



EnergyAustralia

LIGHT THE WAY

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Dear Commissioners,

AEMC 2018, Participant compensation following market suspension, Draft Determination, 23 August 2018

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We welcome the opportunity to comment on the AEMC's draft determination on Participant compensation following market suspension rule change proposal (the draft determination). We are generally supportive of the draft determination which outlines new compensation arrangements for market participants in the unlikely event that the market is suspended in the future. The draft determination seeks to:

- Ensure participants help restore or maintain a reliable and secure electricity supply during market suspension while not encouraging inefficient bidding and dispatch outcomes.
- Provide clear and predictable arrangements for compensation during a market suspension event when the Market Suspension Pricing Schedule (MSPS) applies, thereby facilitating efficient decisions by participants.
- Improve the ability of market participants and market bodies to manage risks during and after market suspension periods.
- Ensure that the benefits of the rule are proportional to the regulatory and administrative burden on market bodies and participants, and costs are passed onto consumers.

While the draft determination addresses most of the above we believe that there can be some minor changes that would improve the operation of the spot market when suspended.

Automatic compensation of generator start costs

Generators incur a significant cost when starting; this is especially true for larger Open Cycle Gas Turbines (OCGT) and Combined Cycle Gas Turbines (CCGT) units and is even higher for larger thermal units, for example a coal power station. Under normal market operation, participants take this cost into account when making unit commitment and de-commitment decisions. AEMO is currently consulting on changes to the MSPS.¹ AEMO's current draft determination will place a cap and floor on the MSPS (\$300/MWh and -\$300/MWh). Peaking plants rely on short periods of higher prices to recover fuel, variable and start costs. The capping of prices in the MSPS may mean that OCGT units (for example) are less likely to voluntarily participate in the market under suspension due to the residual uncertainty that start costs may not be able to be recovered.

For this reason, we suggest that the compensation arrangements under market suspension should also include the ability for participants to be automatically compensated for start costs. The unit start cost should be consulted upon by AEMO during the Market Suspension Compensation Methodology consultation.

Accuracy of benchmark values

We are supportive of using '*benchmark values*' (based on the short run marginal cost {SRMC} of units) when automatically calculating and providing compensation to '*eligible claimants*'. This allows participants to have certainty that they can recover costs when assisting with the maintenance of the power system while also minimising any additional costs to consumers.

The draft determination proposes to use the National Transmission Network Development Plan (NTNDP)/Integrated System Plan (ISP) assumptions scaled up by a factor of 1.1 to account for errors. To minimise additional claims for compensation it will be important to ensure that these calculated '*benchmark values*' accurately reflect the true SRMC of units. We are concerned that the current NTNDP/ISP values do not reflect the true cost of the operation of a number of units. As an example, the NTNDP/ISP assumes that units are operating at base load (100% output) whereas in a time of market suspension, AEMO would likely require units to operate at varying output, sometimes at minimum generation levels. The SRMC of thermal units can vary significantly depending on their operating level, due to changes in the heat rates of units.

The SRMC in the NTNDP/ISP are static assumptions. Fuel costs for units (and hence their SRMC) are highly dependent on prevailing conditions in related markets. For example, the market prices in the gas short term trading markets (STTMs) and the declared wholesale gas market in Victoria (DWGM) directly impacts the SRMC of gas generators. Participants' SRMC for units is also dependent on expected future outcomes and the ability to transport and store sufficient fuel for the required running regime.

We urge the AEMC to consider these implications when making the final ruling to ensure that participants are not reliant on claiming additional compensation to cover costs. We note that the calculation of '*benchmark values*' will be AEMO's responsibility and will be consulted upon with industry input.

¹ <https://aemo.com.au/Stakeholder-Consultation/Consultations/Market-Suspension-Pricing-Consultation?Convenor=AEMO%20NEM>

Independent expert

For short periods of market suspension the \$50,000 threshold for referring claims to an independent expert may be sufficient. However, under longer periods of market suspension (such as the event that occurred in South Australia in September and October 2016), this threshold may impose additional administrative costs in referring claims to an independent expert. The \$50,000 threshold should be applied per trading day with a separate, higher threshold for an entire market suspension event or billing periods. We are also concerned that participants may be discouraged to make claims below the \$50,000 threshold due to the risk that the claim may still be referred by AEMO to an independent expert (exposing them to additional costs). Generators may choose to not voluntarily participate in the market and await direction instead, allowing them to use the direction additional compensation framework.

Additional changes to draft rule 3.14.5 (e)(3)

Draft rule 3.14.5 (e)(3) requires that AEMO publish the market suspension pricing schedule at least 14 days prior to the first day to which the schedule relates. During the AEMO MSPS consultation AEMO conducted a workshop with stakeholders where participants strongly supported the 14 day timeframe being reduced². We request the AEMC to consider reducing this timeframe to one day. This would remove the need for an additional minor rule change to be lodged, reducing costs to the market and consumers.

Conclusion

We support the intention of the draft determination but have suggested some improvements to the compensation mechanism and therefore the operation of the spot market when suspended. Ensuring that the estimated '*benchmark values*' reflect as closely as possible the actual running costs of units will be key in ensuring that the new automatic market suspension compensation mechanism works effectively. We also believe that the automatic payment of compensation for start costs incurred would likely improve the voluntary participation in the market when suspended. While a new market suspension compensation framework should improve the operation of the market under suspension the operational issues experienced during the South Australian market suspension in 2016 highlight the importance of restoring the suspended region to normal market operations as soon as possible.

If you would like to discuss this submission, please contact me on 03 8628 1630 or Andrew.Godfrey@energyaustralia.com.au.

Regards

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Industry Regulation Lead

² Page 12, https://www.aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/Electricity_Consultations/2018/Market-Suspension-Pricing/Market-Suspension-Pricing-Schedule-Draft-Report-and-Determination.pdf