

25 January 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
Level 16, 1 Margaret Street
Sydney NSW 2000

Email: submissions@aemc.gov.au

Dear Dr Tamblyn

Draft Rule Determination - Central Dispatch and Integration of Wind and Other Intermittent Generation

Flinders Power appreciates this opportunity to comment on the above Draft Rule Determination.

Flinders reiterates its support for Semi-Dispatch as a vital measure to enable effective system management and improved efficiency of market operation. The following comments focus on the manner of implementation of the Rule change.

Assessment of Benefits

In its assessment of the proposal against the NEM objective, the expected benefits identified by the Commission include:

- reducing the number of occasions where network congestion reduces the transfer capability of interconnectors due to the generation from significant intermittent generating units;
- improving the effectiveness of inter-regional hedging using inter-regional settlements residues due to the increased firmness of interconnector capability;
- reducing the need for NEMMCO to rely on directions under Clause 4.8.9 to manage system security as the generation from significant intermittent generating units would be controlled (at least to the extent that the generation can be reduced) directly by network constraint equations; and

- reducing the need for network service providers to require the provision of local control and protection schemes to manage network overloads due to the presence of significant intermittent generating units, as such overloads could be managed through the dispatch systems using network constraints.¹

Flinders Power respectfully submits that the proposal will not deliver these benefits. Whilst the proposed Rule will prevent further problems emerging in these areas, it will do nothing to improve the current situation owing to the “complete, unconditional and ongoing exemption from any requirement associated with the proposed Rules”² proposed for all existing and committed intermittent generators.

In terms of further benefits, the Draft Determination also noted that interim arrangements are currently applied at a jurisdictional level in South Australia given concerns over the potential impacts of large amounts of wind generation on network security, including local dispatch control schemes operated by the NSP.³ The Commission observed that:

While these actions appear to be prudent for managing network flows in the absence of the proposed “Semi-Dispatch” model they are likely to lead to less efficient outcome as:

- localised control schemes which tend to be coarse and do not attempt to optimise the dispatch of generation while controlling the network flows;⁴

The Draft Determination further noted that:

NEMMCO considers that where Jurisdictional licensing arrangements, special dispatch control arrangements within connection arrangements or other interim arrangements exist, these arrangements may potentially conflict with the proposed arrangements for semi-scheduled generating units. NEMMCO considers, therefore, that some of these interim arrangements may need to be wound up or amended to enable the transition to the Semi-Dispatch Rules.⁵

Flinders agrees that it is highly desirable for specific jurisdiction level arrangements to give way to more efficient and transparent market wide solutions. However, it appears these arrangements will continue given the blanket grandfathering arrangements proposed under the proposed Rule.

¹ Draft Determination, pp15-16

² Draft Determination, p6

³ Draft Determination, p11

⁴ Draft Determination, p12

⁵ Draft Determination, p7

A further expected benefit of the proposed Rule is that:

- more accurate forecasts of the output of significant intermittent generating units would allow NEMMCO to reduce the operating margins on its network constraint equations which increases the transfer limits for the transmission network;⁶

To this end, the Draft Determination also noted that:

The Commission considers that reducing the operating margins on network constraint equations will increase the transfer capability of the network which will further promote trade both within regions and between regions. This increase in trade will also operate to reduce the dispatch costs in the NEM and will tend in the long-term to lower energy prices to consumers of electricity⁷.

Again, it is doubtful that this benefit will be delivered in practice. In the first instance, it is noted that the proposal does not address the management of existing wind farm output, which falls outside the Rule change. In the second instance, it appears unlikely NEMMCO would have already adopted inflated network operating margins in anticipation of future wind generation, which could then be relaxed on commencement of this Rule change.

It is therefore unlikely that any transfer limits will increase on commencement of the Rule, or that intra or inter-regional trade will thereby improve. The Rule can only act to reduce potential future network limitations in this respect.

In summary, the potential benefits of this Rule have been significantly compromised by the proposal to extend a blanket exemption to all existing and committed intermittent wind generation at the commencement of the Rule.

Implementation Costs

In its approach to the proposal Rule, the Commission has adopted the view that the NEM objective is best served by making the least changes to the Rules necessary to implement Semi-Dispatch.

To this end, a number of non-essential elements of the Rule change originally proposed have been removed. These include obligations relating to aggregation, notification of capacity, self-commitment, de-commitment, dispatch inflexibility, PASA inputs and Predispatch information. Compliance costs have therefore been designed under the draft Rule to be as low as possible.

⁶ Draft Determination, p15

⁷ Draft Determination, p16

Consequently, the Commission believes that the incremental costs of meeting requirements for Semi-Dispatch are relatively low:

- Capital cost items include active power control, communications and provision of real time information (all of which are existing requirements for intermittent generators under the Rules) and expenditure on systems to receive dispatch instructions.
- Operating cost items include submitting forecast data and default offers to NEMMCO. The Commission agrees that Semi-Scheduled Generators should not be required to operate 24-hour on-site control rooms, and that operating costs for generators not contributing to congestion should be minor.⁸

For those Semi-Scheduled Generators that are contributing to congestion, additional operating costs may involve additional staff to respond in the event dispatch instructions are not followed, and foregone revenue during periods generation is capped due to network constraints.

Flinders concurs that a 24-hour on site manned control room is not necessitated by these arrangements. It further observes that systems for submitting default offers and receiving dispatch instructions can largely be automated, with remote communication and operator intervention possible by means of mobile phone / pager / laptop where necessary. It is noted that the agency and intermediary arrangements under the Rules allow such functions to be outsourced to external providers in any event.

Flinders understands that the majority of existing wind farms in South Australia are already subject to local network control arrangements, and therefore presently have the physical capability to receive and respond to output instructions. These generators also currently face the costs of forgone output at times of restricted operation. However, as observed by the Commission these arrangements do not attempt to optimise the dispatch of generation, and are presently non-transparent to the wider market.

Finally, Flinders Power would note it has registered the first fully scheduled intermittent generator in the NEM. The cost of complying with the applicable dispatch and related obligations – which are far more onerous and extensive than those presently proposed for Semi-Scheduled Generators – is relatively modest in practice.

This evidence suggests that the bulk of existing intermittent generators are in a position to comply with the essential requirements of Semi-Dispatch at minimal cost.

⁸ Draft Determination, p29

Conclusion

In view of the potential benefits of the proposal, and minimal apparent costs in applying the Semi-Dispatch requirements across all intermittent generators on an even-handed basis, there is a compelling case for a more consistent application of the Rule, in a manner designed to protect those existing participants that would be adversely affected by its introduction.

Consistent with the established principle of grandfathering, a generator should not be required to meet new technical requirements it was not designed to achieve. It is therefore proposed that the exemption criteria put forward by the Commission be refined to deliver on this principle by grandfathering all intermittent generating units that are either:

- Registered prior to the publication of the Final Report; or
- Meet the SOO criteria for classification as a “Committed Windfarm” at 1 January 2008, including projects that are classified in the NEMMCO 2007 SOO as committed; **and**
- **Do not have the capability to comply with the requirements of Semi-Dispatch.**

At the very least, this approach should capture those Non-Scheduled Generators with existing dispatch control mechanisms in place in order to bring these controls transparently within the market dispatch process.

Should you have any queries in relation to the above submission, please feel free to contact me on 08 8372 8726 or Simon Appleby on 08 8372 8706.

Yours sincerely



for Reza Evans
Manager
Energy Policy & Regulation