

15 October 2015

Andrew Pine
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged electronically via: <http://www.aemc.gov.au>
Reference: ERC0187

Dear Mr Pine

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to comment on the compliance with dispatch instructions consultation paper (Consultation paper).

As indicated in the rule change request, strict compliance with every dispatch instruction has been widely acknowledged to be a physical impossibility; however it is crucial to a functioning market that participants make a genuine attempt to meet their dispatch targets where possible.

We believe that the proposal to replace the current strict compliance obligation with one requiring reasonable endeavours retains the significant incentive on participants to strive for compliance while removing the unnecessary risk of technical breaches. Such a change would also be consistent with the historical enforcement approach of the regulator, minimising overall impact.

We do not agree that AEMO's non-conformance process will provide an adequate measure of whether market participants are undertaking appropriate efforts to follow dispatch targets, and do not support its inclusion in the rule change.

If you have any questions relating to this submission, please contact me on (07) 3228 4529.

Yours sincerely



Luke Van Boeckel
Manager Regulatory Strategy

Attachment 1: Responses to consultation paper questions

Question 1

- (a) Is the standard of compliance with dispatch instructions under the current arrangements, taking into account the AER's approach to enforcing it, important for the efficient and safe operation of the NEM?**

Strict compliance with dispatch instructions is neither achievable nor required for the efficient and safe operation of the NEM. Given the large number of estimates used in formulating a dispatch solution and the presence of ancillary service markets, minor variations by scheduled generators are appropriately dealt with using existing mechanisms.

- (b) Under the current rules, how may a participant's non-compliance with dispatch instructions affect other participants in the NEM?**

The impact of non-compliance will depend on the severity of each instance. Stanwell believes that this rule change request is targeted at removing the technical breaches which currently occur due to imperfect demand forecasts and the operation of complex plant. Minor non-compliances of this nature will have minimal impact on other participants.

Significant and deliberate non-compliance is more likely to negatively affect other participants and the market as a whole. We do not believe that this type of non-compliance would be allowed by the proposed "reasonable endeavours" drafting.

Question 2

- (a) Are the costs of complying with the current rule greater than those which are likely to be incurred if there was an alternative compliance obligation that was less stringent, such as reasonable endeavours?**

Yes. Reducing the probability of technical breaches will reduce the cost and risk associated with compliance with this obligation.

Stanwell accepts the detailed analysis of cost reductions contained in the rule change request.

- (b) How do the costs of complying with the current rule vary between participants?**

Stanwell has no specific information on the compliance costs of other participants.

Question 3

- (a) Does the discretion the AER has in deciding whether to take enforcement action and the nature of that action mean there is uncertainty about the extent to which compliance with clause 4.9.8(a) is required?**

Not directly – the uncertainty is derived from the drafting of the clause for which compliance is impossible to achieve. Redrafting the clause on a reasonable endeavours basis, while retaining the AER discretion in whether to take enforcement action, appears to provide an appropriate level of certainty.

Question 4

- (a) Are market participants able to simultaneously comply with dispatch instructions for energy and FCAS? If so, how do market participants manage to do this?**

Stanwell consider that it is possible for participants to comply on a reasonable endeavours basis with simultaneous dispatch instructions so long as compliance is measured in aggregate rather than against individual instructions. That is, where simultaneous targets for different services are in place for a unit, compliance must be considered against the notional targets as adjusted by the other services.

Question 5

- (a) What is the likely impact on the behaviour of market participants having a reasonable endeavours obligation?**

Stanwell consider that a reasonable endeavours obligation is likely to have minimal impact on our behaviour.

- (b) How is a reasonable endeavours obligation likely to impact uncertainty and compliance costs?**

Replacing the current strict compliance requirement – augmented by the regulator's discretion to its enforcement approach – with a reasonable endeavours compliance requirement will reduce the risk of undue enforcement action against market participants for purely technical breaches. Therefore, the change to a reasonable endeavours obligation is likely to reduce uncertainty and compliance costs.

- (c) What would amount to reasonable endeavours in complying with a dispatch instruction?**

While we do not consider that an exhaustive list of what would amount to reasonable endeavours is possible to compile – or even desirable – we consider that having the control system in Automatic Governor Control (AGC) with an appropriate frequency response profile should be considered reasonable endeavours and designated a safe harbour.

Where units are under manual control, the determination of what amounts to reasonable endeavours is unlikely to be able to be defined in advance.

Question 6

- (a) Is AEMO's non-conformance process appropriate for the purpose proposed in the rule change? Is it likely to impact on market efficiency or power system security if used in this way?**

Stanwell considers that the reasonable endeavours compliance obligation is preferable to the use of AEMO's non-conformance process. Reference to the existing AEMO process could perversely imply that making no attempt to follow dispatch targets for a few dispatch intervals is acceptable.

Similarly, reference to the AEMO non-conformance process may imply wrongdoing on behalf of a market participant who is using reasonable endeavours to comply with dispatch instructions but is deemed non-conforming by AEMO due to transient plant characteristics.

- (b) It is appropriate for compliance with dispatch instructions to be partly determined by AEMO?**

Determination of compliance with dispatch instructions is likely to rely on data held by AEMO, however we believe that placing AEMO in a quasi-enforcement role is inappropriate.

Question 7

(a) If the proposed rule is made, are the financial incentives provided by the FCAS cost recovery process and removal of the generator's offer from the basis of setting the wholesale spot price, sufficient for market participants to comply as precisely as possible, with dispatch instructions?

Stanwell supports the replacement of the current strict compliance obligation with a reasonable endeavours obligation in recognition that strict compliance is unattainable.

We consider the proposed inclusion of AEMO's non-conformance process has the potential to inadvertently provide a financial incentive for participants to not follow dispatch targets within the AEMO defined non-conformance timeframes. Removing this element of the proposed rule change would render moot the question of the strength of the other financial incentives proposed in this question.