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Mr John Pierce  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Mr Pierce

**Aggregation of Ancillary Service Loads, ERC0104**

The NGF appreciates the opportunity to comment on the Commission's Draft Rule Determination of 24 June.

In our response to the original consultation, the NGF wished for the AEMC and AEMO to ensure there is an equivalent standard of service applied to provision of frequency response from the demand side as there is from the supply side. Overall the NGF is satisfied the AEMC has considered our view in making its draft determination.

Notwithstanding the previous statement, we believe the draft determination has been based on insufficient analysis. In particular, the assessment treats expedient or contingent aspects of the Market Ancillary Service arrangements as if they were necessary and permanent.

We believe that the Commission should re-consider the basis given for its decision, and if necessitated by such wider consideration, make minor changes to the draft Rule.

The assessment of the Rule change relies heavily on two propositions in relation to Market Ancillary Services (MAS), which are included in the following quotation –

These arrangements for the aggregation of market loads relate to both MAS and the energy market. However, there are differences in the dispatch and pricing that exists between MAS and the energy market. These differences are that:

- MAS do not use intra-regional locational price signals, therefore, losses are not a factor in determining prices; and
- MAS do not require management of intra-regional constraints. This means power system security is unlikely to be materially affected by allowing MAS to be aggregated within a region, rather than at a single site and connection point.<sup>14</sup>

[Footnote]

14 Clause 3.9.2A of the Rules provides for the determination of ancillary services prices. This determination does not include a reference to intra-regional constraints.

## **1. Unjustified assumption on constraints and pricing**

We will consider the second point first, as this more clearly exemplifies our case. We contend that, to the extent that the point relies on the footnote it is clearly in error, and apart from this, the point as made mistakes a current outcome for a permanent and necessary distinction, when it is in reality contingent on certain current practices.

The clear implication of the footnote is that ancillary prices are not affected by intra-regional constraints on the enablement of MAS. However, this is not the actual effect of the omission of a reference to intra-regional constraints, as can easily be seen by comparison with 3.9.2, which also provides for the determination of prices, but in this case, for energy prices. Like 3.9.2A this does not include any reference to intra-regional constraints, but as is well known, energy prices are impacted by intra-regional constraints, and this is the expected and desired outcome.

In fact, the requirement in 3.9.2A that the prices are based on the marginal price of meeting a requirement implies that any intra-regional constraint that affects the meeting of that requirement will also affect the price.

It is true that the prices determined for MAS are currently very rarely impacted by intra-regional constraints. This is because such constraints are applied very rarely at present. This is not, however, a consequence of the Rules or of some underlying necessity, but instead is an indirect consequence of the way in which network flow limits are determined.

Network flow limits are often defined, not by the circumstances in which they will be applied, but by the circumstances that would arise if that starting situation was impacted by a credible contingency event. The credible contingency events taken into account will commonly include events where supply/demand balance is disturbed and hence frequency responsiveness (including MAS) is brought into play.

With network flow limits defined in such a way that they allow for the power flows that occur as a consequence of frequency responsiveness, then there is generally no perceived need to limit the location of the MAS that comprises a part of this frequency response.

However, this aspect of the current practice should not be treated as if it were permanent or necessary. We have no particular reason to expect a change in this practice, but we can envisage a circumstance in which the utilisation of the transmission network could be enhanced by some localisation of MAS within a region. It appears to us that this development could occur without any change to the Rules. However, a statement by the Commission which implies that it will never happen could inhibit such a desirable development.

A future development of this kind in enhancing network utilisation should not be stymied because the Commission has pre-judged the issue while considering only a minor part of a related market. Nor should the assessment of this rule change be based on the unjustified assumption that intra-regional constraints on MAS will never be a desirable part of the market.

## **2. Unjustified assumption on losses**

Returning to the first of the dot points quoted above, we suggest that while the Rules currently provide the outcome stated, this should not be treated as a permanent feature.

The MAS services consist of increments or decrements of supply or demand, generally relative to scheduled dispatch. In the determination of that scheduled dispatch, the Rules require that network losses be considered. Clearly, in a physical sense, losses are also affected by these increments or decrements.

The current omission of loss factors in the MAS arrangements is thus not related to the underlying physical facts, but is rather an expedient simplification. We are not opposed to this simplification, but we do suggest that it is unwise for the Commission to assume that it will be permanent.

## **3. Summary**

We believe that if the Commission adopts the wider consideration of the proposal that we have suggested, it will still find that the proposed Rule change is consistent with the National Electricity Objective.

However such analysis would reveal that the desirability of the change is dependent on the expected small size of the aggregated ancillary service loads, as this relates to the assurance of only minor impact on security and minor impact on dispatch efficiency due to the aggregation over physically diverse sites. This may require a tighter focus on ensuring in each case that aggregation does not significantly impact on security or on the efficiency of dispatch.

Should you require more information on the above points raised by members of the NGF, please contact Ken Secomb on 03 9617 8321.

Yours sincerely



Malcolm Roberts  
Executive Director