



28th August 2009

Director
Office of the Tasmanian Economic Regulator

By email: office@economicregulator.tas.gov.au

Attn Jane Hyland

Dear Jane,

Notice of intention to declare the supply of raise contingency frequency control ancillary services by Hydro Tasmania as a declared electrical service - Issues paper

Roaring 40s welcomes the opportunity to submit to this consultation.

Roaring 40s is a wind farm developer and operator that is 50% owned by China Light and Power (CLP) and Hydro Tasmania (HT). It owns the 65MW Bluff Point Wind Farm and 75MW Studland Bay Wind Farm in north-west Tasmania. Construction has also commenced on the 168MW Musselroe Wind Farm in north-east Tasmania. When Musselroe is complete, the 50% CLP equity holding in Roaring 40s will represent 154MW of private investment in the Tasmanian generation sector.

Partial re-regulation of the Tasmanian region of the National Electricity Market (NEM) through regulation of the contingency raise FCAS markets has potential to distort investment signals and result in inefficient operation of existing plant. This is un-desirable both in terms of short term efficiency of the market and long term attractiveness of the Tasmania electricity sector to investors.

Regulation of raise FCAS prices will present potential new entrants with a price calculated by the regulator rather than determined by market forces. As such these potential new entrants (including wind generation) will have difficulty in determining the value of participating in the FCAS markets. They will also have difficulty in forecasting the FCAS liabilities of a new power station. It is noted that technology that allows wind generation to provide both raise and lower frequency control services is now readily available in the Australian Market.

The small size of the Tasmanian system and technical characteristics of Basslink result in strong linkages between the energy and FCAS markets. Distortion of FCAS pricing mechanisms is likely to result in in-efficient operation of both Basslink and the energy market, so increasing the cost of supply in the Tasmanian region.

Into the future, displacement of fossil fuel and hydro generation by low inertia generation (such as wind and solar) will require robust FCAS price signals to create efficient incentive for commitment of FCAS capable/high inertia plant. In the Roaring 40s submission to the AEMC Reliability Panel Review (<http://www.aemc.gov.au/Media/docs/Roaring%2040s%20-%20Supplementary%20Submission-a3d52e4c-e250-44fe-aa03-ca6c213f2e93-0.pdf>) ,

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it is demonstrated that high prices can result from efficient, cost based pricing of FCAS services in the Tasmanian region. Distortion of these price signals will risk market failure and further regulatory intervention.

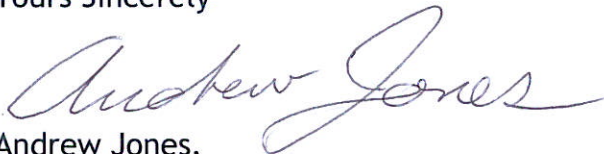
At a policy level, a state regulator that demonstrates a propensity to intervene in the operation of the National Energy Market will inevitably raise perceptions of sovereign risk in the given jurisdiction and increase costs to energy consumers.

The NEM arrangements allow perceived deficiencies in market design to be investigated under the NEM Rule Change Process as administered by the AEMC. The AEMC may change the Rules if a proposal is shown to progress the National Energy Market Objective (NEO). Action by a jurisdiction to change market arrangements out side of the Rule change process suggests that the jurisdiction is seeking to progress policy objects that differ from the NEO. To the extent that these policy objectives create pricing uncertainty and wealth transfers, investors will price this risk. The cost of managing this risk will be seen by energy consumers.

Roaring 40s encourages OTTER to consider the full breadth of consequences that may arise from re-introducing regulation to the Tasmanian region of the NEM. It is suggested that OTTER broaden the scope of their investigations to seek alternative solutions to the issues at hand. Ideally a solution could be found that avoids jurisdiction intervention in NEM arrangements.

Please call contract Andrew Jones on 0400 537 944 if you have any questions regarding this submission.

Yours Sincerely

A handwritten signature in cursive script that reads "Andrew Jones".

Andrew Jones,
Market and Regulation Manager