Aurora and its customers will see no material end benefit. It suggests that customers will be subject to higher prices if the rule change goes ahead, and no change if it doesn't. The arguments about costs are of concern, but relevant to managing the changes to the Tasmanian frequency standards, not the revised Rule change proposal under consideration.

Conclusion:

Aurora believes the additional information presented in the two supplementary submissions and NEMMCO's revised approach to calculating Tasmanian market ancillary service requirements provide no further evidence to help justify the making of this proposed Rule change.

Representatives from Aurora Energy are available should you require any further support to this submission.

Yours Sincerely



Dr Peter Davis

Chief Executive Officer

Aurora Energy

15 June 2009