

Your Ref: ERC0256
Contact Officer: Matt Lady
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Ms Merryn York
Acting Chair – Australian Energy Market Commission
GPO Box 2603
SYDNEY, NSW 2001

Dear Ms York,

Consultation Paper—Generator registration thresholds

Thank you for the opportunity to comment on the AEMC’s consultation paper in relation to the combined Generator registration thresholds rule change request.

As you know, the NEM is undergoing a major transition. Driven by the increasing uptake of variable renewable energy and distributed energy resources, as well as changes in technology and digitalisation, it is important that the regulatory settings in the NEM remain fit for purpose and are appropriately adapted to accommodate this transition.

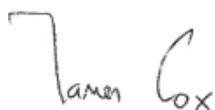
Both the AEC rule change request and the AEMC consultation paper raise several matters related to the level and scope of generator participation in the wholesale electricity market. We note the interactions between this rule change request and other energy market reforms underway, including the Energy Security Board’s (ESB) Post-2025 Market Design Program.

We consider that close co-ordination across these reforms will help to achieve coherent and consistent policy settings that support the long term interests of consumers. We recognise the efforts to harmonise these complex and evolving reforms, and note that the outcomes of these processes will likely have important, long-term implications for the regulation and operation of the NEM.

As noted in the AEMC consultation paper, both the ESB’s Two-sided Market Design Initiative and this rule change request require considering how best to balance the costs from increasing participation in dispatch against the public good and reduced costs to consumers overall that may accrue from a more efficiently operated power system. In this regard, we would welcome more information on the costs and benefits associated with the changes proposed in this rule change request. In the attachment below (Attachment A) we expand upon several matters for your consideration.

We look forward to continue working with the AEMC to ensure the regulatory regime remains fit-for-purpose and supports the efficient transformation of the NEM. If you have any queries about this submission, please feel free to contact Matt Lady (08 8213 3491).

Yours sincerely,



Jim Cox

Deputy Chair, Australian Energy Regulator
17 December 2020

Attachment A: AER response to the consultation paper

Generator registration thresholds

In its rule change request the AEC seeks to increase the participation of smaller generators in central dispatch with a view to enabling improved management of the power system and the efficient operation of the market.

More specifically, the AEC proposes to reduce the existing threshold for classifying generators (individually or as a group) as non-scheduled from a 30 MW nameplate rating down to 5 MW, which would result in the default classification for generators above 5 MW as scheduled or semi-scheduled.

The rationale

The AEC submitted its rule change request in December 2018 and noted its rationale for the proposal was based on concerns that AEMO may find it increasingly difficult to operate the NEM efficiently with the growing participation of non-scheduled generators in the market.

Since that time, some of the concerns raised by the AEC to support its proposal may no longer remain. For example, one of the SA Temporary Generation units cited in the rule change request is now in the market as a scheduled generation asset.

This raises the question of whether the generator registration proposals, remain current and material issues that need to be addressed. We note the Commission's 2017 assessment of a rule change request proposing to reduce generator registration thresholds found that the materiality of the issue raised was insufficient to warrant making the proposed changes.¹

Conversely, the AER notes the AEMC's analysis indicates that the total capacity of non-scheduled generation in the NEM has increased by 1000 MW (37 per cent) since 2010, compared to 6000 MW (13 per cent) for scheduled and semi-scheduled generation.

It is possible that this may indicate a trend towards more distributed small scale generation, although it is unclear what the driver of the change is or the type of generation involved. For example, it is not clear whether the increase is related to increasing penetration of new, low cost smaller scale renewable generation technologies, which may be indicative of a longer term trend in smaller scale generation installations. Some further analysis of these trends would be helpful to understanding the case for change.

Similarly, it would also be helpful to understand the extent to which these are stand-alone generating units or whether the generators sit behind large loads. This may in turn be relevant to whether they should be required to be scheduled.

Interactions with ESB reforms

The AEMC consultation paper refers to the ESB's Two-sided Market Design Initiative and this rule change request, noting both will require considering how best to balance the costs from increasing participation in dispatch against the public good that may accrue from a more efficiently operated power system.

