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ISSUES PAPER - SEMI SCHEDULED GENERATOR RULE CHANGE(S)

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Regulator's (**AER**) Issues Paper, which considers semi scheduled generator rule changes as directed by the COAG Energy Council.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.6 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia.

AGL supports amendments to the National Electricity Rules (**NER**) requiring semi scheduled generators to comply with Australian Energy Market Operator (**AEMO**) dispatch instructions, aligning with the existing scheduled generator requirements. This is described in section 6.3.1 of the Issues Paper.

The AER observes that semi scheduled generators are deviating from their forecasts, without rebidding, during negative price dispatch intervals, and that this behaviour is impacting AEMO's ability to manage the power system. The AER has put forward several options to address the concerns with semi scheduled generator behaviour and remedy the proliferation of unexpected market outcomes. AGL's view on these options are presented below.

OPTION 1

The first option considers changes to frequency control ancillary services (**FCAS**) causer pays arrangements to better incentivise compliance with dispatch targets. The option considers allocating cost to cause closer to real time, rather than over a 28-day period, and as the AER notes, this would be complex to implement. Our view is that real time causer pays may not provide any greater incentive than the current calculation as generators already strive to minimise their causer pays factor by matching capacity and targets.

AGL appreciates the AER's consideration of market-based incentives ahead of regulatory change but agree that tweaks to causer pays are unlikely to achieve the required outcome here. It is worth noting that



changes to causer pays arrangements may be an appropriate mechanism to reward provision of services such as primary frequency response.

OPTION 2

The AER's second option is to remove the semi-scheduled classification and make these existing generators scheduled. AGL does not support this option as it does not sufficiently account for the intermittency of resource, nor the imperfections of forecasting. On the latter point, the AER refers to the potential use of the Australian Wind Energy Forecasting System (**AWEFS**) and Australian Solar Energy Forecasting System (**ASEFS**) as benchmarks for compliance. While these systems have improved over time, we do not consider they are fit for such a purpose.

OPTION 3

The AER's third option, to amend the rules governing semi scheduled generators, contains three sub-options:

1. Semi scheduled generators must follow dispatch instructions, consisting of a megawatt target for the end of the dispatch interval and a ramp rate, subject to resource availability.
2. In AGL's view, this sub-option is the clear path forward for the rule change proposal. It closely mirrors the standard of conduct currently required of scheduled generators, while accounting for the limitations of intermittency. This option would necessitate improvements to AWEFS/ASEFS (or participant self-forecasting) and while this has cost implications, these should be weighed against the anticipated market benefit of lower FCAS costs and lower system security risk.
3. Semi scheduled generators must meet an energy target, produced from AWEFS/ASEFS or participant self-forecasts, to be achieved during the 5-minute interval.

AGL does not support further consideration of this sub-option. As with option 1, it requires amendments to the causer pays methodology, in this case to account for the calculation of causer pays factors against the energy target, rather than a megawatt target. The AER suggests the energy target could be produced from the AWEFS/ASEFS megawatt target. This sub-option has two key flaws in our view. Firstly, the FCAS implications would be extremely complicated to resolve. Secondly, this sub-option perpetuates inconsistency between scheduled and semi scheduled generation, which appears to be contrary to COAG's intention.

4. Semi scheduled generators to operate as inflexible generators and advise AEMO of a fixed megawatt level for the dispatch interval, which then becomes the generator's target.

AGL does not support this sub-option and agrees with the AER's position to give it no further consideration. As the AER highlights, semi scheduled generators would be price takers in this scenario and would have no protection from adverse price outcomes. Semi scheduled generators form an ever-increasing proportion of total NEM generation, and to exclude them from determination of the market price would produce an economically unsound result.

OPTION 4

Finally, the AER has considered imposing registration conditions on semi scheduled generators, restricting changes in output in the absence of a dispatch instruction. AGL does not support this option. It would be simpler to impose 'conditions' through the market rules rather than retrospectively amending the conditions



of each existing generators' registration, or risk having old and new semi scheduled generators subject to different conditions.

INFORMATION AND DATA FLOW TO AEMO

AGL supports improvements to the quality and flow of information from participants to AEMO. We are participating in the self-forecasting trial, which encourages investment in monitoring capability to improve forecasting. Such improvements benefit both the participant by reducing their causer pays liability, and the market, through AEMO having better information by which to operate the NEM.

Participation in the trial has brought to light additional measures that would improve participant forecasting if rolled out NEM-wide, including:

- generation sites implementing a local limit signal, and ensuring this is configured consistently (i.e. consistently include or not include factors such as temperature de-rates or mechanical de-rates);
- for wind farms, using the average wind speed and ambient temperature of all wind turbines as the inputs to AWEFS, as this produces more accurate forecasts compared to using single turbine, met masts or average of met masts values; and
- increased buy-in from distribution and transmission network services providers and original equipment manufacturers to assist semi scheduled generators with the works needed at the site, including at the connection point.

Notwithstanding the areas for improvement that AGL has identified, we support AER's proposed approach to hold off on proposing a rule change to deal with information and data flow until the outcome of the first semi scheduled generator rule change is known.

If you have any queries about this submission, please contact Liz Gharghori on (03) 8633 6723 or lgharghori@agl.com.au.

Yours sincerely,

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