NEOEN

Mr Sebastien Henry
Director
Australian Energy Market Commission
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Sydney NSW 2000

Lodged via email: sebastien.henry@aemc.gov.au

Re Frequency Control Directions Paper

Dear Sebastien,

Neoen welcomes the opportunity to respond to the AEMC's directions paper regarding frequency control rule changes.

About Neoen

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 Degrussa Hybrid Power System (10.6 MW in WA). Neoen is also the owner of Hornsdale Power Reserve (150 MW battery system) in SA.

Mandatory PFR

Neoen does not support the continuation of mandatory narrow deadband PFR. It is an inefficient allocation of generation capacity and puts higher costs on consumers in a non-transparent way.
Furthermore, MPFR eats into other FCAS reserves and has no guarantee of any useful reserve.

Regionalised dispatch of the service is a proven method of PFR acquisition.

Neoen supports a wide deadband mandate for all generating systems as the economic impost is not significant relative to the security benefits. This deadband should be set no wider than +/-0.5 Hz to maintain continuity in frequency response during a contingency. This mandated response would be the second last line of defence after narrow PFR and Contingency, but before tripping schemes.

PFR markets

Neoen supports a new ancillary service market for narrow deadband PFR. A spot market allows for efficient allocation of generation capacity, and in the regions required, and on a dynamic basis.

Neoen does not support two-sided causer pays because it encourages the response to be defeated in challenging energy market conditions. The defeat of PFR during heatwaves, minimum demand conditions or islanding events will eventually cause harm.

We agree with the AEMC's statement of the benefit of co-optimisation between a primary and secondary regulating reserve.

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FFR

AEMO is already procuring the service through non-market means. There is a clear need for a new service, and AEMO should be given the proper tools to procure it in an efficient, and ongoing manner.

Neoen supports a new ultrafast Contingency FCAS market. The specification should fit into the existing line of resources. To this end it is beneficial to have a shorter classification of the peak response. The closer the required response is to zero, the less 6s Contingency has to be modified. However, very short initiation times block participation and create difficulty in verification.
Neoen suggests the classification should be for 1s Contingency as a balance, but would support any classification proposed by AEMO that best makes use of FFR as a substitute for inertia.

Deadband should be unchanged from the existing +/-0.15 Hz to have a standardised response across services from a single control scheme.

The partial substitutability of FFR for inertia is a supporting argument for a spot market, as the cost of system security can be co-optimised dynamically. This is an already proven mechanism in the partial substitution of 5m Contingency with Regulation FCAS.

This distinction of substitutability should discourage the merging of Contingency markets, or blanket obligations which could result in significant over- or under-procurement of necessary capacity by region thus resulting in market interventions by AEMO.

We do not support performance based pricing mechanisms. The existing advantage of NEM ancillary services is that having multiple markets with a continuum of response allows wider participation. The current practise of restricting registration and trapeziums depending upon capability is better than an artificial price mechanism.

Contracting

The initiation of new markets alone does not provide a helpful forward indicator of price and demand for the service.

Neoen suggests contracting to spur the timely installation of any required new capacity. Short term contracts (<3 years) do not encourage scale efficient investments or attract good financing terms. At least some of expected demand should be contracted on longer terms (5 to 10 years) in order for the relevant body to acquire better prices. In any case, contracting should always remain open to both new and existing facilities in order to ensure economic efficiency.

Neoen suggests a swap CFD structure as it can mitigate high spot prices becoming overly costly to consumers.

Contracts also help in the transition period before a spot market is established.

When spot markets are established, Neoen suggests a portion of the services remains contracted on mid-term (around 3 years) and long-term (above 5 years) basis. Auctions for contracts should be organised on a regular rolling basis, once a year for instance. This will ensure price stability and visibility for these services.

The contracts should seek to minimise the risk to the supplier in the scenario where they are directed to exit the relevant market by AEMO. This will reduce the offer prices.

Cost Recovery

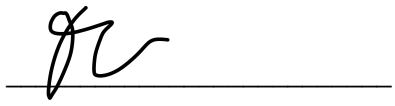
The net cost/benefit of the contracts and the spot market cashflows can be recovered through the existing Contingency and Causer Pays methods.

Neoen is comfortable with using system frequency instead of FI for the allocation of Regulation FCAS. We question whether time error has any relevance anymore.

We support the alignment of the sample and application periods for Causer Pays.

One important point to raise is the cross subsidy of FCAS recovery due to rooftop solar. Rooftop solar increases the need for Regulation FCAS and Raise Contingency. Households with rooftop solar reduce their exposure to the recovery of Lower Contingency and Regulation FCAS, and have no recovery of Raise Contingency. This results in wealth transfer from scheduled generators and large business consumers to rooftop households. The effect can be especially pronounced for Lower Contingency during sunny conditions resulting in enormous costs to businesses.
Neoen recommends the disaggregation of consumption and generation for DER customers for the purpose of recovering both Raise and Lower FCAS components. FCAS costs specific to rooftop such as certain FCAS constraints should be recovered solely from rooftop consumers.

Yours sincerely,



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