

Our Ref: 48613
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21 August 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Request for Rule Change – Requirement for ramp rates and dispatch inflexibility profiles to reflect technical capabilities

As you are aware, the AER has been very active in the debate surrounding the implications of congestion-related disorderly bidding. Indeed, the AER made several submissions to the Australian Energy Market Commission's (AEMC) Transmission Frameworks Review (TFR). In addition, in December 2012 the AER published a Special Report entitled *The impact of congestion on bidding and inter-regional trade in the NEM* ([attached](#)) and in March 2013 the AER made a submission to the Productivity Commission's *Electricity Network Regulatory Frameworks Review* entitled *Possible options for interim solutions to congestion-related disorderly bidding* ([attached](#)).

Disorderly bidding is bidding by generators in a non-cost reflective manner, typically in response to transmission congestion. For example, if the market price is high, but congestion means certain generators have to generate less, those generators have an incentive to find ways to keep generating. They might bid in at prices well below their costs or restrict the speed at which the output of their plant can be lowered.

Over the last three years in particular the increasing prevalence of disorderly bidding has led to inefficient dispatch and created unnecessary price volatility which is impossible to predict. This unnecessarily increases the wholesale spot market price risk faced by retailers and generators. The higher risk profile is a cost which ultimately flows through to consumers through higher energy charges.

The AER also considers that disorderly bidding greatly reduces the effectiveness of interconnectors, making it more difficult for retailers and generators to hedge across region

boundaries. This lowers the competitiveness of the wholesale market with longer-term flow-on effects to efficiency and prices.

In addition, there is a clear productive efficiency loss from disorderly bidding through high-cost generation being dispatched in place of low-cost generation. This loss is most obvious in situations where disorderly bidding leads to counter-price flows on interconnectors (i.e. electricity flows from a high-price region into a low-price region), and consumers in the low-price region have to fund the shortfall.

The TFR Final Report recommended the Optional Firm Access (OFA) Model as a longer term solution to managing congestion in the National Electricity Market (NEM). The AER is supportive of further consideration of this approach. However, it is widely acknowledged that implementing the OFA Model represents a significant body of work and would take several years to implement. Given the seriousness of the disorderly bidding problem and the high costs for consumers, we consider an interim “partial fix” is required earlier.

We are proposing a rule change which would require generators to submit ramp rates (at all times) that reflect the maximum the generator is safely capable of achieving. This rule change proposal would apply equally to scheduled and semi scheduled generators, scheduled network services and scheduled loads.

As a related matter, this rule change proposal also seeks to ensure that when a fast start inflexibility profile (FSIP) is submitted, it is reflective of actual plant limitations at the time.

We consider that the rule change will ensure that there is alignment between the treatment of ramp rates/FSIP, and the treatment of frequency control ancillary services parameters and inflexible declarations. The current rules are clear that frequency control ancillary service parameters must reflect the technical parameters of the plant and that generators can only declare their plant inflexible based on technical limitations. Our rule change seeks to make the rules consistent with respect to the remaining technical parameters of a bid.

At times, generators have used ramp rates and FSIPs to achieve commercial outcomes. In particular, if a generator is required to be constrained off by the Australian Energy Market Operator (AEMO) due to network constraints during a period of high prices, the generator is incentivised to bid its ramp rate down to very low levels to minimise the extent to which it is constrained off. This leads to inefficiencies in dispatch and fluctuations in price. This Rule change proposal will demonstrate that the use of ramp rates to achieve commercial outcomes is not transient behaviour, but commonplace. Requiring generators to bid in their maximum safe ramp rate will significantly address the issue.

We consider that the rule change will also improve the security of the NEM when there is network congestion, as AEMO will be able to move the output of generators at a faster rate to address network constraints. AEMO will not breach a generator’s technical parameters (which includes ramp rates and FSIPs) as it does not have any other information about a plant’s capability. Indeed, AEMO may violate some network constraints before it breaches a plant’s technical parameters. Therefore, having technical parameters that are the maximum a generator can safely attain will assist AEMO to maintain security.

It is important to note that the AER is supportive of market participants achieving their commercial objectives. However, the use of technical parameters to achieve commercial

objectives can be harmful both in terms of inefficient market outcomes and the ability for AEMO to manage system security in an optimal fashion. To this end, this rule change proposal seeks to clarify the distinction between the technical and commercial parameters of bids.

Requiring participants to submit a ramp rate at all times that reflects their maximum safe capability is an extension of the AEMC's 2009 rule change (in response to a rule change proposal by the AER) which saw the minimum ramp rate increase from 1 MW/min to 3 MW/min or the technical maximum if that is less. Given the concerns with network congestion and associated disorderly bidding, the AER considers it appropriate to make ramp rates a technical parameter at all times.

We appreciate that given the very technical nature of ramp ramps, concerns may be raised with respect to how such a change may be enforced. To this end, the rule change proposal recommends that the AER revise its *Rebidding and Technical Parameters Guideline*, through the formal consultation process, outlining how such a requirement would operate in practice. This is discussed in more detail in the body of this rule change proposal.

Should you have any queries in relation to this matter, please don't hesitate to contact Tom Leuner, General Manager, Wholesale Markets, on 03 9290 1890.

Yours sincerely



Andrew Reeves
Chair