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

Sent by email: wholesaleperformance@aer.gov.au

**Semi-scheduled generator rule change
Issues Paper**

Major Energy Users Inc (MEU) is pleased to provide its thoughts on the issues raised in the AER Issues Paper relating to Semi-scheduled generation.

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those supplies, the quality of the delivered supplies and the long term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on local staff, suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

2-3 Parkhaven Court, Healesville, Victoria, 3777

ABN 71 278 859 567

www.meu.asn.au

Overall, the MEU considers that the AER Issues Paper outlines well the issues related to the way semi-scheduled generation believe they have the ability to “game” the market. This “gaming” is achieved by:

-) Bidding at less than \$0/MWh (eg at the market price floor) up to a supply cap
-) When the spot price falls to low levels, but remains above the semi-scheduled generators bid price, they can unilaterally reduce output within the 5-minute dispatch period.

This reduction of supply is implemented without providing AEMO with prior advice of an intent to do so. The MEU considers that while this practice makes commercial sense for any generator, in the MEU’s view, it does not, really comply with the “good faith” bidding procedures that underpin the National Electricity Market (NEM).

Equally, the MEU is also aware that unlike dispatchable generation, semi-scheduled generation has no control over its energy input source and therefore cannot guarantee to meet its dispatch commitment bid; this was the reason that the current rules have a dispatch cap for output for semi-scheduled generation as opposed to a fixed MW output target¹.

However, it is also noted that semi-scheduled generation are required by the Rules to provide availability data to allow AEMO to calculate an uninterrupted intermittent generation forecast (UIGF) needed to allow semi-scheduled generation to participate in the central dispatch process and receive a semi-scheduled dispatch instruction.

We also note that semi-scheduled generators argued against their inclusion in the rebidding rules and the Rules allow some relaxation of the rebidding process for semi-scheduled generation² although semi-scheduled generation is still required to make re-bids when moving capacity between price bands³.

Additionally, while semi-scheduled generators are not required to submit availability rebids through the normal rebidding process, in the MEU’s view, sections of the Final Determination indicate the clear intent that semi-scheduled dispatch in the central dispatch process would be based on submitted bids but with dispatch availability modified by the UIGF and with semi-scheduled generators required to alter the prices at which generation is dispatched via use of rebids.

There was discussion that there should be a threshold at which point a semi-scheduled generator would be required to provide revised availability information to AEMO⁴ but it was decided that semi-scheduled generators should use their best endeavours to meet a dispatch target.

¹ AEMC Final Determination – Central Dispatch and Integration of Wind and other Intermittent Generation May 2008, Page 44

² Ibid Page 40

³ Ibid Page 40

⁴ Ibid Page 48

With these facts in mind, the MEU considers that the Rules intend that all generation should have to comply with the “good faith” provision that requires every generator to do whatever it can to meet its bid.

We are concerned that some semi-scheduled generators have considered that the wording for semi-scheduled generation dispatch implies that as the dispatch instruction can be viewed as a cap, allowing semi-scheduled generation to be free to deliver significantly less than their dispatch instruction based on their submitted bid. The MEU notes that a semi-scheduled generator would do this if it saw that by complying with its bid it would suffer avoidable costs. The MEU does not consider that such freedom is really intended by the Rules, but some semi-scheduled generators have used this implied freedom and by doing so causing difficulties in AEMO’s management of the power system and potentially causing higher costs for consumers. The MEU considers that the clear intent of the original rule change for semi-scheduled generators was for them to participate in the central dispatch process and be dispatched based on submitted offers⁵ and so maintain the integrity of the central dispatch process from both a pricing and power system security perspective.

The implication of the “good faith” provisions is that each generator should be required to honour its bid subject only to the availability of its energy input supply and its equipment, just as is required of dispatchable generators. Semi-scheduled generation should be bound by this requirement and on this basis, the MEU considers that AER option 3 A to

“...[a]mend the rules such that semi scheduled generator dispatch instructions are to be followed by the participants subject to the availability of their dependent resource. These dispatch instructions would be of the same form as for scheduled generators - a megawatt target for the end of the dispatch interval and a ramp rate”

will prevent “gaming” by semi-scheduled generation.

Effectively, this new addition would provide clarity to the Rules and prevent a semi-scheduled generator effectively withdrawing output within a dispatch interval purely on the basis of the spot market price as set, whilst higher than the semi-scheduled generator’s bid price, being less than a price which might be uneconomical for the generator to continue to generate within the dispatch interval.

The new rule would also retain the semi-scheduled generator’s ability to rebid its capacity at a different price for the next dispatch interval, the same ability that a scheduled generator has. We believe this was the clear intent of the requirement for semi-scheduled generators to make re-bids when moving capacity between price bands in the 2008 rule change.

The MEU has reviewed the bidding practices of some semi-scheduled generators and sees that many semi-scheduled generators do conform to this practice (ie of

⁵ Ibid Page 40

honouring their bid in terms of price and capacity) so the MEU does not consider that the formal implementation of the new rule will impose any difficulty with compliance of it.

The MEU has reviewed the other proposed options for managing this issue:

-) Amend causer pays factors
-) Remove semi-scheduled classification
-) AEMO establishing a target output
-) Operate as an inflexible generator
-) Amend registration requirements to prevent price reaction

Recognising that each generator operates in a competitive market, the MEU considers that imposition of constraints to their operation by another party should be minimal and that complex arrangements to a reasonably simple problem should not be implemented, especially noting that the problem observed so far is not relatively widespread.

Equally, recognising that semi-scheduled generator dispatch is based on AEMO's UIGF and that semi-scheduled generators don't have the ability to manage their energy input source, some recognition of this must be reflected in the Rules.

With these observations, the MEU agrees with the AER that a new rule is required to address the problem identified and that the other proposed options are either impracticable or less attractive than option 3A.

With regard to the question as to better information provision, the MEU considers that where a semi-scheduled generator does not meet its dispatch instruction within a dispatch interval then, similar to dispatchable generation, it should be required to provide the AER with the reason for this, noting that a reason based on price is not acceptable. This flow of information would allow the AER to assess whether there might be grounds for implementing compliance measures.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully



David Headberry
Public Officer