



PFR incentive arrangements – Rule Change Request Section 108A (NEL) ERC0263 - S108A report

Purpose

The Commission is required under section 108A of the National Electricity Law (NEL) to publicly report on rules not made within 12 months of the publication of the notification of the commencement of the rule change process.

Background

On 3 July 2019, AEMO submitted a rule change request relating to the observed degradation of frequency performance in the national electricity power system during normal operation. AEMO identified a series of perceived disincentives in the NEL to generators voluntarily operating their plant in frequency response mode, leading to a reduction in the amount of plant in the NEM that provide primary frequency response (PFR).

The rule change request identified the following focus areas:

- the arrangements for the allocation of regulation service costs, known as 'causer pays'
- generators prioritising compliance with dispatch instructions over frequency response
- a perception that the NEL requires generators to be frequency responsive only when they are enabled to provide a frequency control ancillary service (FCAS).

The s.95 notice was published on 19 September 2019, together with a consultation paper which formally commenced the rule change process for this rule change request as well as two other related rule change requests – *Mandatory primary frequency response* (submitted by AEMO) and *Primary frequency response requirement* (submitted by Dr Peter Sokolowski). These two related rule change requests were later consolidated, and the *Mandatory primary frequency response rule* was made on 26 March 2020 in relation to this consolidated rule change request. The Mandatory primary frequency response rule resolved the identified issues related to the prioritisation of dispatch instructions over frequency response and when a generator may operate in a frequency responsive mode.

The remaining objectives for the primary frequency response incentive arrangements rule change request were to investigate the appropriateness of the existing incentives for the provision of PFR during normal operation and amend these arrangements as required to meet the future needs of the power system.

Reason for the final rule determination not being made within 12 months

Under s.107 of the NEL, the Commission has extended the time for making a draft rule determination in relation to this rule change request twice, with the latest extension establishing a date for publication of the draft determination by 16 September 2021. A final determination is expected to be made by 9 December 2021.

The final rule determination has not been made within 12 months of the publication of the notice under s. 95 of the NEL because:

- *The Commission considered the design and implementation of the mandatory arrangements for primary frequency response to be a priority*

Through its assessment of the consolidated Mandatory primary frequency response rule change, the Commission identified that an immediate change to the NEL was justified to improve and maintain the security and resilience of the national electricity system to meet AEMO's concerns relating to the degradation in power system frequency performance. The Commission considered that an immediate improvement to frequency performance was a

priority and that the implementation of mandatory arrangements would be the fastest means of achieving this improvement. The development of appropriate incentive arrangements was identified as a second order priority which would be progressed through the Primary frequency response incentive arrangements rule change. Given the time needed to develop such arrangements, the Commission considered that it was not possible to implement an effective incentive arrangement at the same time as addressing the immediate system security needs.

- *The Commission intends to use the experience gained through the mandatory arrangements as an input into the design of appropriate incentive arrangements*

AEMO is currently working with generators to implement a coordinated rollout of the mandatory arrangements. This rollout is occurring in three tranches to be completed by mid-2021. The Commission is conducting a survey of generators to investigate the impacts on generators and the power system from the rollout of the mandatory arrangements. Learnings from this investigation will be used as an input into the design and development of appropriate incentive arrangements through the *Primary frequency response incentive arrangements* rule change request.

- *Technical advice is underway to inform the draft rule determination*

The Commission's determination of enduring PFR arrangements will be informed by technical advice from AEMO and independent advice on the relative costs and benefits of each of the pathways for enduring PFR arrangements. AEMO's final advice will be provided in by August 2021 and will outline its views on the technical feasibility of the policy options identified for enduring PFR arrangements. The Commission has also sought independent advice in conjunction with the advice to be provided by AEMO as an additional input into its draft determination for the PFR incentive arrangements rule change. This independent advice will be finalised by August 2021 and will complement the advice to be provided by AEMO.

- *Detailed and complex nature of issues raised by the rule change request.*

The design of appropriate incentive arrangements involves the consideration of some more technically complex aspects of market design, including the causer pays arrangements for frequency control services. It also has links with other aspects of the frequency control arrangements and the broader system security work program which must be taken into account, including the mandatory primary frequency response arrangements, the Commission's assessment of the *Fast frequency response market ancillary service* rule change request, and the essential system services workstream as part of the Energy Security Board's post-2025 work program.

The extended timeframe also enables the Commission to consult extensively with stakeholders on the issues raised in the rule change request, specifically to:

- hold five technical working groups (to date: 18 November 2019, 27 February 2020, 8 October 2020, 4 March 2021 and 21 May 2021) on the rule change request and proposed policy
- hold numerous other bilateral meetings on aspects of the rule change request.

A directions paper was published on 17 December 2020.

Stakeholder submissions on the directions paper support the Commission seeking relevant advice from AEMO and an independent consultant to help inform its determination. A range of views were expressed in relation to the mandatory arrangements and in relation to the future incentive and cost allocation arrangements for PFR. The Commission is using the additional time to address outstanding issues by undertaking further analysis and targeted stakeholder consultation.

Expected time for making a final rule determination

The Commission is scheduled to make a draft rule determination on the Primary frequency response incentive arrangements rule change request on 16 September 2021. A final determination is expected to be made by 9 December 2021.