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Australian Energy Market Commission
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Primary frequency response rule changes (Removal of disincentives to primary frequency response) Consultation paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation paper from the Australian Energy Market Commission (the Commission) on the Primary frequency response (PFR) rule changes.

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5,500 megawatts (MW) of generating capacity. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Snowy Hydro understand the need to improve frequency performance in the power system and the intent through the rule change requests to improve power system security. We believe a focus by generators on prioritising strict compliance with dispatch instructions over operating their plant in a frequency response mode and providing primary frequency response is a sensible and positive changes. However we are concerned with the proposed changes to the arrangements for the allocation of costs associated with regulation services which will lead to synchronous generators subsidising the lack of frequency response of a-synchronous generators and the requirement to provide primary frequency control that will only further reduce the value of regulation Frequency Control Ancillary Service (FCAS) markets.

We encourage the Commission to properly balance the need to optimise economic efficiency of service delivery against the implications of an insecure power system. Appropriately structured incentives that align with existing market structures continue to be the most cost effective and efficient means of supporting the provision of primary regulating response and addressing the current concerns with frequency performance.

Prioritisation of compliance with dispatch instructions

AEMO's rule change request to clarify in the NER that strict compliance with dispatch instructions should not take priority over provision of frequency response to help control system frequency is a positive change. Compliance with dispatch instructions positively assists power system however it is important that the strict compliance regime doesn't impose unnecessary risk on market participants. Non-compliance can either involve having a generation dispatch offer which the unit was not capable of complying with or a positive action taken by the generators which led to energy dispatch instructions not being followed. It is therefore important that AEMO understand the ongoing operational complexity with the strict compliance.

Causer Pays

Causer Pays is the mechanism by which AEMO recovers the cost of regulation services. Snowy Hydro is supportive of enhancing the causer pays process however the rule change proposal to change the existing arrangements will be problematic. The rule change proposes to change the arrangements where certain generators to remove or detune their responsiveness to frequency to reduce the risk of being allocated costs through the causer pays process.

Removing causer pays for those who provide primary frequency control will lead to distortions on the causer pays principle. For example, consider the case where a unit trips and has been providing primary frequency control as per AEMO's requirements. Under the proposed rule change, this unit will not have any negative causer pays attributed to it for this particular event (despite having a clearly detrimental impact on frequency). In effect units that are providing PFR have no causer pays incentive to avoid causing frequency disturbances. The change could also favour certain technologies over others where intermittent generators whose output can vary rapidly detrimentally affecting frequency will not be allocated causer pays costs if they are providing PFR.

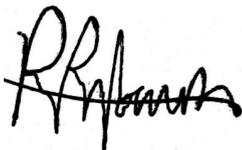
Operating in frequency response mode

AEMO's requirement to operate in frequency response mode will further reduce the value of regulation FCAS markets and provides another economically inefficient outcome for service delivery. Snowy Hydro strongly believes the market arrangements for FCAS provision in the NEM have been successful to date and have generally been able to deliver adequate FCAS provision at efficient prices. With the recent issues of deteriorating frequency control within the normal operating band being identified there has been no cost-benefit analysis supporting the proposed changes to frequency control infrastructure that would be highly desirable ahead of any mandated requirements.

Markets encourage innovation, as opposed to prescriptive approaches which can become obsolete as technology changes. AEMO's requirement to operate in frequency response will look at historic system characteristics to define requirements for inertia and governor responses and will not deliver the most efficient outcome compared to creating appropriate market arrangements. If there is an urgent and immediate need for greater levels of operating in frequency response mode, the Commission should explore the development of a permanent enhanced market based solution.

Snowy Hydro appreciates the opportunity to respond to the Consultation paper and any questions about this submission should be addressed to me by e-mail to panos.priftakis@snowyhydro.com.au.

Yours sincerely,



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