



13/4/2012

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Reference: ERC0141

Dear Mr Pierce

The National Generators Forum welcomes the opportunity to comment on the Australian Energy Market Commission's Consultation Paper, *Small Generation Aggregator Framework*, released publicly on 15 March 2012.

The NGF is the national industry association representing private and government owned electricity generators. NGF members operate all generation technologies, including coal-fired plant, gas-fired plant, solar, hydroelectric plant and wind farms. Members have businesses in all States and Territories.

The Small Generator Aggregator proposal involves the abolition of AEMO registration fees for generating units with a nameplate capacity of less than 5 MW and units between 5 MW and 30 MW which sell less than 20 GWh per year when these units are registered with an aggregator. The proposal includes further exemptions from a number of other market and technical compliance requirements that are imposed on all other market generating units.

AEMO makes the observation that the \$5,100 application fee can be a "barrier to entry for small capacity or low capacity factor generation where the application fee becomes a significant proportion of the likely income for a prospective participant".

The NGF does not believe that AEMO has established the case for the changes it proposes. Simply arguing that it should be easier and less costly for a particular category of plant to register and participate in the spot market is not sufficient. AEMO must demonstrate that the current arrangements are inadequate or explain the efficiency benefits of treating certain plant more favourably than others.

Streamlining the registration process

The NGF supports initiatives to reduce or remove unnecessary administrative costs for AEMO and participants. Consistent with this principle, AEMO has an obligation to constantly review its internal processes and resources to ensure that the level of administration and compliance fees and costs are commensurate with the efficient cost of providing any particular service or function.

The NGF would expect that if the current cost of registering as a Market Generator exceeds the costs associated with administering this process then AEMO should review the cost of this process for small and large generators alike.

Justification for an exemption from full fees for any sub-group of the NEM requires a clear rationale for the exemption, including demonstration of a net benefit that would arise. Scheduled generators should not be obliged to underwrite any unrecovered costs.

The NGF notes that owners of small generating units already have the advantage of an exemption from registration fee if they contract directly with a local network service provider for the output of their plant.

Benefits – confusing efficiency and transfers

The AEMC and AEMO list a number of potential benefits for consumers and other market participants – owners of small generating units have an alternative source of revenue, aggregators will have a more viable business model and consumers should face lower prices through use of small generators as peaking plant. AEMO claims that the gross value of generation could be reduced \$5 million per year.

The market regulatory bodies should recognise that the NEM gross pool design was deliberately structured to incorporate a degree of price volatility. Generators rely on infrequent periods of high prices to provide a return on investment and recover fixed costs. Overall, NEM customers have benefited tremendously from highly competitive wholesale prices and near perfect levels of supply security and reliability from the generation system.

AEMO claims that, “the supply of electricity from these small generating units at times of high prices could reduce regional reference price as the supply and demand balance is met, hence output would be produced at a lower cost”.

The NGF would have expected a more sophisticated analysis of the potential benefits from the system operator. In this case, AEMO is proposing the removal of a registration fee for small generating units. In almost all cases this will be diesel fuelled reciprocating engine plant with variable fuel costs at the top end for all plant in the NEM - \$400 to \$500 per MWh. Encouraging the generation of relatively high cost plant and the potential displacement of lower cost scheduled plant does not constitute an improvement in economic efficiency even if it results in lower prices in a particular trading interval.

The NGF would have preferred that AEMO focused on justifying the reasons why the registration process and fee was unnecessary rather than speculating on possible reductions in wholesale market turnover.

Abolishing any fee or providing any subsidy will generally depress wholesale prices – but that does not make it efficient or worthwhile. Such revenue transfers also represent a loss to generators who made investments based on pre-existing rules. Likewise, any reduction in prices will dampen the enthusiasm of investors to commit to new projects, for example large-scale peaking plant, if there is a perception that the system operator is willing to pursue measures to decrease price volatility for the sake of delivering short term benefits to customers. This potential loss of dynamic efficiency should also be recognised.

