



# **Major Energy Users Inc.**

15 May 2015

Mr Todd Newett,  
Principal Policy Analyst  
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By email: [office@economicregulator.tas.gov.au](mailto:office@economicregulator.tas.gov.au)

Dear Mr Newett

## **Retention or revocation of the declaration of raise contingency Frequency Control Ancillary Services (FCAS) as a declared electrical service**

The Major Energy Users (MEU) welcomes the opportunity to provide its views to the Office of the Tasmanian Economic Regulator (OTTER) on the Consultation Paper relating to the revocation or retention of the declared contingency FCAS. The MEU membership includes a number of large energy using firms in Tasmania and therefore this issue has significant relevance to the MEU.

The MEU has reviewed the Consultation Paper and the response provided by Hydro Tasmania (HT). The MEU has also reviewed the OTTER papers on which was based the OTTER decision to implement regulation for this service.

In its preliminary advice, HT comments, amongst other things, that the regulated service is not needed because:

- HT does not have market power in Tasmania for supply of FCAS because there is Basslink (which can provide both raise and lower FCAS) and some major customers that could provide raise FCAS.
- HT also pays for FCAS and would welcome lower costs from other sources of FCAS but none has been forthcoming.
- There have been no customers for FCAS (presumably other than HT which is also provider but implies that it would buy FCAS if there were other providers)
- The costs for providing the pricing for a service that no one buys is effectively wasted and is therefore not efficient.

There is no doubt that Basslink can provide a credible alternative to HT in the provision of raise and lower FCAS yet the MEU notes there are many periods of time where Basslink is not able, due to its operating conditions, to provide all forms of FCAS needed in the region. This means there are frequently periods of time where HT would have a monopoly on the supply of FCAS in the region.

HT comments that there are a number of consuming customers that could provide raise FCAS by making a decision to reduce demand when requested to by the market operator. The MEU notes that the number of consuming customers able to do so is quite small, especially for fast raise. Fast raise FCAS implies an ability to load shed very quickly, but to do so, the consumer is liable to suffer damage to its product and/or equipment to provide a sufficiently fast response. Further, the costs to a consumer customer in providing any raise service is likely to be high as it does incur loss of production in addition to any damage to product and /or equipment.

The MEU quite understands why consumer customers might not want to enter the FCAS market as their core business is making products; in contrast HT core business is to provide electricity and the associated services needed to maintain a reliable and stable supply of electricity. The cost to an consuming customer to provide FCAS would be significant compared to the cost to an entity using equipment specifically designed to provide FCAS services.

The MEU is not so concerned about the issue when Basslink has the ability to provide an FCAS response initiated from the mainland, as HT is clearly in competition with other suppliers of electricity when Basslink is not constrained. The main concern the MEU has is when Basslink is constrained from transferring FCAS and it is important to note that HT can, through its own actions, initiate the circumstances which constrain Basslink's ability to transfer FCAS from the mainland. So not only is HT the sole provider of supply side FCAS in Tasmania but it also has the ability to control when it has market power for the supply of FCAS needed in Tasmania.

The MEU considers that in the absence of actual and constant competition, regulation has an important role to play in ensuring that there is no exercise of market power by the pivotal generator in any region. The MEU also notes that this issue of HT being the pivotal generator in Tasmania has already been addressed by the imposition of regulation for the wholesale prices for electricity HT provides. The MEU therefore questions why FCAS pricing, which also impacts the price of electricity seen by consumers, should be treated differently to the market price for electricity.

Although HT asserts that the cost of providing the regulated service for FCAS is effectively lost because there have been no buyers of the service, the MEU observes that this cost is likely to be very modest, particularly as HT is continually providing FCAS<sup>1</sup> pricing to the market operator. To decide that a regulated service should be discontinued requires an analysis (a Public Interest Test) to assess the cost of providing the service against the benefit of the service. The MEU notes that even

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<sup>1</sup> The MEU is aware that HT does have to pay a proportion of the cost of FCAS used in Tasmania, but not all of the cost. Ultimately consumers pay the cost of FCAS either directly through wholesale market charges or through the premium HT adds to its prices.

though there might not have been a great deal of interest in the regulated service for FCAS, the fact that it is there, effectively provides a cap to the cost that HT can impose on the market for the supply of FCAS. The MEU considers that, as the regulation was imposed in the first place, this implies that there is a benefit to consumers and this benefit (even if it is intangible) needs to be examined in detail before it can be determined that its value is less than the cost of providing the service.

On balance, the MEU is not convinced that the long term interests of consumers (as required by the National Electricity Objective) is served by the revocation of the requirement to provide the regulated FCAS service. To the contrary, the MEU considers there is an argument that would seek to expand the regulation of all HT pricing for the FCAS services needed to maintain the Tasmanian region in a stable and reliable state.

The MEU is pleased to be involved in this review process and we request that you keep the undersigned aware of future discussion and request for further stakeholder involvement on this review either by email at [davidheadberry@bigpond.com](mailto:davidheadberry@bigpond.com) or by phone on (03) 5962 3225.

Yours faithfully

A handwritten signature in black ink, appearing to read "David Headberry". The signature is written in a cursive style with a prominent flourish at the end.

David Headberry  
Public Officer