



Hydro Tasmania
the renewable energy business

1 February 2010

Mr Glenn Appleyard
Regulator
Office of the Tasmanian Economic Regulator
GPO Box 770
Hobart Tas 7001

Dear Mr Appleyard,

Declaration of Frequency Control Ancillary Services (FCAS)

Hydro Tasmania has carried out a detailed review of the Statement of Reasons for the Declaration of Raise FCAS provided by Hydro Tasmania.

Hydro Tasmania disagrees with the analysis supporting the findings made about its alleged conduct. Hydro Tasmania does however, believe the Economic Regulator's decision to declare the services provides an excellent opportunity to address what have emerged as transitional problems with the supply of FCAS in Tasmania. It should also provide an opportunity for the real (and increasing) cost of supply of FCAS to be recognised. Hydro Tasmania trusts that the regulation process will have the likely benefit of encouraging investment by others in this market, increasing the availability of the service and competition for its supply, and enabling more efficient energy supply in Tasmania. In Hydro Tasmania's view, this will allow the underlying issue to be addressed.

Hydro Tasmania welcomes the Economic Regulator's recognition that it is inefficient to rely on the hydro system to provide Tasmania's entire local FCAS requirement and to do so will inevitably lead to high FCAS prices and higher energy prices for Tasmanian consumers. As the Economic Regulator has pointed out, it is well known that the fast raise contingency FCAS in Tasmania is in short supply. Hydro Tasmania's provision of local raise contingency FCAS constrains Hydro Tasmania's ability to supply energy, and comes at an increased cost to Hydro Tasmania as a result of the inefficient operation of its plant when additional FCAS is required. This sub-optimal operation inevitably leads to higher energy prices.

Hydro Tasmania stands by its actions and does not accept the Regulator's contention that Hydro Tasmania misused market power or extracted 'monopoly rents'. Hydro Tasmania strongly rejects the assertion that its behaviour has, in any way, been anti-competitive. Further, the Regulator's assertions in this regard go beyond what he is required to consider, as the *Electricity Supply Industry Act* and associated Regulations do not require any such finding to enable him to declare the service.

The ACCC is investigating the pricing of FCAS in Tasmania in April 2009. That investigation is ongoing. Hydro Tasmania's position has been and continues to be that it has at all times acted with integrity and within the law and will strongly defend the actions that were taken. Hydro Tasmania understands that the ACCC's investigation may take many months to complete, and considers that investigation to be the appropriate forum for considering issues pertaining to any allegations of 'anti-competitive' behaviour. Thus Hydro Tasmania considers its interests will be better served by accepting the Regulator's decision so it can focus on responding to the ACCC's investigation.

Yours sincerely



Vince Hawksworth
Chief Executive Officer