



28 June 2007

Chairman  
Australian Energy Market Commission  
PO Box H166  
Australia Square NSW 1215

Dear Dr Tamblyn

#### DRAFT RULE DETERMINATION – COST RECOVERY OF LOCALISED REGULATION SERVICES

The National Generator Forum (NGF) wishes to thank the AEMC for the opportunity to make comments on the above draft rule determination.

As you are aware, the NGF has submitted this rule change proposal to enable local cost recovery of regulation services in line with the current methodology to recover contingency services costs.

We are pleased that the AEMC has accepted that this is consistent with the market objective.

Although contingency cost recovery methodology is based on regional demands, regulation costs can be allocated to each participants with metering data based on their causer pays factors.

Following careful and thorough analysis of the draft rule, the NGF is now of the view that the clause 3.15.6A(h)(3) is unnecessary. This was inadvertently carried over from the related case of contingency services. It is inappropriate in this context because -

- Regional cost allocation must only be applicable to participants who do not have metering data for causer pays calculations
- This clause allocates costs of regulation services to the regions before allocates to individual participants
- The intent of the rule change is to allocate localised regulation costs as much as possible to causers of localised regulation services

Therefore, the NGF suggests that clause 3.15.6A(h)(3) be deleted for the above reasons.

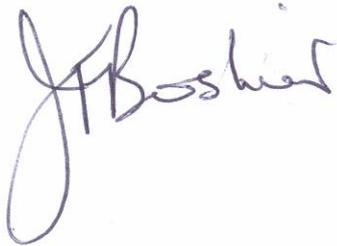
Following this realisation, the proposed Rule was extensively reviewed in consultation with NEMMCO. Attachment 1 shows the revised rules that have been developed through this process.

The NGF understands that NEMMCO will continue to publish in advance the causer-pays factors for region(s) that are normally in synchronism, as they currently do. We appreciate that it may not be practical to publish in advance the causer-pays factors related to all possible localised requirements.

However, it is desirable for NEMMCO to publish information to enable participants to estimate their own costs at the time, when regional requirements are binding. This would be very important to participants as they need to manage their risks in real time.

If you have any further questions, please contact Methsiri Aratchige on 02 8268 4235.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'J Boshier', with a large loop at the end of the first name.

John Boshier  
Executive Director

## **Attachment 1 :**

DRAFT REVISED RULE

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### **Draft National Electricity Amendment (Cost Recovery of Localised Regulation Services) Rule 2007**

#### **1. Title of Rule**

This Rule is the *Draft National Electricity Amendment (Cost Recovery of Localised Regulation Services) Rule 2007*.

#### **2. Commencement**

This Rule commences operation on TBA.

**Note:** In the event that the Rule is to commence after 1 January 2009 (i.e. after the expiration of the participant derogation in Part 11 of Chapter 8A of the Rules), the Rule will commence in two parts where the first part effectively replicating Part 11 of Chapter 8A of the Rules, will commence to maintain the status quo until the rest of the Rule commences operation.

#### **3. Amendment of the National Electricity Rules**

The National Electricity Rules are amended as set out in Schedule 1.

#### **4. Notes**

Notes do not form part of this Rule.

## Schedule 1 Amendment of National Electricity Rules

### [1] Clause 3.9.2A Determination of ancillary services prices

In clause 3.9.2A(b), omit the words “other than the *regulating raise service* and the *regulating lower service*,”.

### [2] References to “local requirement” in clause 3.15.6A

In clauses 3.15.6A(f) and (g), omit the words “*local requirements*” wherever occurring and substitute “*local market ancillary service requirement*”.

### [3] References to “local ancillary service requirement” in clause 3.15.6A

In clauses 3.15.6A(f) and (g), omit the words “*local ancillary service requirement*” wherever occurring and substitute “*local market ancillary service requirement*”.

### [4] Clause 3.15.6A Ancillary service transactions

Omit clauses 3.15.6A(h)-(k) and substitute:

(h) The total amount calculated by *NEMMCO* under clause 3.15.6A(a) for each of the *regulating raise service* or the *regulating lower service* in respect of each *dispatch interval* which falls within the *trading interval* must be allocated by *NEMMCO* to each *region* in accordance with the following procedure and the information provided under clause 3.9.2A(b). *NEMMCO* must:

(1) allocate for each *region* and for each *dispatch interval* within the relevant *trading interval* the proportion of the total amount calculated by *NEMMCO* under clause 3.15.6A(a) for each of the *regulating raise service* and *regulating lower service* between *global market ancillary services requirements* and *local market ancillary service requirements* pro-rata to the respective marginal prices for each such service; and

(2) calculate for each relevant *dispatch interval* the sum of the costs for all *regions* of acquiring the *global market ancillary service requirements* and the sum of the costs for all *regions* of acquiring each *local market ancillary service requirement*, as determined pursuant to clause 3.15.6A(h)(1)

(i) In each *trading interval for regulation raise services and regulation lower services* in relation to:

(1) each *Market Generator* or *Market Customer* which has *metering* to allow their individual contribution to the aggregate deviation in *frequency* of the *power system* to be assessed, an ancillary services transaction occurs, which results in a *trading amount* for that *Market Generator* or *Market Customer* determined in accordance with the following formula:

$$TA = PTA \times -1$$

and

$$PTA = \text{the aggregate of } ( TSFCAS \times \frac{MPF}{AMPF} ) \text{ for each}$$

*dispatch interval in the trading interval for each global market ancillary service requirement and each local market ancillary service requirement*

where:

TA (in \$) = the *trading amount* to be determined (which is a negative number);

TSFCAS (in \$) = the total of all amounts calculated by NEMMCO under clause 3.15.6A(h)(2) for that requirement in respect of a *dispatch interval*;

MPF (a number) = the contribution factor last set by NEMMCO for the *Market Generator* or *Market Customer*, as the case may be, under clause 3.15.6A(j) for the *region* or set of *regions* relevant to that *requirement*; and

AMPF (a number) = the aggregate of the MPF figures for all *Market Participants* for the *dispatch interval* for the *region* or set of *regions* relevant to that requirement.

