

18th May 2016

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submission lodged online at: www.aemc.gov.au

Project Number: ERC0203

Dear Mr Pierce

Non-scheduled generation and load in central dispatch – Consultation Paper

Snowy Hydro Limited appreciates the opportunity to make a submission to this Consultation Paper.

Snowy Hydro supports the principles underpinning the Rule change proposal. The root cause of the problem identified by Engie is that non-scheduled generators are not required to advise AEMO of their dispatch intentions. Therefore AEMO is unable to take the impact of non-scheduled generation into account in NEM dispatch and pre-dispatch processes.

The lack of transparency of the non-scheduled generators means scheduled generators are being sent dispatch targets through AEMO's central dispatch process which does not take into account the impact of non-scheduled generation. Hence these dispatch targets sent to scheduled generators are not as accurate as they could be which leads to inefficient dispatch, less effective power system control, more costs incurred in the provision of ancillary services, and less efficient pricing of financial contracts.

All forms of generation and load effect the efficiency of the price discovery process. Through the course of this joint consideration of the Engie and Snowy Hydro rule change proposals, if the AEMC deems that it not important for non-scheduled generation and loads to signal their market price intentions and honour these intentions, it is by definition not important for scheduled generation to do the same.

The Engie proposal outlines three options to remedy this problem. Engie's preferred solution is Option 1 (non-scheduled generators greater than 5MW to offer into central dispatch).

Snowy Hydro's preferred option is Option 1 with a number of modifications to address concerns we have with this option.

1. We have concerns with the application of the Rule to existing Market Participants with generation above 5MW who have invested on the basis of existing registration Rules at the time of their connection to the NEM. To lessen the number of existing Participants captured by this Rule and therefore reduce the overall burden of retrospectively applying this Rule to existing plant, we believe the threshold for compliance with this Rule should be 15MW and over for existing generators; and
2. For new generators the threshold should be as per the Rule change proposal and set at 5MW.

Snowy Hydro believes Option 2 (soft scheduled) lacks compliance and enforcement incentives. Compliance with dispatch instructions is best encouraged due to the consequences of non-compliance with dispatch targets as per the Rules clause 4.9.8(a). Further to this scheduled participants must honour their bids and offers by bidding in good faith as per Rules clause 3.8.22A. Similar with our concerns for retrospectively imposing new obligations on existing investments outlined for Option 1 and noting that we are not supporters of Option 2, if it were to be implemented we believe the thresholds for this obligation should be set at 15MW and 5MW for existing and new generators respectively.

Snowy Hydro has serious concerns with Option 3 which would require AEMO to prepare proxy price and quantity bids to represent the expected aggregate price response of non-scheduled generators. We believe it is inappropriate for the Market Operator to in effect be a Market Participant by lodging proxy bids which could materially influence the Spot price and dispatch outcomes of competitive Market Participants.

Option 3 raises the possibility of conflicts of interest that may arise through the processes that must be undertaken by the Market Operator to clear the market and maintain system security and reliability, and the desirability of influencing a favoured Spot price outcome. The mere possibility of this conflict of interest arising would be enough to reduce confidence in central dispatch outcomes. Hence we strongly believe Option 3 should be rejected.

Applicability to Demand Side Obligations to bid into central dispatch rule change

As outlined in Snowy Hydro's rule change, demand side obligations to bid into central dispatch, operators of non-scheduled load at present have unfettered ability to curtail load in response to spot market outcomes with no obligation to inform the market of their consumption intentions with respect to price.

Snowy Hydro believes this current situation is causing material inefficiencies and is detrimental to the price discovery process. We are open to lowering our suggested threshold of 30MW for non-scheduled load to bid into central dispatch. Snowy Hydro sees similar problems with Option 2 and/or Option 3 being applied to the demand side and hence does not support these options.

Summary

We believe that it is important for the integrity of the price setting process that there are symmetrical Rules obligations for non-scheduled generation and loads which currently apply to scheduled generation and load. That is, all need to inform the market of their intentions and to honour these bid/offer intentions.

If it is deemed not important for non-scheduled generation and loads to signal market price intentions and honour these intentions, it is by definition not important for scheduled generation to do the same.

We note that the efficacy of the price discovery process will become more challenging with macro factors in a dynamic NEM environment with increasing distributed generation, battery/energy storage, technological and innovation change, and penetration of interval metering. Requiring loads and generation to inform the market of their intent and honouring this intent would reduce some uncertainty from the price discovery process.

In summary, it is self-evident that any generation and/or load which is responsive to price has an impact on the price discovery process. A Rules obligation requiring operators and agents of non-scheduled generation and price sensitive non-scheduled load to inform the market of

their intentions would improve price discovery and ensure an overall more efficient utilisation of resources for the NEM.

The Consultation Paper highlights the possibility of addressing the problems raised in the Rule change through the provision of further information through either the soft scheduled option or AEMO's proxy bids option. Snowy Hydro argues that further information would be ineffective in ensuring that non-scheduled generation and loads would abide by their stated intentions (Option 2) or their observed historical behaviour (Option 3) at times when the wholesale spot price is either high or volatile. Hence it remains our view that both non-scheduled generation and loads that will be required to become scheduled as a result of the implementation of this Rule change must abide by the existing Rules obligation to bid/offer in good faith and comply with dispatch instructions which currently applies to both scheduled loads and scheduled generation.

Snowy Hydro appreciates the opportunity to respond to the Consultation Paper. I can be contacted on 0407224439 if you would like to discuss any issue associated with this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K Ly', with a stylized flourish underneath.

Kevin Ly
Head of Wholesale Regulation