

Australian Energy Market Commission
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20 May 2016

Non-Scheduled Generation & Load in Central Dispatch (ERC0203)

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to comment on the Australian Energy Market Commission’s (“**AEMC**”) Non-Scheduled Generation and Load in Central Dispatch Consultation Paper.

The Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Discussion

As an opening comment, the Energy Council is concerned that this rule change request is one of a collection of inter-related rule & policy changes, which include:

- Application of Offsets in the Prudential Margin Calculation (ERC0188)
- Demand Response Mechanism and Ancillary Services Unbundling (ERC0186)
- Five Minute Settlement (ERC0201)
- Register of Large Generator connections (ERC0205)

While this submission will put the Energy Council’s position with respect to this consultation paper, our comments do not consider the implications should one, some or all of the other possible rule changes be made.

The Energy Council agrees that the National Electricity Market (“**NEM**”) is operating with information asymmetry which compromises AEMO’s ability to dispatch the market efficiently, and makes the following comments on ENGIE’s proposed changes:

Option 1: Threshold Reduction

The Energy Council supports reducing the threshold for generator registration from 30MW to 5MW (subject to AEMO’s exemption discretion under Clause 2.2.1(c) of the National Electricity Rules), in the interests of maximising price discovery and information transparency within the NEM. This will go some way to addressing the market distortions of having some generators obliged to participate in the market, while for others doing so is simply an option. The Energy Council believes that reducing the threshold to 5MW (subject to AEMO’s discretion, the policies for which are set out in AEMO’s Guide to NEM Generator Classification and Exemption) strikes the right balance between the size of a generator having possible market effects, and the regulatory burden imposed by requiring registration.

While there have been suggestions that smaller generators may not be able to participate in the market due to their particular technical configurations, the Energy Council believes all types of generation should be able to

use the bidding flexibility of the NEM to accommodate whatever operational constraints they may have, whether they be as a result of limitations specific to the type of generator, or linked to an associated industrial process. Again, AEMO's discretion in making this assessment is key.

In terms of retrospectively requiring non-scheduled generators to become scheduled generators, the Energy Council also supports this, as long as the costs to do so are not unreasonable, given such costs would not have been anticipated at the time of commissioning. However it should be noted that the costs of becoming scheduled may change over time, as new technologies and service providers develop, therefore assessments of a generator's exemption may need to be revisited periodically by AEMO.

Option 2: "Soft" Scheduled Generation

While the Energy Council understands the rationale for the introduction of such a participant category, the different treatment causes concerns that the market will not be operating on a level playing field, nor will the additional information provided according to ENGIE's proposed timetable adequately inform the processes of conventional scheduled market generators. Therefore the Energy Council recommends that the timetable set down for soft scheduled generators include requirements that the timing and obligations to provide such information match the market at large.

By submitting price-quantity sensitivity data, besides affecting the dispatch price, soft scheduled generators may also set the dispatch price. It seems anomalous, therefore, that market participants who can affect the market in this way would not be obliged to comply with the market rules as strictly as similar "hard" scheduled participants do.

Option 3: AEMO Proxy Bids

Although there is attractiveness in having non-scheduled generators' price responsiveness incorporated into AEMO's demand forecasts, the Energy Council is reluctant to have AEMO providing proxy bids, as it believes as a matter of principle that it is inappropriate for the operator of the market to be a participant as well, albeit by lodging proxy bids.

Benefits

Quantifying the benefits of the proposed rule changes is difficult, but it can be expected that the changes are likely to result in market participants changing their behaviour by virtue of having additional data to inform their operational decisions and bidding practices. Such behavioural change will therefore satisfy the National Electricity Objective by improving the efficient operation of the NEM.

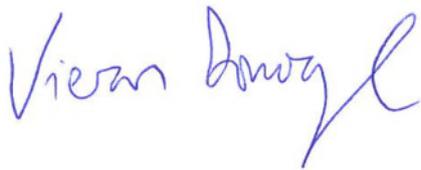
Although there will be implementation costs as a result of the changes, the Energy Council believes that the magnitude of the costs will not be material when smeared over the energy volume likely to be affected by the changes.

Conclusion

In conclusion, the Energy Council supports reducing the generator registration threshold to 5MW (subject to AEMO's exemption discretion). Doing so will improve market transparency and maximise pricing efficiency, thereby reducing costs to consumers.

Any questions about this submission should be addressed to the writer, by e-mail to kieran.donoghue@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,



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