(2) Each *Market Customer* for whom the *trading amount* is not calculated in accordance with the formula in clause 3.15.6A(i)(1), an ancillary services transaction occurs, which results in a trading amount for that *Market Customer* determined in accordance with the following formula:

$$TA = PTA \times -1$$

And

$$PTA = \text{the aggregate of } ( TSFCAS \times \frac{MPF}{AMPF} \times \frac{TCE}{ATCE} ) \text{ for each}$$

*dispatch interval in the trading interval for each global market ancillary service requirement and each local market ancillary service requirement*

where:

TA (in \$) = the *trading amount* to be determined (which is a negative number);

TSFCAS (in \$) = has the meaning given in paragraph (i) (1);

MPF (a number) = the aggregate of the contribution factor set by NEMMCO under paragraph (j) for *Market Customers*, for whom the *trading amount* is not

calculated in accordance with the formula in clause 3.15.6A(h) for the *region* or set of *regions* relevant to that requirement;

AMPF (a number) = the aggregate of the MPF figures for all *Market Participants* for the *dispatch interval* for the *region* or set of *regions* relevant to that requirement;

TCE (in MWh) = the *customer energy* for the *Market Customer* for the *trading interval* if the customer is in the *region* or set of *regions* relevant to that requirement, but otherwise zero; and

ATCE (in MWh) = the aggregate of the *customer energy* figures for all *Market Customers*, for whom the *trading amount* is not calculated in accordance with the formula in subparagraph (4), for the *trading interval* for the *region* or set of *regions* relevant to that requirement.

(j) *NEMMCO* must determine:

(1) a contribution factor for each *Market Participant* for the purpose of clause 3.15.6A(i); and

(2) the contribution factors relevant to each *region* or set of contiguous *regions* that may be relevant to a *local market ancillary service requirement* ;

in accordance with the procedure prepared under clause 3.15.6A(k).

(k) *NEMMCO* must prepare a procedure for determining contribution factors for use in clause 3.15.6A(i) taking into account the following principles:

(1) the contribution factor for a *Market Participant* should reflect the extent to which the *Market Participant* contributed to the need for *regulation services*;

(2) the contribution factor for all *Market Customers* that do not have *metering* to allow their individual contribution to the aggregate need for *regulation services* to be assessed must be equal;

(3) for the purpose of clause 3.15.6A(j)(2), the contribution factor determined for a set of *regions* for all *Market Customers* that do not have *metering* to allow their individual contribution to the aggregate need for *regulation services* to be assessed must be allocated to that set of *regions* in proportion to the total *customer energy* for that set of *regions*;

(4) the individual *Market Participant's* contribution to the aggregate need for *regulation services* will be determined over a period of time to be determined by *NEMMCO*;

(5) a *Registered Participant* which has classified a *scheduled generating unit, scheduled load, ancillary service generating unit*

or *ancillary service load* (called a ‘**Scheduled Participant**’) will not be assessed as contributing to the deviation in the *frequency* of the *power system* if within a *dispatch interval*:

(i) the Scheduled Participant achieves its *dispatch* target at a uniform rate;

(ii) the Scheduled Participant is *enabled* to provide a *market ancillary service* and responds to a control signal from NEMMCO to NEMMCO’s satisfaction; or

(iii) the Scheduled Participant is not enabled to provide a *market ancillary service*, but responds to a need for *regulation services* in a way which tends to reduce the aggregate deviation; and

(6) where contributions are aggregated for *regions* that are not generally in synchronism during the calculation period determined under the procedure required by this clause 3.15.6A(k), the contribution factors should be normalised so that the total contributions from any non-synchronised *region* or *regions* is in the same proportion as the total *customer energy* for that *region* or *regions*.

## **[5] Chapter 8A Part 11 Transitional Arrangement for Market Ancillary**

### **Services for Tasmania Entry**

Omit Part 11 of Chapter 8A and substitute:

**[Deleted]**

## **[6] Chapter 11 Savings and Transitional Rules**

After rule 11.10, insert:

### **11.X Rules consequent on making of the National Electricity Amendment (Cost Recovery of Localised Regulation Services) Rule 2007**

#### **11.X.1 Definitions**

For the purposes of this rule 11.X

**Amending Rule** means the National Electricity Amendment (Cost Recovery of Localised Regulation Services) Rule 2007

**Commencement date** means the day on which the Amending Rule commences operation.

**Note:** The definition of “commencement date” may vary if there is a two part commencement date.

#### **11.X.2 Action taken by NEMMCO for the purposes of Amending Rule**

(a) Any action taken by *NEMMCO* prior to the commencement date for the purpose of amending the procedure prepared by *NEMMCO* under clause 3.15.6A(k) for the purpose of the Amending Rule is taken to have satisfied the equivalent action under the *Rules*.

(b) If *NEMMCO* publishes factors determined in accordance with clause 3.15.6A(j)(2) prior to the commencement date, the publication is taken to satisfy the requirement under clause 3.15.6A(na) of the *Rules*.

(c) Any action taken by *NEMMCO* prior to the commencement date to calculate the *local market ancillary service requirement* as a result of the Amending Rule is taken to have satisfied the equivalent action under the Amending Rule.

**Note:** If a two staged commencement date is required, clauses would be inserted here to replicate Part 11 of Chapter 8A of the Rules to in effect continue the derogation arrangements until the rest of the Rule commences operation.

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