

24 May 2016



Australian Energy Markets Commission
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Sydney NSW 1235

Electronic Submission: www.aemc.gov.au > Lodge a Submission > ERC0203

Rule Change Submission – Proposed National Electricity Amendment Ref. ERC0203
Non-scheduled generation and load in central dispatch

I refer to the Australian Energy Markets Commission's (AEMC) consultation paper on the Proposed National Electricity Amendment ERC0203. Arrow welcomes the opportunity to submit its views, which are confined to the proposals by ENGIE seeking to change the Rules so that market outcomes effectively take account of the price-response of non-scheduled generators.

Question 1 - Potential inefficiencies in the dispatch process

The proposal assumes that currently the market's failure to account for the price response of non-scheduled generators causes inefficient dispatch in the National Energy Market (NEM). In the absence of substantive evidence in the consultation paper, AEMC should establish the veracity of this assumption.

The AEMC should also establish that some form of improvement in market outcomes could make a material difference and is desirable having regard to the National Electricity Objective.

Questions 2 & 3 – No comments.

Question 4 - Option one– Threshold Reduction for Non-Scheduled Generators (30 MW to 5 MW)

The consultation paper invites consideration of a threshold for non-scheduled generators lower than 30 MW. There is no reason not to also consider a higher threshold, because the issues are substantially the same. The question should be whether the existing 30 MW threshold is still appropriate.

In considering any change to the non-scheduled threshold of 30 MW, AEMC should have regard to the original reasons why the threshold was set at 30 MW. Those reasons might have included encouragement for small generators recognising:

- the relatively high cost per MWh for smaller generators to comply with the rules for *scheduled generators* e.g. generator technical requirements for connection, 24 hour/day 7-days/week communications / dispatch
- the benefits that *embedded generation* bring to *market participants* as a whole

Any rule change should be targeted at those non-scheduled generators who contribute to the problem. The consultation paper already acknowledges that perhaps not all non-scheduled generators are price-responsive. If it is established that only price-responsive

generators cause inefficient dispatch, any rule-change which puts a compliance burden on non-price-responsive non-scheduled generators would itself be inefficient.

Question 5 - **Option two**– “Soft-Scheduled” Generators

Arrow’s responses to Question 4 also apply to Question 5.

Question 6 – **Option three** – Australian Energy Market Operator Proxy Bids

Arrow has no issues with Option three.

Question 7 – **Alternative Options**

None.

Question 8 – **Costs**

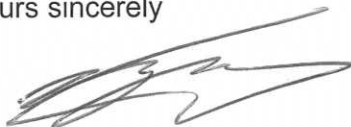
As already discussed under in Question 4, scheduled generators incur significant costs in complying with the *rules*. The costs are not material for large generators because of scale economies, either because of the number of *scheduled generators* that a single *market participant* might own, or the large size of a single *scheduled generator*.

However, the cost of NEM regulatory compliance creates a significant barrier for construction of small generators. Those costs should not be increased without a compelling reason. For small *market participants* who might own a single *non-scheduled generator*, the cost of regulatory compliance is already high because many can’t justify employing specialised regulatory staff.

As a matter of principal, any rule change to resolve this issue should not impose costs of compliance on *market participants* with *non-scheduled generators* that don’t contribute to the problem of inefficient dispatch. To do otherwise would mean the rule could be improved by better targeting the generators impacted by it.

Should you have any queries or wish to discuss any aspect of this submission further, please don’t hesitate to contact Gordon Buck, Commercial Manager Infrastructure and Strategy on (07) 3012 4485 or via email gordon.buck@arrowenergy.com.au.

Yours sincerely



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