



**EnergyAustralia**

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Australian Energy Market Commission

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Dear Commissioners

Lodged electronically: [www.aemc.gov.au](http://www.aemc.gov.au) (ERC0165)

### **Generator ramp rates and dispatch inflexibility in bidding consultation paper**

EnergyAustralia welcomes the opportunity to make a submission on the 'generator ramp rates and dispatch inflexibility in bidding' rule change consultation paper (*the consultation paper*).

EnergyAustralia is one of the country's leading retailers, providing gas and electricity to more than 2.7 million customers. We own and operate a range of generation and storage facilities, including coal, gas and wind assets, in NSW, Victoria and South Australia.

We do not support the proposal in its current form. We recognise the current rules may reduce dispatch efficiency in some circumstances. However, the proposal would disproportionately increase compliance costs and create new distortions. Improving market incentives to appropriately value ramp capability would be preferable to direct regulation.

### **Proposed rule change and assessment framework**

The proposed rule change would require generator ramp rate bids and dispatch inflexibility profiles to reflect the technical capability of the plant at all times. This is intended to ensure that these technical parameters are not used to achieve commercial objectives.

In proposing the rule change the Australian Energy Regulator (AER) identifies two potential benefits that would contribute to the national electricity objective (NEO):

1. Improved ability for AEMO to manage system security and stability
2. Increased economic efficiency in dispatch and reduced counter price flows.

In relation to the first, we understand that the Australian Energy Market Operator (AEMO) has confirmed that the current rules ensure sufficient ramp capability is available to maintain

security.<sup>1</sup> We therefore do not agree that the 'reliability and security' of the national electricity system are relevant to the assessment framework. The issues associated with this rule change relate primarily to economic efficiency and the assessment framework should be simplified to focus on the efficient 'price' element of the national electricity objective.

We agree with the analysis in the consultation paper that the priority afforded to generator ramp rates in dispatch can lead to inefficient dispatch outcomes in certain circumstances. However, the materiality of this issue has not been established. Consistent with good regulatory practice we encourage the AEMC to clearly define the nature and materiality of the issue and the costs and benefits of potential 'solutions' as part of its assessment. Any response should be proportionate to the materiality of the issue and ensure the benefits clearly outweigh the costs.

The proposed rule change would create significant uncertainty and new compliance costs for generators, as described in more detail below.

### **Ramp and flexibility are valuable services to the market**

Ramp rate capability and fast start flexibility provide valuable services to the market. The current market may not fully value these services, and in the presence of network constraints the market signals may perversely reward low ramp rate capability at times.

Improving market incentives, in the form of price signals that encourage and reward ramp capability, would be preferable to blunt direct regulation.

The proposal to require generators to offer their maximum technical ramp rate capability would have the perverse effect of penalising generators with high ramp rates. In the presence of constraints and high pool prices, the dispatch process would preferentially constrain off plant with the highest ramp capability.

The current rules strike a pragmatic compromise that ensures sufficient ramp capability to maintain system security but avoids this distortion. Under the current rules, all generators must specify a minimum ramp rate of 3 MW/min (or 3% for generators less than 100MW) unless there is a specific technical limitation. We understand that this level reflects a ramp rate capability that is able to be met by essentially all scheduled generators, providing a level playing field.

We also note that the 'optional firm access' (OFA) proposal, currently under development by the AEMC, would address many of the issues described in the consultation paper in a more holistic manner. In considering the materiality of the problem and rationale for change, we encourage the AEMC to consider the interaction with OFA.

### **Regulatory uncertainty and cost**

The complexity and ambiguity of the proposed changes will impose significant new compliance costs and uncertainty.

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<sup>1</sup> AEMC public forum on ramp rates, 5 May 2014.

While we recognise that ramp rates and inflexibility profiles are technical parameters, it is important to note that they are inextricably linked to commercial considerations. Plant may be able to be run harder, but with higher operating or maintenance costs and increased risk of failure.

We understand that the rule change seeks to require the maximum safe or 'no cost' ramping capability to be bid, rather than the absolute maximum technical capability at any time. Determining ramping capability for a particular generator at a given time is complex, subject to expert judgement and dependent on multiple changing factors.

Our traders currently bid technically and commercially prudent ramp rates (or inflexibility profiles) for each generator in consultation with site operators. These bids can be overridden at site through the SCADA system to reflect real time changes. Additional controls are in place to ensure technical limitations confirmed and verified in the event we need to bid ramp rates below 3MW/min.

It would be significantly more onerous to determine and document the ramp rate (or inflexibility profile) for each generator in a form suitable to objectively demonstrate to the AER that every bid reflected the maximum technical capability. The 'maximum technical capability' is a subjective value based on the experience and judgement of unit controllers and asset managers.

#### **A pragmatic alternative – 3MW/min at the unit**

If it is desirable to increase generator flexibility and ramp capability available to the market, this should be delivered through development of market incentives and price signals.

However, in relation to ramp rates we accept that the current arrangements may create a regulatory distortion that encourages generators to aggregate individual units to benefit from the fixed minimum limit of 3MW/minute.

A pragmatic and administratively simple alternative that would deliver a step change increase in ramp capability would be to apply the current 3MW/min limit to each unit. To avoid a disproportionate impact on small generators, the existing provision allowing a ramp rate of 3% for generators below 100MW should be maintained. Individual units less than 30MW should be allowed to be aggregated.

For any questions regarding this submission, please contact me on (03)86281034.

Regards



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