

28 February 2011

Mr John Pierce
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By online submission

Dear Mr Pierce

Network Support and Control Ancillary Services – ERC0108

Thank you for the opportunity to comment on the draft Rule regarding the Network Support and Control Ancillary Services Rule request.

AEMO supports the draft Rule, subject to the AEMC addressing the following issues:

1. Dispatch of NSCAS

AEMO seeks clarification on dispatch of AEMO-acquired NSCAS.

2. Definition of NSCAS trigger date

"NSCAS trigger date" needs to allow for AEMO to acquire the service rather than being the date at which a need arises.

3. NSCAS agreement compliance with minimum terms and conditions

The NSCAS agreement process requires some flexibility for negotiation of terms and conditions rather than specifying a set of minimum conditions.

4. Consistency of network connection agreements with minimum standards


Setting connection agreement minimum standards by AEMO is now redundant.

AEMO has also identified a number of minor issues with the draft Rule.

Further details of these issues and our suggested changes are in the attached submission.

If you would like to discuss any matters raised in this submission, please contact Brian Nelson on 02 9239 9132.

Yours sincerely



Terry Grimwade

Executive General Manager, Market Performance

cc:

Attachments: AEMO submission

AEMO Submission to Draft National Electricity Amendment (Network Support and Control Ancillary Services) Rule 2010

AEMO broadly supports the draft Rule, subject to the AEMC addressing the matters discussed in the following sections.

1. Dispatch of NSCAS

(Draft Rule: Schedule 1, Rule Items [9],[12])

Current Arrangements

AEMO currently holds NSCAS agreements for the provision of reactive power ancillary services (RPAS) and network loading control ancillary services (NLCAS) that deliver market benefits of power system security and reliability and enhanced network transfer capability (that is, the relief of network congestion).

AEMO dispatches such contracted services where it identifies opportunities to significantly enhance the power transfer capability of a transmission network for material market benefit (that is, where the benefits of dispatching the service outweigh the incremental cost of doing so).

As noted in section 6 of the 2010 National Transmission Network Development Plan (NTNDP), AEMO has identified a continuing need over the next 5 years for the NSCAS provided under its current agreements for power system security and reliability purposes.

Draft Rule

AEMO understands that, under the draft Rule:

- AEMO must identify NSCAS needs in the NTNDP that deliver the market benefits¹ of maintaining power system security and reliability and enhancing network transfer capability (proposed clause 5.6A.2(c)(6A)).
- AEMO can request a relevant TNSP to provide reasons why it has not met an NSCAS need identified in the NTNDP (proposed clause 3.11.3(a)); however, AEMO is limited to procuring NSCAS for system reliability and power system security purposes when a TNSP has failed to do so (proposed clauses 3.11.1(c)(2)(ii) and 3.11.3(c)).
- Where AEMO initially identifies an NSCAS need that evolves into a power system security and reliability issue, then AEMO would acquire NSCAS to meet that need if the TNSP does not.

¹ The range of market benefits are identified as part of the Regulatory Investment Test for Transmission.

Issues with the Draft Rule

The draft Rule is clear that AEMO should be only able to acquire NSCAS to meet power system security and reliability purposes. However, whereas AEMO will receive guidelines from TNSPs as to how AEMO may dispatch NSCAS acquired by a TNSP, the draft Rule does not provide such guidelines on the dispatch of NSCAS acquired by AEMO.

Accordingly, AEMO considers it would be permitted to develop procedures to dispatch AEMO-acquired NSCAS to relieve network congestion where the opportunity arises, the incremental cost of dispatching the service is exceeded by the likely benefit of doing this, and where this is permitted under the terms of any NSCAS agreement it has entered into.

The NTNDP will analyse and report on NSCAS procured and dispatched by AEMO, which will improve the transparency of the use of NSCAS acquired by AEMO.

2. Definition of NSCAS trigger date

(Draft Rule: Schedule 1, Rule Items [12], [58])

Draft Rule

Proposed clause 5.6A.2(c)(6A) of the draft Rule requires AEMO to specify in its NTNDP an “NSCAS trigger date” for each NSCAS need, being the date by which a particular NSCAS need materialises (that is, the date from which there is a non-zero requirement for NSCAS).

