



Ref: ERC0201

17 June 2016

Attention: Mr Ben Noone
AEMC
ELECTRONICALLY SUBMITTED

Dear Mr Noone

National Electricity Amendment (Five Minute Settlement) Rule 2016

CS Energy welcomes the opportunity to respond to the consultation on the proposed amendment Five Minute Settlement.

To summarise, CS Energy considers electricity markets require careful design of multiple inter operating processes and procedures. Improving one element of market operations may fail, due to bottlenecks or unintended consequences, if other processes are not also improved. CS Energy would welcome a review of the NEM's market operations.

Electricity markets aim to calculate system marginal prices, based on marginal quantity, time and location. The NEM uses a marginal quantity of 1MW, marginal time of 30 minutes and locational marginal price by region. In principle CS Energy has no objection to more marginal pricing with regards to time, but has historically objected to granular locational marginal pricing¹.

In theory, more marginal pricing should allow those deciding to incur marginal costs to do so understanding the marginal benefit. This trade off, known as "marginal decision making" improves allocation of resources and if done well, will satisfy the National Electricity Objective ('NEO').

CS Energy is concerned that if a marginal incentive, such as energy settlement, is sharpened to five minutes, without resolving a number of conditions listed below, participants (scheduled, non-scheduled or unregulated), that obtain a marginal benefit of changing load within the 5 minutes will not face the marginal cost of doing so. This transfers cost of their decision onto other participants or consumers, which will not satisfy the NEO.

The conditions that require resolution include:

- resolving the compliance obligations for non-scheduled generators or loads within the 5 minutes, in particular the requirement to comply with Dispatch Instructions;

¹Whilst locational marginal prices are theoretically appealing, a difficulty arises in that more granular locational prices run counter using competition to reveal efficient costs. It also creates a barrier to trading between participants.

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- improving the allocation of costs for regulating frequency, to ensure participants that “consume” these services with their marginal decision making pay for these services within the 5 minutes;
- improving the ability for dispatch to accommodate the marginal cost of Fast Start (non-synchronised) units using the Fast Start Inflexibility Profile; and
- overcoming technical and accuracy deficiencies in adopting SCADA in lieu of revenue metering.

A further issue to be investigated is the calculation of Marginal Loss Factors (MLFs). These are presently done on an ex-ante, average basis and are unlikely to remain appropriate if the NEM aims to improve marginal decision making and allocative efficiency.

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