

A few
words.

3 June 2016

Yuelan Chan
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged Online: www.aemc.gov.au

Dear Ms Chan

Rule Change Request–Non-Scheduled Generators Bid into Central Dispatch

AGL Energy Ltd (AGL) welcomes the opportunity to comment on the AEMC's consultation paper on Non-Scheduled Generation Bidding into Central Dispatch.

AGL is one of Australia's leading integrated energy companies, operating a retail business with over 3.7 million customers and a power generation portfolio of over 10,000MW, which consists of base, peaking and intermediate generation plants, spread across thermal and renewable energy sources.

The proposed rule change seeks to address the inaccuracies in the NEM dispatch processes due to the bidding behaviour of some non-scheduled generators –as they are not required to inform the market of their intentions. The issue is whether lowering the threshold at which generators are required to be scheduled from 30MW to 5MW nameplate capacity, will result in a material improvement to the accuracy of forecasts that justifies the associated regulatory costs.

Material Market Benefits

AGL considers that the majority of non-scheduled generators are not responsible for any material inaccuracies in the dispatch processes. The non-scheduled generators that are potentially responsible for inaccuracies in the pre-dispatch forecast are those that are above the 30MW threshold, and have a material impact on the spot price. However, AGL understands that many of these generators have since become scheduled, which should therefore reduce the materiality of this issue.

If the proposed rule proceeds, it will affect over fifty non-scheduled generators¹. However, there is no evidence to indicate that the majority of these non-scheduled generators are causing any material inaccuracies in the pre-dispatch forecast. Moreover, it is unlikely that the majority of non-scheduled generators could be responsible for any inaccuracies in the forecast as they are unlikely to have a material effect on the spot price. Many of these non-scheduled generators are small, and also not as responsive to changes in the price because of fuel limitations. For example, there are no firm fuel supply obligations in relation to a landfill gas power station as the operations of the landfill will always take priority over supplying the power station. Similarly, the water authorities dictate the operations of run of river hydro generation sites and therefore it is difficult for them to be responsive to, or have a material impact on the price.

In the absence of evidence, it is difficult to conclude that the majority of non-scheduled generators are responsible for issues that the rule proponent is trying to address namely: inefficiencies in the dispatch process, inefficiencies in the pricing of derivative contracts and system stability issues. Hence any benefits of this proposed rule are limited.

¹ NEM Generator Registration Exemption List 11 April 2016, available at www.aemo.com.au

Costs associated with being a Scheduled Generator

Furthermore, participants must incur significant costs to become scheduled generators. Participation in the central dispatch process is a very complex and dynamic task, therefore it requires engaging people with considerable market knowledge and expertise in trading in the wholesale spot market. There are also significant system and IT costs involved in monitoring and participating in the market. For example, scheduled generators must be connected to SCADA at the specified performance standard, which depending on the remoteness of the generation site may cost up to \$100,000. In addition, there are considerable ongoing legal and compliance costs to adhere to the rules and regulations governing scheduled generators. Consequently, AGL does not consider the proposed rule will result in a material benefit to the market that will outweigh the associated costs.

Alternative Options

Alternatively, AGL considers that a more appropriate option may be for non-scheduled generators who are already connected to SCADA to make this information available to the market. This option would provide the market with better transparency of the generation of non-scheduled generators, without placing a significant regulatory burden on them.

Further, AGL considers that any efforts to improve the accuracy of the pre-dispatch forecast, would be better focussed on improving AEMO's short term demand forecast, which would contribute more to forecast inaccuracies than the behaviour of non-scheduled generation.

If you have any queries about the submission or require further information, please contact Josynta Singh at jsingh@agl.com.au or on 03 8633 6628.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux'.

Simon Camroux

Manager Wholesale Markets Regulation
AGL Energy Ltd