



Your Ref: ERC0287

17 July 2020

Andrew Pirie
Australian Energy Market Commission
Sydney South NSW 1235
Submitted online to: <https://www.aemc.gov.au>

Dear Andrew

Submission: Compensation following directions for services other than energy and market ancillary services

CS Energy welcomes the opportunity to provide a submission on Compensation following directions for services other than energy and market ancillary services Consultation Paper (**Paper**).

About CS Energy

CS Energy is a Queensland energy company that generates and sells electricity in the National Electricity Market (**NEM**). CS Energy owns and operates the Kogan Creek and Callide coal-fired power stations. CS Energy sells electricity into the NEM from these power stations, as well as electricity generated by other power stations that CS Energy holds the trading rights to.

CS Energy also operates a retail business, offering retail contracts to large commercial and industrial users in Queensland, and is part of the South-East Queensland retail market through our joint venture with Alinta Energy.

CS Energy is 100 percent owned by the Queensland government.

General comments

CS Energy does not support the proposed Rule change, having identified several concerns with the proposed changes detailed in the Paper.

CS Energy's primary concern is the potential barrier to the development of market mechanisms for services that fall into this category of "other services". The proposed Rule change does not appear to acknowledge the work being undertaken on essential system services (and how to value these services) by the Energy Security Board and the Australian Energy Market Commission (**AEMC**). Should the Rule be made as proposed, CS Energy considers it may undermine the process of valuing essential system services in the NEM.

Brisbane Office
PO Box 2227
Fortitude Valley BC Qld 4006
Phone 07 3854 7777
Fax 07 3854 7300

Callide Power Station
PO Box 392
Biloela Qld 4715
Phone 07 4992 9329
Fax 07 4992 9328

Kogan Creek Power Station
PO Box 41
Brigalow Qld 4412
Phone 07 4665 2500
Fax 07 4665 2599

CS Energy Limited submission to ER0287 Compensation following directions for services other than energy and market ancillary services

CS Energy also supports the right of a directed participant to lodge a claim for additional compensation if there is a legitimate shortfall in the initial compensation claim calculation under clause 3.15.7B. If the concern with the two-step process is administrative, CS Energy agrees it may be appropriate to streamline the process provided any streamlined process retains the participant's right to claim legitimate additional costs.

Our detailed responses to the questions raised in the Paper are set out in the Attachment.

Please contact us if you would like to discuss this submission further.

Yours sincerely



Teresa Scott
Market Policy Manager

Enquiries: Henry Gorniak
Market and Power System Specialist
Telephone M 0418 380 432

ATTACHMENT

QUESTION 1: Assessment framework

CS Energy considers the AEMC Assessment Framework appropriate for considering the proposed Rule changes as it utilises key criteria including transparency and predictability, efficiency, risk allocation and consistency. The assessment framework addresses the identified issues and anomalies with the current processes.

QUESTION 2: Application of clause 3.15.7A(a1) to date

CS Energy considers that AEMO has been administering clause 3.15.7A(a1) in accordance with the requirements of the clause however does not consider the application of the clause is “clear”, given it is intended to provide a compensation mechanism where the direction has been for “other services”.

The reference in clause 3.15.7A(a1) to “*dispatch bids, dispatch offers or rebids*” for energy or FCAS, which bid, offer or rebid will have been made to comply with a direction, operates to exclude that direction as a direction for “other services”, notwithstanding the primary requirement of the direction was for the “other services”. CS Energy is concerned the provision of the “other service” is being conflated with the provision of energy or FCAS. Arguably, if the primary requirement of the direction is for “other services”, the provision of energy or FCAS through a bid, offer or rebid should be viewed as giving effect to a direction for the ‘other service’ and not as giving effect to a direction for energy or FCAS (for which compensation is payable under clause 3.15.7). CS Energy considers the direction should consist of two components:

- (a) one for energy or FCAS; and
- (b) one for the ‘other service’.