The AEMC contends that, by moving the timing requirement from the Rules to the NTNDP, this gives AEMO greater flexibility to decide when to act to meet a particular NSCAS need, especially if an urgent NSCAS need arises relating to power system security and reliability.

Issues with the Draft Rule

AEMO considers that the definition of “NSCAS trigger date” in the draft Rule is not useful as:

- “the date by which NSCAS need materialises” does not reflect the expected lead-time required by AEMO to act to acquire NSCAS if the TNSP does not; and
- is not specific to an NSCAS need for power system security and reliability (the only need upon which AEMO can act).

AEMO considers that the “NSCAS trigger date” should be defined as the earliest date that AEMO would act to acquire NSCAS to meet a particular NSCAS need for power system security and reliability, instead of the later date that the NSCAS need materialises.

At the least, AEMO considers that the inconsistency between the draft Rule and the draft determination regarding the “NSCAS trigger date” should be clarified. The draft determination states that, at the “NSCAS trigger date”, AEMO would be required to determine whether it will procure NSCAS, in consultation with TNSPs, to address the power system security and reliability issue, whereas the definition in proposed clause 5.6A.2 states that it is the date the NSCAS need materialises.

This would provide TNSPs with more certainty over when AEMO would acquire NSCAS to meet an identified NSCAS need.

Suggested Changes to the draft Rule

AEMO considers that the draft Rule should define "NSCAS trigger date" as the earliest date that AEMO would act to acquire NSCAS to meet an identified NSCAS need for power system security and reliability, rather than the later date that such need actually materialises.

This change to the draft Rule would also then align with the intent stated in the draft determination.

Accordingly, AEMO suggests replacing the proposed clause 5.6A.2(c)(6A) of the draft Rule with the following:

"(6A) include an assessment that identifies:

- (i) any *NSCAS need* ~~and the date by which *NSCAS need* materialises~~ (**NSCAS trigger date**) for a planning horizon of at least 5 years from the beginning of the year in which the *NTNDP* applies; and
- (ii) for those *NSCAS needs* in sub-paragraph (i) relating to *power system security* and reliability of *supply*, the earliest date that AEMO would act to acquire NSCAS to meet that *NSCAS need* (**NSCAS trigger date**); and

AEMO proposes to clarify the criteria for determining the "NSCAS trigger date" in its NMAS Tender Guidelines, including a reasonable lead time to allow the relevant TNSP to plan to acquire NSCAS to meet the identified NSCAS needs.

3. NSCAS agreement compliance with minimum terms and conditions

(Draft Rule: Schedule 1, Rule Item [27])

Current Arrangements

Clause 3.11.5(b)(8) of the Rules requires AEMO to include "minimum terms and conditions of the ancillary services agreement that a successful tenderer would be expected to enter into with AEMO" in the NMAS tender guidelines.²

AEMO currently defines these minimum terms and conditions as the entire draft ancillary services agreement, included as a schedule to the invitation to tender. Hence, the minimum terms and conditions are both commercial and technical in nature. During the invitation to tender process, tenderers are permitted to submit amended terms and conditions for negotiation with AEMO. This occurred in the 2008 NSCAS tenders.

The expressions of interest, invitation to tender and draft ancillary services agreement documents all form part of the tender guidelines, which AEMO is required to develop and publish in accordance with the Rules consultation procedures.

² Under clause 3.11.5(b) of the Rules AEMO has elected to develop separate tender guidelines for NSCAS and SRAS.

Draft Rule

Proposed clause 3.11.5(g) of the draft Rule requires that any ancillary services agreement negotiated between AEMO and an NMAS provider must satisfy the minimum terms and conditions defined in the NMAS tender guidelines under clause 3.11.5(b)(8).

Issues with the Draft Rule

AEMO considers that the proposed wording in clause 3.11.5(g) of the draft Rule would effectively remove any flexibility in negotiating an NSCAS agreement to accommodate innovative and viable forms of NSCAS, and might discourage potentially more competitive “non-conforming” tenders resulting in less cost-efficient provision of NSCAS to meet the NSCAS need.

AEMO also considers that the reference in existing clause 3.11.5(b)(8) to the “minimum” terms and conditions of the ancillary services agreement is misleading, and again might deter potential tenderers.

