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Liza Carver
Acting Chairperson
Australian Energy Market Commission
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Email: submissions@amec.gov.au

Dear Ms Carver

BIDDING AND REBIDDING TECHNICAL PARAMETERS

Thank you for the opportunity to comment on the Australian Energy Regulator's proposed Rule change relating to ramp rates, market ancillary service offers and dispatch inflexibility dated 21 April 2008.

Macquarie Generation is generally supportive of the Rule change package. The proposals offer workable and practical solutions to a number of issues that have required clarification for a period of time. Macquarie Generation seeks a clearer definition of one aspect of the ramp rate proposal and suggests a modification to the FCAS trapezium proposal.

Ramp rates

The proposed Rule for a minimum ramp rate does not adequately describe which generating units the rule would apply to. The proposal states that the minimum ramp rate would apply to the *generating unit* of a *scheduled generator*. Chapter 10 of the Rules provides the following definition of a generating unit: "the actual generator of electricity and all the related equipment essential to its functioning as a single entity".

A number of scheduled generators currently offer multiple units to the market on an aggregated basis for dispatch purposes. NEMMCO has registered the multiple units as a single unit. It is not clear whether the proposed AER Rule drafting applies to the single physical generating unit or the aggregated plant. The proposed Rule does not consider this level of detail and the definition of a generating unit does not preclude the aggregation of physical units.

Macquarie Generation considers that the Rule should apply to each single operating unit in the NEM. In the absence of such an obligation, generation businesses would have a commercial incentive to register existing plant on an aggregated basis for dispatch purposes to minimise their overall ramping obligations during periods of limited supply.

An increase in the registration of aggregated units would shift the burden for ramp rate changes to non-aggregated units. Such an outcome would seem to run counter to the AER's intention of selecting a pragmatic minimum ramp rate figure to apply to all available generating sources during system security events. The use of aggregated units could reduce the effectiveness of the AER's proposed solution and possibly lead to a further review of this Rule if system security is compromised.

Under current arrangements, generators are more likely to aggregate smaller units for registered bid and offer data, although it is not clear what limit there is on any individual plant registering multiple units as a single entity. Under the AER proposal, if a smaller unit is not capable of offering a ramp rate of 3MW per minute, the generator can submit a lesser amount provided it has a reasonable technical justification for the reported physical ramp rate capability.

Macquarie Generation proposes that the AEMC consider a change to the Rules to make clear that the definition of a *generating unit* refers to a single, physical unit operating in the NEM. It may be necessary to separately define generating plant where aggregated units are registered by NEMMCO for the provision of offer data not related to ramp rate capability.

Frequency control ancillary service

The AER has proposed that the bidding and rebidding of enablement limits, response capability and response breakpoints should represent the technical capability of the generators' plant.

Macquarie Generation agrees that the Rules, in combination with the operation of NEM dispatch engine, currently provide commercial rewards for generators to bid their FCAS services in ways that misrepresent their actual capability in order to maximise returns from the energy and FCAS markets.

The obligation to demonstrate the physical or technical capability of plant during any particular market event is potentially a cumbersome and costly exercise. Actual plant conditions are constantly changing in a real time market and it would be difficult to measure and report actual capability in an accurate manner.

Macquarie Generation considers that there are parallels in the issues raised in the ramp rate proposal and the setting of FCAS trapeziums. The AER decided to use a minimum ramp rate rather than physical capability requirement because if offered a practical solution that avoided the difficulties and costs of a solution based on requiring plant to operate at technical limits.

In the same way, Macquarie Generation considers that a more general approach to the setting of FCAS parameters would remove the need for a Rule designed around defining and reporting the technical capability of each plant offering FCAS services. The AEMC should consider a Rule that states that "the minimum enablement point must be set no higher than 60% of the unit's registered capacity and the maximum enablement point must be set no lower than 90% of the unit's registered capacity".

Yours faithfully

RUSSELL SKELTON
MANAGER, MARKETING & TRADING
19 June 2008