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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Online submission: www.aemc.gov.au

Dear Dr Tamblyn

Cost Recovery for Other Service Directions ERC0090

The National Generators Forum (NGF) makes this submission, as representative of most of the generators participating in the National Electricity Market.

The NGF does not oppose the Rule change that has been proposed by NEMMCO but believes that a further change beyond that now proposed would be desirable.

The issue that concerns us relates to the classification of directions as either for the “provision of energy or market ancillary services” or alternatively for “services other than energy and market ancillary services”. It is this latter classification that is the subject of the Rule change now under consideration by the Commission. This classification process, which in practice is conducted by the market operator, affects both the calculation of compensation and funding of that compensation.

Neither of these categories is explicitly defined in the Rules, and hence we understand that the classification should be based on the ordinary meaning of the words used. On this basis the NGF contends that all or almost all of the directions that have been categorised in the NEMMCO proposal as “Other Services – Network Support” were in fact directions for energy.

We note that directions in this category incurred a large fraction of the total cost incurred in compensation for directions. Hence this disputed category is the main subject of the NEMMCO Rule change proposal.

NGF members understand the historical reason for the classification of directions that has occurred. We do not wish to comment on, or change, anything from the past and will confine our comments to those that we see as relevant to the future.

We believe that the particular historical circumstances that led to the classifications that we dispute need not, and should not, recur. Hence we believe that if the Commission was to provide a “circuit breaker”, then the future classification of directions could be in accordance with the ordinary meaning of the categories, and hence that the original intention of the Rules in this regard could then be achieved.

As noted above, the classification of directions affects both the calculation of compensation and the funding of that compensation, but it is the funding of the compensation that we wish to particularly draw to the Commission’s attention.

1. Funding of compensation

In the case of directions for “provision of energy or market ancillary services”, the Rules clearly provide for the funding of the costs of a direction to be exclusively by market customers.

This provision, as part of the existing Rules, has clearly been subject to regulatory approval, and thus does not need our justification. However, for completeness we will briefly outline the reasons for this provision, as we see them.

A market direction will generally have one or both of the following effects –

- Reduce or eliminate the need to immediate load shedding, and/or
- Improve the security of the network thus reducing the risk that load shedding will become necessary following a contingency event.

Furthermore we note that the provisions in the Rules relating to both pricing and compensation in the event of market intervention (such as a direction) are, to the extent they affect generators, based on the concept of leaving generators unaffected by the intervention.

These considerations support the proposition that directions are generally for the benefit of customers and not of generators, and thus they lend support to the current funding provisions for the costs of directions for “energy or market ancillary services”.

The funding of directions for “services other than energy and market ancillary services” is not explicitly covered in the Rules, which is consistent with the view that few directions were expected to fall within this category. However, as NEMMCO has indicated, a very large proportion has actually been classified this way. The costs of these have in fact been recovered, as NEMMCO has indicated, from both generators and customers in nearly equal proportions.

We contend that the outcome in relation to the funding of directions has not been in accordance with the intention of the Rules, and that this outcome is the result of incorrect classification of directions.

2. Circumstances of directions currently classified as network support

In order to consider the proper classification of the directions, it is necessary to examine the circumstances that led to the directions.

To assist the Commission in considering this matter we will set out the typical circumstances for the many directions that have been classified in the NEMMCO proposal as “Other Services – Network Support”.

- A constraint, which is based on a transmission network flow limit, binds in dispatch,
- As a consequence, one or more generating units are dispatched for energy, despite their offer price for energy being above the Regional Reference Node price (i.e. are constrained-on)
- The generator assesses this outcome as being commercially unsatisfactory, and withdraws the offer by reducing the offered availability,
- The market operator recognises the insecure state that results, and directs the generator to produce energy in a quantity similar to that which dispatch would have targeted, had the availability not been reduced.

It can be seen from this description that the service directed is, within the accuracy of the direction process, an exact replacement for the dispatch of energy that would have applied, had the availability offer been maintained.

We submit that within the ordinary meaning of the words, such a direction is clearly a direction for energy. We note in particular that no activity other than the production of energy is required of the directed participant.

We contend that the classification of a direction should be based on the nature of the dispatch outcome that it substitutes for, if it does substitute for a possible dispatch, and that the “other” category should apply only when the direction does not substitute for the dispatch of energy and/or market ancillary services.

3. The NGF proposal

The NGF propose that the Commission provide a “circuit breaker” to allow the categorisation of directions in future to be consistent with ordinary meaning the category descriptions as they currently appear in the Rules.

The primary aim is to restore the funding arrangements for directions to the state that we contend was the clear intention of the current Rules.

We propose that this be done by inserting a new clause defining the “other” classification and clarifying the consequences of assigning a direction to this classification. A draft to this effect is attached as an appendix.

4. An alternative proposal

The NGF recognises that there may be more than one possible solution to the issue that we have raised.

We commend the proposal described above on the basis that it leads to the outcome which we believe was envisaged and intended by those who drafted and approved the relevant provisions of the current Rules.

On the other hand, if the Commission does not favour this solution, much of the intended outcome could be achieved by aligning the cost recovery provisions for directions in the “other” category, with the cost recovery already specified for directions for energy or market ancillary services.

In particular, this would lead to cost recovery from market customers only, which would then be consistent with the way in which different market participants benefit from the application of direction. In other words, it would lead to the beneficiaries paying. We submit that this outcome has already been judged to be consistent with the national Electricity Objective, as evidenced by its inclusion in the current Rules.

This change would also reduce the consequences of the market operator deciding to classify a direction one way or the other, since the cost recovery process would then be independent of this classification.

Yours sincerely,



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Alex Cruickshank
Chair, Market Working Group

Appendix

Proposed new clause 3.15.7A(a1)

A direction is a direction for services other than energy and market ancillary services to the extent that the need for the direction could not have been avoided by the central dispatch process utilising hypothetical market offers at the location of the directed plant for one or more of the following services –

- (i) energy, and
- (ii) each of the market ancillary services as listed in 3.11.2(a)

Any component of a direction that satisfies this clause 3.15.7A(a1) shall result in consideration of compensation under this rule 3.15.7A, and 3.15.7B if applicable, and any other component of the direction shall result in consideration of compensation under rule 3.15.7, and 3.15.7B if applicable.