Mr Peter Adams
General Manager, Market Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: wholesaleperformance@aer.gov.au

24 July 2020

Dear Mr Adams,

Issues paper on Semi-Scheduled Generators – Proposed Rule Changes

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Regulator (AER) Issues Paper on Semi-Scheduled Generators – Proposed Rule Changes ("the Issues Paper").

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 725,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

In terms of the subject of the Issues Paper, ENGIE owns and operates the semi-scheduled generator Willogoleche wind farm in South Australia. ENGIE also owns and operates plant in both the non-scheduled and scheduled generator category.

The issue under consideration

The core issue as presented by the AER is that there is a growing incidence of semi-scheduled generators that are departing from their dispatch instructions. This results in AEMO having to incur additional costs in balancing the system. At the extreme, a cumulative impact of numerous generators being off target could threaten system security. At present, the largest raw off-target outcomes from wind farms is similar to that experienced when a large scheduled thermal generator is off-target, which is the level of contingency that power systems are usually planned for[1]. Given the expected continuing growth in semi-scheduled generation as more wind and solar farms

[1] See analysis here for example: http://www.wattclarity.com.au/articles/2020/05/rawofftarget-casestudy-allwind-high/

are commissioned, the scale of the problem is likely to grow. In some circumstances, the net impact of multiple generators missing targets may be diversified away, but this outcome cannot be assumed to be the norm.

This might be less of an issue if the costs attributable to a generator missing its target were allocated to that generator, which would internalise the trade-off. However, the causer pays allocation of FCAS is not sufficiently aligned to deliver this outcome, but the AER does not consider this a viable solution to the specific issue. ENGIE notes that the issue of whether the causer pays methodology could be improved has been under consideration for some time. Further if the Energy Security Board proceeds with its proposals to develop a two-sided market, this issue will come into sharper focus as it is unlikely to be practical to hold load to a strict target, so an incentive-based approach to following dispatch targets may be necessary. Accordingly, a causer pays review remains an appropriate long-term goal.

Principles for assessing the response to the issue

ENGIE considers that there are two key principles at stake in this issue:

- that risk is best allocated to the party best placed to manage it; and
- the regulatory burden should be proportionate to the concerns it is seeking to address.

These principles and their application to this case are discussed further below.

Risk is best allocated to the party best placed to manage it

In this case, the risk is that of a generator not generating in line with AEMO's dispatch instructions and AEMO having to incur additional costs in balancing the system. For scheduled generators, who have indicated their availability through their bidding, holding them to account for dispatch target compliance is considered appropriate.

In the case of semi scheduled generation, however, there are two issues to consider. AEMO determines the generators cap based on forecast weather resource using its forecasting models (AWEFS/ASEFS) but the plant operator may deviate from the cap for a range of reasons. Some reasons may be technical and thus unavoidable. Others may be due to a market response. It would be counter to the purpose of the NEM wholesale market to discourage market responses per se. Some responses may be due to an inaccurate forecast, and this is where an ambiguity arises as to whether targets should be followed even when a plant can provide additional energy at low cost.

This ambiguity may be further complicated by questions around whether AEMO could improve the situation through improving its forecasts (noting that perfect weather forecasting is not a realistic goal) or whether AEMO could do more to facilitate generators who wish to take responsibility for their own forecast[2].

[2] Noting that there is work in this space: https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/operational-forecasting/solar-and-wind-energy-forecasting/participant-forecasting

Proportionality of regulation

New or revised obligations should be the minimum necessary to remedy the issue. This militates against the most onerous option that the AER has left on the table: removal of the semi-scheduled category and requiring existing semi-scheduled plant to comply with the full requirements of scheduled generation. Long-term, this may be an appropriate option – it would seem counter to the purpose of the market to have a majority of capacity passively following the market operator's forecast of their output, and AEMO's ISP forecasts suggest that is a likely outcome. Deferring this approach to the longer-term also allows an opportunity to consider the other issues mentioned, such as self-forecasting and causer pays.

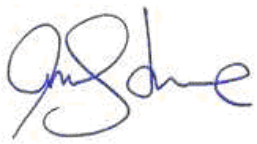
If removal of the category is a step too far in the short term, and with the incentive-based approach ruled out for this rule change proposal, this leaves the AER with the enviable task of effectively deciding which (if any) reasons for departing from target should be allowable. This is effectively the choice of sub-options under option 3 "amend the existing arrangements for semi-scheduled generation". ENGIE does not have a specific preference, but notes that the following points are desirable.

- That semi-scheduled generation should not be held to targets and ramp rates that fall outside a unit's capacity to follow. This includes the "feathering issue"[3] that may impact wind farms on start up.
- That price-responsiveness of semi-scheduled plant is not unduly disincentivised (noting that the key may lie in the information flows) and not prohibited.
- That semi-scheduled plant should not be held to higher standards of compliance than scheduled generation.

ENGIE considers that development of the second rule change request, regarding information requirements is predicated on the AER's choice of approach to the first rule change request and looks forward to further engagement on this issue in due course.

If you have any queries in relation to this submission please do not hesitate to contact me on, telephone, (03) 9617 8415.

Yours sincerely,



Jamie Lowe
Head of Regulation

[3] This issue was raised in the energy conversion model guidelines consultation: https://aemo.com.au/consultations/current-and-closed-consultations/energy-conversion-model-guidelines-consultation-wind-and-solar-farms