As noted above, AEMO considers the minimum terms to be the entire draft ancillary services agreement, and tenderers are permitted to submit an amended set of terms and conditions for negotiation with AEMO.

Hence, the minimum terms and conditions are more correctly “the terms and conditions expected in an NSCAS agreement”, as they indicate what type of service AEMO is seeking while still allowing room for negotiation for services that may not meet our expected terms and conditions but could still satisfy our requirements. AEMO requires this flexibility as it is difficult to predict what type of services may be tendered, and a cheaper tender should not be rejected simply because it does not exactly conform to pre-defined “minimum” terms and conditions.

Finally, we note that page 11 of the draft determination incorrectly states that the draft Rule “includes a provision that all providers of NSCAS should be required to meet the requirements in the Rules” and “adds an obligation on AEMO to consult on the obligations and standards that would form part of tender documents for NSCAS” (that is, the minimum terms and conditions of ancillary services agreements).

These are existing Rule obligations, as clause 3.11.5(o)³ obliges an NMAS provider to comply with an ancillary services agreement, and clause 3.11.5(b)(8) requires that the minimum terms and conditions form part of the NMAS tender guidelines which AEMO must consult on under clause 3.11.5(c).

Suggested Changes to the draft Rule

AEMO suggests deletion of the requirement that an NSCAS agreement must satisfy the terms and conditions defined in the NMAS tender guidelines, as follows:

Clause 3.11.5(g):

“(g) Where a person submits an *NMAS* tender in response to an *NMAS* invitation to tender and *AEMO* wishes to negotiate an aspect of that *NMAS* tender, *AEMO* and

³ Noting that this is also a civil penalty provision

that person must negotiate in good faith concerning that aspect. ~~For the avoidance of doubt, any agreement on an aspect of that NMAS tender between AEMO and that person must satisfy the minimum terms and conditions of the ancillary services agreement as required by subparagraph (b)(8)~~"

AEMO also suggests the deletion of the word "minimum" from clause 3.11.5(b)(8), as follows:

Clause 3.11.5(b)(8):

"(b) AEMO must determine and *publish* the *NMAS tender guidelines*. Separate *NMAS tender guidelines* may be prepared in respect of *network support and control ancillary services* and *system restart ancillary services*. The *NMAS tender guidelines* must contain the following:

(8) the ~~minimum~~ terms and conditions of the *ancillary services agreement* that a successful tenderer would be expected to enter into with AEMO;"

4. Consistency of network connection agreements with minimum standards

Current Arrangements

Clause 5.3.6(c1) of the Rules states:

"An offer to *connect* and the resulting *connection agreement* must be consistent with any minimum standards set by AEMO under clause 3.11.4(b)(1)".

Clause 3.11.4(b)(1) allows AEMO to develop, publish and apply "minimum technical ancillary service standards" to the performance standards negotiated in a network connection agreement, although to date AEMO has elected not to do so and relies on its power under clause 3.11.4(b)(2) to acquire non-market ancillary services or to issue a direction under clause 4.8.9.

Draft Rule

The draft Rule removes AEMO's ability to develop, publish and apply "minimum technical ancillary service standards" to the negotiation of performance standards in a network connection agreement, as per AEMO's Rule request.

AEMO also requested the deletion of clause 5.3.6(c1) because the deletion of clause 3.11.4(b)(1) would make this clause redundant.

Issues with the Draft Rule

AEMO considers that clause 5.3.6(c1) is redundant and requests the AEMC deletes this clause, or otherwise provide reasoning as to why this clause is being retained.

Clause 5.3.6(c1) incorrectly refers to clause 3.11.4(b)(1), an error introduced in the National Electricity Amendment (System Restart Ancillary Services and Pricing under Market Suspension) Rule 2006 No.6 when former clause 3.11.4 was renumbered to clause 3.11.3.

The new clauses 3.11.3(b)(1) and 3.11.4(b)(1) no longer refer to the “minimum technical ancillary services standards” set by AEMO.

Suggested Changes to the draft Rule

AEMO recommends deletion of clause 5.3.6(c1). AEMO notes this clause is a civil penalty provision for the purposes of the NEL.

5. Minor Issues

AEMO has identified a number of minor issues in the draft Rule, as summarised in Table 1 below.

