

24 February 2017

Mr Nathan White  
AEMO  
Melbourne Office

*By email: [causerpaysconsultation@aemo.com.au](mailto:causerpaysconsultation@aemo.com.au)*

Dear Nathan,

### **FCAS Causer Pays Procedure Consultation**

Thank you for the opportunity to comment on this very important element of the FCAS markets.

This aspect of the market presents an unacceptable and unmanageable impost and risk on semi-scheduled and non-scheduled generation, new investors in the market and therefore the importance of this causer pays procedure cannot be underestimated. For reasons described further in this paper, the Coalition affirm that the 10 areas AEMO sought answered in its original consultation paper must be extended to cover the actual services provisioned by AEMO, the quality of the services provided and the most effective, efficient and appropriate manner for cost recovery. Continuation of the status quo in this area of the market may continue to result in distorted market incentives that simply create an unnecessary wealth transfer between scheduled and non-scheduled generation.

The Wind Coalition commissioned detailed, quantitative analysis from Hard Software, with assistance from Greenview Strategic Consulting, that has allowed the coalition to view the data and methodology applied in the CPF process, at a level rarely analysed among participants. Using this new information, we have attempted to answer the 10 key questions AEMO sought comment on using the results from the commissioned report: these are attached below. Within each of the response, there are references to the report that can be consulted for further information.

The issues noted in this paper are a complex mix of technical, mathematical and economic principles that the group contend must be addressed immediately through the following actions:

The current mathematical overlays to determine causer pays factors, multi-week delays and low market pricing appears to have created a disincentive for adequate frequency control, penalising units for attempting to perform frequency control, hence are all key contributors to frequency performance degradation since 2001;

The Wind Coalition request an immediate audit of all frequency deadband and frequency influence settings for current FCAS providers as recent power system performance indicates that, although the prices for regulation service are increasing dramatically, the performance of the system appears to be degrading;

Formation of an urgent technical working group to address a number of concerning observations, from both a power system technical and financial risk management perspective;

An urgent review on the accuracy of AWEFS forecasts for use in the dispatch timeframe for semi-scheduled windfarms is required immediately, as persistence forecasts have been

analysed to show an improvement to expected dispatch targets for semi-scheduled plant that would lead to an immediate reduction in anticipated CPF hence dispatch target adherence;

The current CPP do not allow a semi-scheduled or non-scheduled participant to adequately manage their underlying financial risk, contrary to AEMO's stated principles;

A non-controversial rule change will be submitted by the Wind Coalition shortly to address the inability of semi-scheduled plant to manage periods when dispatch levels do not reflect actual outcomes, therefore compounding a participant's CPF;

Modification to the causer pays procedure to allow for periods when wind farms are metered below 0MW, thereby ensuring 'on-site' consumption is treated as any other 'used in station generation' or auxiliary load within scheduled generating systems.

### **AEMO High Level Principles**

At a high level, the Coalition agree with the general theme of AEMO's principles, but in practise it is felt that a number of the principles are not being reflected in actual outcomes;

Essentially, the current regime is not effectively incentivising the correct management of each sites own risks, therefore is in danger of fundamentally not meeting the intention of Principle 1

Although 'causer' of the system may be able to be identified, notifying them up to 14 weeks after a measuring period in a completely different settlement week does not constitute suitable incentives for correct dispatch behaviour (Principle 1);

AEMO had sought to have proposed changes (Principle 6) assessed against system costs and benefits: the same must be applied to changes by AEMO. It could well be argued, for \$50m in SA, could alternate arrangements (like directions) have been used to manage regulation FCAS following a region-separating critical contingency!

Similarly, and as will be discussed in Section 5, the degree of deviation that has been allowed in the regulation market such that the performance of the regulation providers has been allowed to reduce to minimal levels allowing the frequency to meander between 49.9 and 50.1, thereby effectively increasing the costs to other participants, must be addressed.

It should be noted that some members of the Wind Coalition submitted responses to AEMO's consultation on CPP during Asynchronous operation: this submission does not repeat the content but can be read in conjunction with those submissions. Similarly, the coalition will be putting something together for the MASS consultation so will not address issues specifically related to the MASS design or framework, although many of the issues are overlapping. Although this consultation is not intended to consider the processes used to procure regulation FCAS itself, it raises a number of issues that we consider worthy of deeper understanding by AEMO prior to finalising these CPP's, which by definition will include elements associated with procurement of the services. Similarly, any change to the current regimes should be numerically verified to ensure participants are aware of the impact any change, whether it is suggested by this group, AEMO or other consultation submissions, have on their current financial position given the gravity of the existing situation.



The group would be pleased to discuss this submission further with you at your earliest convenience.

Yours sincerely

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