

Ben Hiron
Australian Energy Market Commission

13 February 2020

Submitted online to www.aemc.gov.au

Dear Mr Hiron,

Submission on Draft Mandatory Primary Frequency Response Rules

CleanCo welcomes the opportunity to comment on the Australian Energy Market Commission's (the Commission) Draft Determination on the proposed Mandatory Primary Frequency Response (PFR) rule changes.

CleanCo is Queensland's newest electricity generator. Our purpose is to deliver reliable clean energy solutions at a competitive price for Queenslanders. Our activities will help to improve electricity affordability, contribute to the achievement of Queensland's 50 per cent renewable energy target by 2030, support secure and reliable electricity generation, and create new investment and jobs in regional Queensland. We have a target to support 1,000 MW of new renewable generation by 2025 and we will achieve this by building, owning and operating our own assets and by investing in new renewable projects driven by others.

CleanCo recognises and agrees with the AEMC's views that mandating PFR is an incomplete solution. This draft rule provides a bandage. To treat the underlying condition, an appropriate incentive framework is required to facilitate investment in, and provision of, frequency support.

CleanCo's strong preference is that the AEMC identify and implement an incentive framework rather than mandating PFR. Providing PFR is not costless exercise. The draft determination disregards these costs on the basis that they are minimal and that there is an urgent need for PFR. If costs are minimal, then providing compensation will be minimal. And, urgency is a signal of the value of PFR, not a reason to ignore the costs associated with providing it.

To the extent the AEMC determines that mandating PFR is required, CleanCo supports a staged implementation, with a tightening of the deadband over time. At each stage, AEMO should undertake a review of frequency performance to determine whether further tightening is required. This approach would be more equitable, cheaper to implement and would minimise the flow-on impact to FCAS markets

CleanCo acknowledges and supports the AEMC's decision to set a sunset clause. While this is a positive step, CleanCo believes AEMC must provide greater certainty over timing for the forward work program.

We thank the Commission for the opportunity to submit on this process. If you have any questions about our submission, please contact me on rimu.nelson@cleancoqld.com.au or 0455 080 871.

Yours sincerely,



Rimu Nelson
Principal Advisor, Regulatory

Attachment 1 - Issues in Detail

The Draft Rule

CleanCo notes that the deadband proposed by AEMO has never been attempted or tested with our generators. Preliminary advice suggests that the bulk of CleanCo's generation would be unable to comply with the $\pm 0.15\text{Hz}$ deadband proposed by AEMO. CleanCo may be able to comply with broader deadbands, although in some instances this would come at a material expense. This is likely the case across the sector.

Moreover, the longer-term implications and costs of running at tighter deadbands is not well understood in the Australian environment. Operating at a tighter deadband increases wear and tear on turbines, leading to increased overhaul costs and frequency. Under an incentive-based framework, the market participant is responsible for assessing these costs and determining whether the market returns are sufficient to warrant the additional cost. In the instance of mandating PFR, responsibility for undertaking this assessment should lie with the AEMC.

CleanCo also considers the AEMC must form a view on an appropriate, evidence-based target level of frequency performance. At this stage, it is unclear what success (or 'enough') looks like. As outlined below (in implementation), CleanCo proposes that the PFR deadband be transitioned/tightened over time. A broader deadband may be able to provide the level frequency performance desired, but this cannot be measured without a target.

Exemptions

CleanCo broadly supports the AEMC's principles for the exemption framework in AEMO's Primary Frequency Response Requirements. However, principle four should be expanded to clarify that consideration of operating/ongoing expenses should be relative to size/output of the generator (similar to principle 1).

While supportive of a principle-based exemption framework, CleanCo considers that appropriate standing exemptions would reduce regulatory burden for generators and streamline AEMO's work program. As proposed by AEMO, standing exemptions for the steam turbine components of CCGT plant and generators operating in synchronous condenser mode should be included in the AEMC's final rule.

CleanCo also considers a minimum capacity should be considered, for simplicity. AEMO and AEMC both noted that applying the PFR requirement to scheduled and semi-scheduled generators effectively excludes generators with a nameplate capacity of less than 30MW. CleanCo, however, has four scheduled units below this threshold and two scheduled units just above - these are all caught by the existing proposal despite their limited scale and impact on frequency.

It may also provide greater certainty to AEMO and market participants for AEMC to clarify that generators exempt or partially exempt from providing PFR are still able to provide contingency and regulation FCAS. Given concerns around frequency control in the NEM, it would be counterproductive to exclude generators from providing FCAS because they are unable to fully comply with the PFR requirements.

Implementation

CleanCo supports a staged implementation, with a tightening of the PFR deadband over time. At each stage, AEMO should undertake a review of frequency performance to determine whether further tightening is required. This approach would be more equitable, cheaper to implement and would minimise the flow-on impact to the FCAS markets. As outlined above, in order to do this, the AEMC will need to form a view on an appropriate level of frequency performance.

Sunset to the rule and forward work plan

CleanCo supports the AEMC's decision to set a sunset clause for the rule and is satisfied with 4 June 2023. However, CleanCo suggests that that this should be a worst-case option, and that flexibility should be built into the Rules to bring this forward if an appropriate incentive framework can be developed and implemented prior to this date.

While we acknowledge the proposed forward work plan, the AEMC should provide more certainty over the steps and timing. If these issues are sufficiently important to mandate responsibilities onto market participants, it seems reasonable for the AEMC and AEMO to commit to its work program.