Table 1: Draft Rule - Minor Issues and Suggested Changes

ID	Clause	Draft Rule	Minor Issue and Suggested Change
1	3.11.4 Heading	Replace heading “Procedure for determining quantities of network control ancillary services” with “Guidelines and objectives for acquisition of network and control ancillary services”	Typographical error. The new heading should read: “Guidelines and objectives for acquisition of network <u>support and</u> control ancillary services”
2	3.11.5(f)(2)	In clauses 3.11.5(b)(3), 3.11.5(c) and 3.11.5(f)(1), replace “ <i>NMAS tender guidelines</i> ” with fully-italicized “ <i>NMAS tender guidelines</i> ”	This change should also apply to clause 3.11.5(f)(2)
3	5.6.2A(b)(6A)	Insert new clause: “the level of <i>NSCAS</i> capabilities provided to the <i>network</i> in the previous year with a description of relevant <i>NSCAS</i> services, including the proportion of such services that have been acquired by <i>AEMO</i> in accordance with clause 3.11.5”	NSCAS relates only to the transmission network. Also the term “NSCAS services” effectively repeats the word “service” Should read: “the level of <i>NSCAS</i> capabilities provided to the <u>transmission</u> <i>network</i> in the previous year with a description of relevant <i>NSCAS</i> services, including the proportion of such services that have

			been acquired by AEMO in accordance with clause 3.11.5"
4	5.6A.2(c)(6A)	<p>Insert new clause:</p> <p>"include an assessment that identifies any <i>NSCAS need</i> and the date by which <i>NSCAS need</i> materialises (NSCAS trigger date) for a planning horizon of at least 5 years from the beginning of the year in which the <i>NTNDP</i> applies; and"</p>	<p>Typographical error. After "the date by which" insert "the". The second instance of "NSCAS need" should be italicized</p> <p>Clause should read (ignoring AEMO's other proposed changes under Issue #3 above):</p> <p>"include an assessment that identifies any <i>NSCAS need</i> and the date by which <u>the</u> <i>NSCAS need</i> materialises (NSCAS trigger date) for a planning horizon of at least 5 years from the beginning of the year in which the <i>NTNDP</i> applies; and"</p>
5	5.6A.2(c)(6B)	<p>Insert new clause:</p> <p>"report on <i>NSCAS</i> acquired by AEMO in the previous <i>NTNDP</i> year; and"</p>	<p>"AEMO" should be italicized</p> <p>Should read:</p> <p>"report on <i>NSCAS</i> acquired by <i>AEMO</i> in the previous <i>NTNDP</i> year; and"</p>
6	Chapter 10	<p>Insert new definition:</p> <p>"network support and control ancillary service or NSCAS"</p> <p>A service with the capability to control the <i>active power</i> or <i>reactive power</i> to address an <i>NSCAS need</i>, where <i>NSCAS need</i> has the meaning given in clause 3.11.4(b)."</p>	<p>The words "where <i>NSCAS need</i> has the meaning given in clause 3.11.4(b)" are redundant, as <i>NSCAS need</i> is defined this way in Chapter 10.</p> <p>Should read:</p> <p>"network support and control ancillary service or NSCAS"</p> <p>A service with the capability to control the <i>active power</i> or <i>reactive power</i> to address an <i>NSCAS need</i>, where <i>NSCAS need</i> has the meaning given in</p>

			clause 3.11.4(b).”
7	Chapter 10	No Chapter 10 definition for new term “regional benefit ancillary services” procedures ⁴ ”	<p>The draft Rule is inconsistent in defining new term with multiple references; there is a new Chapter 10 definition for “NMA tender guidelines” but none for “regional benefit ancillary services procedures”</p> <p>Insert new Chapter 10 definition:</p> <p>“regional benefit ancillary services procedures</p> <p>The procedures developed by AEMO under clause 3.15.6A(c3) to determine the relative benefit that each <i>region</i> is estimated to receive from the provision of each NSCAS.”</p>

⁴ We also note that the draft determination incorrectly refers to the “Regulation Benefit Ancillary Services Procedures” rather than the “Regional Benefit Ancillary Services Procedures” as it is correctly referred to in the draft Rule.