Technical compliance

At present, a generator applying for registration must satisfy AEMO that the generating system will be capable of meeting or exceeding its performance standards. The Rule change proposal indicates that AEMO would no longer undertake an assessment of the technical attributes of plant registered with an aggregator. It is not clear from the Rule change proposal if any performance standards would apply to plant managed by an aggregator, including “fault ride-through capability”.

AEMO’s Rule change suggests that it is up to the network service providers to demonstrate whether the effective exemption from schedule 5.2 of the technical requirements will result in difficulties in assessing connection applications. Given the potential system security impacts, the NGF would have expected AEMO to have undertaken some homework in this area.

AEMO is of the view that they could, if a power system security issue did arise, issue a direction to an aggregator to re-establish a secure operating state. With little, if any, information on the dispatch of multiple non-scheduled small plant, NGF members have concerns that it would be difficult for AEMO to identify a real time problem and contact aggregators at short notice to direct particular plant. The NGF considers that the AEMC should seek further clarification from AEMO on the possible timelines and the effectiveness of any direction power given to non-scheduled generation should a system security problem emerge.

As noted by AEMO, if more plant is encouraged to register with an aggregator, the likelihood of such problems will increase through time. Given that this plant is treated as a market customer there is no information available to participants on how individual units are operating or performing.

The Rule change proposal is silent on whether the aggregator could claim compensation for any direction and, if so, who would bear the cost of any payments.

Frequency control ancillary services

The Rule change is explicitly designed to promote small generating plant dispatch during higher price dispatch intervals. While encouraging generation from the highest cost plant in the NEM, a rapid ramp-up of fast start small plant may cause over frequency problems requiring the dispatch of frequency control ancillary services. Similarly, a loss of supply through the multiple tripping of small generating units may cause under frequency problems.

The Rule change proposes that AEMO would not recover any ancillary service costs from aggregators. In fact, aggregators would likely receive small payments given that AEMO would treat the generation as a “negative load”. Scheduled generators and market customers would carry the cost of all these services.

Participant fees

AEMO proposes that aggregators would not pay any energy-based fee for generation and that from mid-2013 energy-based fee would apply to the “net generation metered at a small generator connection point”. It is not clear from AEMO’s Rule change proposal whether such metering points are standalone generation meters or include energy consumed at the point as well, typically by a building owner.

Deferring network investment

AEMO claims that increased generation close to load centres would reduce the need for investment in electricity network augmentations. The NGF would like to point out this potential benefit is uncertain and unquantified.

In general, this plant would only synchronise at times of high prices, although not all high peak demand events result in NEM prices above the fuel costs of small generating plant. Given that the small units would not be subject to the quality of supply performance standards that apply to all other generators, there is no guarantee that this plant would be available at times of peak demand. For these reasons network businesses could not reliably factor in a known level of plant availability into any planning analysis.

Summary

The NGF does not believe that AEMO has provided adequate justification for this Rule change proposal. We agree that small generating units should not incur excessive or unnecessary registration fees and associated costs. The costs of registration for all generators should be based upon the actual administrative costs of registering the unit.

We are concerned that this Rule change will result in a cross-subsidy for small generating units through the proposed aggregator framework. Such aggregators would effectively pay no registration fees, no ancillary service costs, face no technical performance standard obligations, would be excluded from the carbon dioxide equivalent index calculations and possibly little in the way of participant fees.

If the AEMC determines that there is a public benefit from underwriting the costs of registering small generators then this cost should be explicit and recovered from market customers.

The NGF is increasingly concerned by claims that any action that reduces short term spot prices must be in the overall interest of consumers. Current market prices are providing little signal for new investment in the NEM and it seems to generators that every significant NEM policy and Rule change initiative is designed to further dampen spot price outcomes. The AEMC would be well aware that longer term customer outcomes are best protected by

ongoing investment in new generation assets not by artificial or preferential treatment for particular generation technologies or categories of plant.

Yours sincerely

A handwritten signature in dark ink, appearing to be 'Tim Reardon', with a stylized, flowing script.

Tim Reardon
Executive Director

