



Andrew Pirie
Senior Advisor
Australian Energy Market Commission
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Sydney NSW 2000

Lodged online via www.aemc.gov.au

Dear Andrew,

Re Compensation following directions for other services

Neoen welcomes the opportunity to respond to the AEMC's rule change regarding compensation (June 2020).

Neoen is the leading French, and one of the world's leading independent producers of renewable energy. Neoen is a responsible company with a long-term vision that translates into a strategy seeking strong, sustainable growth. We have 2 GW of projects globally in operation and under construction, including in the NEM: Hornsdale Wind Farm (309 MW in SA); Parkes, Griffith, Dubbo, and Coleambally Solar Farms (combined 255 MW in NSW); Bulgana Green Power Hub (hybrid wind/battery system) and Numurkah Solar Farm (combined 314 MW in VIC); and the Degrusa Hybrid Power System (10.6 MW in WA). Neoen is also the owner of Hornsdale Power Reserve (100 MW/129 MWh battery system) in SA.

Neoen appreciates AEMO Settlements' rapid recognition of and response to the issue at hand.

Compensation following direction needs to be converted to more general concepts. The historic need for direction was primarily to switch generators on and this is no longer the case.

Constraints

Constraints formulated to restrict market participation for the purpose of acquiring a service should be classified as a direction.

Constraints are a practical and effective way to manage directions without relying on the economic participant bids in NEMDE. However, where AEMO uses constraints instead of directions, participants are not eligible for compensation. This provides an incentive to use constraints which damage the commercial position of participants.

In the Feb 2020 VIC transmission failure, AEMO acquired sub-second frequency response from SA batteries by excluding them from Energy and Regulation markets. This was done mainly via ad hoc constraints rather than direction.

Contract Position

Participants should be able to claim compensation for losses incurred from their contract position. For example, FCAS or Energy derivatives, retail customer position, Generator FCAS liabilities. Not having this provision inhibits trade of these services.

Formal Acquisition

Where directions result in a claim for compensation this should trigger the NEM governing bodies to investigate the ongoing acquisition of the service on commercially reasonable terms. For example, long term contracts or introducing new markets.

The assessment of the value of the service should take everything into account, not just compensation payable.

Had such a mechanism been in place for the SA System Strength constraints the syncon solution could have been deployed earlier, saving consumers hundreds of millions of dollars. AEMO does not have effective tools to acquire such services.

General Nature

Compensation is phrased to consider fuel costs and other operating costs.

This should be generalised to consider the costs and losses borne by the participant, including the long term cost of capital associated with the asset.

Fair Profit

Directions for services other than Energy are likely to occur during scarcity for those services. Where those services are typically low price or unpriced it becomes difficult to fairly compensate generators for lost revenue.

There is also the potential for large lost opportunities, where a participant is directed out of the service they wish to sell.

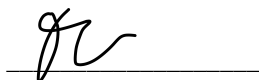
For capacity intensive plant a direction event may occur during a rare opportunity to recover their costs. If direction extinguishes this opportunity it will act as a barrier to entry for such plant.

Neoen is available to participate in further discussions at the AEMC's behest.

Should you have any questions or seek to follow up this submission at any time, please feel free to contact Tom Geiser via email at tom.geiser@neoen.com.

We look forward to engaging with the AEMC and stakeholders further on this and future reviews.

Kind regards,



Tom Geiser,
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Neoen Australia