NATIONAL GENERATORS FORUM

Paul Bell
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Bell

Reference: ERC0121

Subject: NGF response to AEMC Draft Determination on "Application and operation of Administered Price Periods" during high frequency response prices.

The NGF is pleased to have this opportunity to comment on the Rule change proposal Draft Determination on Administered Pricing Periods (APP) for Frequency Control Ancillary Services (FCAS).

The NGF supports the Draft Determination with the exception of two considerations regarding section 6 of the Draft Determination consultation.

The NGF request the AEMC note this consultation on a very specific application of the spot price rules on the frequency response markets should not imply acceptance or full support of the way the NEM both dispatches and recovers the cost of MAS services provided by generators.

The APP should not apply to high and low frequency services at the same time.

The Draft Determination, if approved, will result in the APP being set on all FCAS services should the Cumulative Price Threshold (CPT) be breached on only one FCAS service. The NGF recommends the AEMC change the determination so that the high frequency (lower services) are not automatically subject to administered pricing at the same time as low frequency (raise services) in the event the CPT is breached for one of the raise services, or alternatively, automatically applied to the raise services in the event that one of the lower services breaches the CPT.

The AEMC states in the draft determination that capping both raise and lower services in the event of a MAS triggered APP is the preferred outcome as this provides simplicity and predictability and will result in lower prices to consumers in the long run. The AEMC also concludes that there would be no problems in having both high and low services capped due to there being little correlation between high prices for both services. The NGF contends that in taking this simplistic route the AEMC fails to consider the APP will operate for a period that will include both peak demand periods during the day when the system is stressed and also during the overnight offpeak periods. This ignores the possibility of high frequency (lower) services being of significant value during the night.

As an example, after a very hot day with another expected the very next day; all large thermal generators will seek to operate through the night as two-shifting (coming off over night) may result in failure to return to service in the morning. This may also include mid merit and some peaking units. In such an instance it may be possible for there to be an excess of plant operating at minimum load and the energy price may drop to the Market Price Floor (MPF) of -$1,000/MWh. In such an instance the Administered Price Cap (APC) of $300/MWh for high frequency (lower) services will be insufficient to compensate generators for providing these services this could cause generators to withdraw from providing these services. AEMO will then need to direct generators to continue to provide these services to ensure system security, in effect, an unfortunate and possibly costly to consumer's market intervention that could be avoided

It is for this reason the NGF recommends the AEMC independently apply the APC to the four high (lower) or low (raise) frequency services based on an actual breach of the CPT. The justification provided in the draft determination (that it is simpler to apply the APC to all services rather than just that of low or high frequency) is insufficient reason in making such a determination.

The above being said, the NGF agrees with the AEMC that it is reasonable to apply the APC to all low or high frequency services simultaneously as in principle all four services in each group should increase to reflect the opportunity cost of operating in either the energy or the FCAS markets; they should therefore all move towards similar prices. The exception may be the 5 minute contingency and 5 minute regulation FCAS services where there may be differing levels of enablement and a different mix of plant providing the service The NGF consider these differences may only be small and thus does not impact the decision to simultaneously cap a FCAS service group. .

The FCAS raise price under the APP should be the maximum of the APC or energy price.

The AEMC should recognise however that applying the APC on all the high (lower)or low (raise)frequency services simultaneously will encourage the withdrawal of generator offers in these services into the energy market should the energy price be greater than that of the APC. This was phrased as "the withdrawal of raise" in the draft determination and led the AEMC to consider whether the APC should be the maximum of the APC or the prevailing energy price.

Whereas the AEMC determined this was not necessary, we believe that by referring the MAS APP Cap price to the energy price will encourage the appropriate behaviour by generator participants as rather than be disadvantaged in providing the service under stress (such as low (raise) frequency services) generators will be indifferent to providing frequency response or energy. In contrast the simplistic method proposed in the draft determination will ensure that under the APP cap for MAS when the energy price is higher, there will be a predictable exit from the service by generators and market distorting intervention by AEMO to direct an "unlucky" generator to provide the low (raise) frequency service to maintain system security.

Although this somewhat prohibits the APC acting to constrain MAS pricing (as it will increase to the energy price) contrary to the intention of the CPT we believe this is acceptable. Our reason for this is the cost of low (raise) frequency services is recovered from generators who have the opportunity to actively participate in the provision of the service, provided it is revenue maximising for them to do so, therefore ameliorating their risk of higher prices. This is in contrast to market customers in the energy market, who have less ability to manage energy spot price risk, and for which the CPT was originally conceived.

Should the AEMC decide to implement the Rule as per the Draft Determination, thus relying on AEMO directions to resolve the withdrawal of raise problem, we recommend a stated expectation that the generator directed on be compensated adequately. Under such circumstances the generator directed on (to provide raise services) should be compensated at the energy price for the lost revenue in running part-loaded to provide low frequency raise services.

The NGF would also request that the AEMC correct an error on Page 13 of the draft determination where the determination implies that an administered price period was triggered in June 2007. The CPT was not breached in June 2007.

We hope the above comments assist the AEMC in making its final determination. Should you have any further queries, please call David Scott on (07) 3854 7440.

Yours sincerely

M. Roberts

Malcolm Roberts
Executive Director

01 September 2011