We welcome the AEMC's close engagement with the ESB and other stakeholders to ensure the matters raised in this rule change request take into account the broader transformation of the NEM that is underway, including the NEM Post 2025 project, as well as considering how these reforms, if implemented, may address the AEC's concerns about generator registration.

¹ AEMC, "Non-scheduled generation and load in central dispatch", 12 September 2017: <https://www.aemc.gov.au/rule-changes/non-scheduled-generation-in-central-dispatch>.

The costs and benefits of the proposed changes

Should the AEMC consider the matters the AEC has raised in respect of generation thresholds remain issues for further examination in today's market, we would welcome robust examination and interrogation of the costs and benefits of implementing the proposed changes, or similar changes should the AEMC decide a more preferable rule is appropriate.

Beyond the quantifiable costs related to registration, participant costs, and communication and telemetry requirements that scheduled and semi-scheduled generators incur, there would also be significant compliance costs for affected generators in meeting the regulatory obligations from the proposed changes to registration classification.

We note the AEMC's 2017 decision to maintain the current generator registration thresholds was due, in part, to the costs associated with being a scheduled generator.² Although we expect some costs for communication and control technologies may have declined in the interim, for smaller generators these costs will likely be material and may represent an unnecessary barrier for new entrants.

We also expect that a substantial increase in the number of generators participating in dispatch will impose new costs on AEMO through associated changes to its systems, applications, procedures and guidelines.

More complex, however, is the task of characterising and quantifying any benefits that may accrue from an increase in AEMO's visibility of this class of generation in the NEM through the proposed changes (e.g., potential improvements to AEMO forecasting). The AEC submits that by "capturing greater information into the forecasting systems, forecast accuracy will improve."³

We encourage the AEMC to examine whether material improvements to AEMO forecasts would materialise under the proposed changes. As the market operator, we anticipate AEMO would have valuable insights into whether non-scheduled generators from 5 MW to 30 MW are currently contributing to forecasting inaccuracies that lead to inefficiencies in the NEM. We also note that any associated forecasting inaccuracies may only be apparent in the smaller regions.

Scope of the proposed rule and transitional mechanisms

The AEC rule change request proposes to limit the scope of the proposed rule to the scheduling thresholds issue, and submits that the system security management and technical connection requirements in Chapters 4, 5, and 6 of the NER that refer to 30 MW thresholds need not be consistent with the proposed changes to generator scheduling thresholds. We encourage the AEMC to work closely with AEMO to understand the impacts, if any, of the proponent's approach to this issue.

We note the AEC proposes to 'grandfather' the existing registration arrangements and advocates for the proposed regime to relevant new generators. We agree with this approach.

However, we note the proposed rule seeks to remove NER 2.2.3(b)(1), which requires AEMO to approve classification as a non-scheduled generating unit if it is satisfied that "the primary purpose for which the relevant *generating unit* operates is local use and the aggregate *sent out generation* at its *connection point* rarely, if ever, exceeds 30 MW".

² Ibid.

³ AEC, *Generator Thresholds Rule Change Request*, 15 December 2018, p. 3.

The proponent argues that the “presence of load between a generator’s terminals and its network connection point is relevant only to market settlement, and is irrelevant to the generator’s importance in the dispatch and scheduling process”.

We encourage close consideration of the impacts of this proposed change on relevant entities; for example, standby generators, for whom electricity generation is incidental to their core business activity. Specifically, it would be helpful to understand further the reasons underlying a requirement for, say, a 5 MW generator that sits behind a substantially larger load (e.g., 10 MW), to have to schedule.

Transparency and certainty in the registration and exemption process

Under the current arrangements, AEMO has discretion to grant applicants an exemption from registration as a generator for generating systems between 5 MW and 30 MW. AEMO may also grant these applicants such an exemption subject to any conditions it considers appropriate. Given AEMO’s unique role and expertise as the market operator, we consider this discretion appropriate when exercised reasonably and consistently.

We also recognise that increased transparency of AEMO decision making regarding its generator registration exemption decisions may improve stakeholder confidence in these processes and aid business planning activities. In this respect, we encourage the AEMC to consider how transparency may be improved so that AEMO’s essential discretion and operational judgment in these matters is retained and stakeholders are clearly informed of the reasons for AEMO generator registration exemption decisions.