However, clause 3.15.7A(a1) enables a bypass of the “other service”; while the “other services” is mentioned as part of the direction it is not included in the compensation process as it defers to the energy or FCAS compensation regime.

In addition, utilising the energy or FCAS component to give effect to the direction for the provision of the “other service” distorts the market by offsetting the dispatch of other participants not subject to the direction by the volume of the energy or FCAS amount. However, as the direction is categorised as a direction for power system security it does not trigger intervention pricing that would have resulted in Affected Participant(s) being restored to a notional dispatch position as if the direction had not occurred.

CS Energy considers that the lack of certainty has resulted in clause 3.15.7A(a1) being applied inconsistently eg directions to synchronous generator to operate in synchronous condenser mode. In the event a direction is required for “other services”, AEMO can trigger the application of clause 3.15.7A(a1) by setting the energy equal to zero MW (requiring an energy rebid) which results in clause 3.15.7A being bypassed and the Directed Participant being compensated under clause 3.15.7. CS Energy does not consider this outcome appropriate, as a synchronous generator would not operate in this mode at zero MW. Further, a perverse compensation outcome would be delivered for the energy component of the direction.

Instead of directing the synchronous generator to operate at zero MW, CS Energy considers AEMO should direct the generator to operate in synchronous condenser mode to provide the 'other service' (and in some instances, will do this).

CS Energy does not consider clause 3.15.7A(a1) as appropriate for the current and changing mix of services provided by participants that are currently required in the NEM and for the future. CS Energy considers clause 3.15.7A(a1) is undermining the determination of the fair payment price and likely to adversely impact on investment. These factors do not align with the National Energy Objective and could undermine the incentivisation process for the provision of essential system services.

QUESTION 3: Administrative efficiency of current arrangements

The introduction of administration efficiency as proposed in the consultation appears to ignore the discreteness and purpose of each compensation stream.

The Fair Payment Price (**FPP**) represents a valuation by the Independent Expert (**IE**) of that service arising from the direction that remains valid for a period of twelve months. The other compensation stream reflects incurred costs unique to that participant.

CS Energy would support a proposal to deliver administrative efficiency provided it consisted of separate streams for FPP and cost incurred in providing the service which is effectively a two-stage process.

Additionally, the proposed changes to current arrangements may undermine the development of a market mechanism to incentivise the provision of the required system services that in turn could lead to an increase for the need of directions.

QUESTION 4: Proposed solution – Single step compensation process

CS Energy would support a single step compensation process provided it accommodated the FPP and participant incurred costs streams. Any compensation process that does not include the individual streams may increase the administrative burden overriding any of the perceived benefits from the proposed single step compensation process.

QUESTION 5: Incentives

CS Energy agrees with the position stated in the consultation in section 6.1.3 that the proposed single step process would change the incentives for directed participants by reducing the ability of participants to recover their out of pocket costs relating to directions for other services.

QUESTION 6: Risk allocation

CS Energy considers the importance of not conflating the actual requirement for the direction and the actual action taken to give effect to the direction that includes the categorisation of the service being provided by the participant under direction from AEMO. To do otherwise would result in an outcome that does not reflect the actual requirement for the direction, refer out comments in Question 2 when comparing the utility of a synchronous generator that can operate as a synchronous condenser in the delivery of an 'other service' under direction by AEMO.

CS Energy considers the inappropriate categorisation of the direction will result in the wrong compensation path for the Directed Participant.

QUESTION 7: Information used to determine compensation

CS Energy supports the removal of the provision in clause 3.15.7A(c)(1) that refers to the comparison to other electricity markets as there has been no demonstrated value to date in application of the comparison.

QUESTION 8: Entity that determines compensation

CS Energy considers the current level of confidentiality provided by the Independent Expert must be maintained to maintain the integrity of the process and that this must extend to any entity that is appointed to determine compensation. If there is a conflict of interest arising from the choice of an entity, then it would exclude that entity from being eligible to determine compensation.