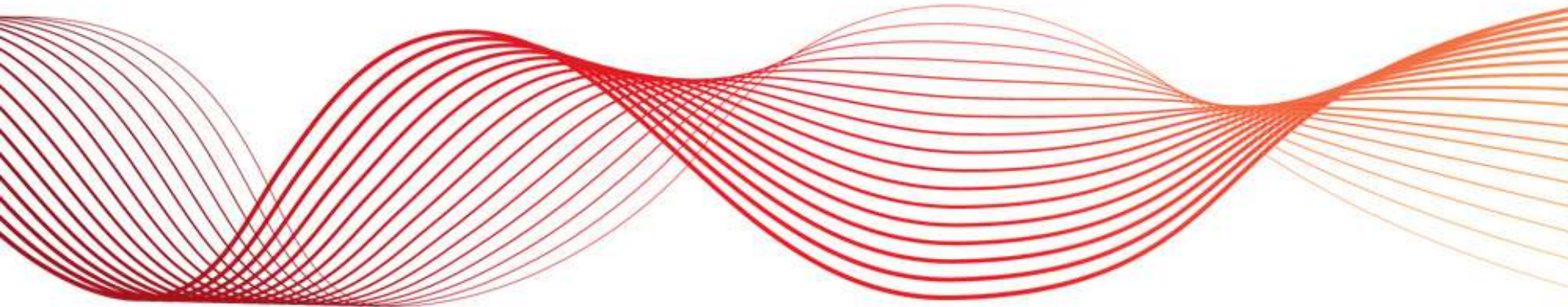


NSCS Review

Revised Draft Determination

Public Forum - Melbourne

Tue 20 Oct 2009



- **Introduction** → Terry
- **Current Arrangements** → Antara
- AFTERNOON TEA**
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 - **Definition**
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- **Implementation & Transition** → Antara
- **Next Steps** → Terry



Introduction

Introduction - Objectives of this Forum



- **Awareness of Issues with Current Arrangements**
- **Understand Revised Proposal**
- **Understand why changed from Draft Proposal**
- **Identify Issues & Challenges with Revised Proposal**
- **Identify Potential Options to Address**
- **Any Others?**

Introduction – Background & Progress to Date



- **Why is AEMO conducting NCAS Review?**
 - **Obligation under NER Clause 3.1.4(a1)(4)**
- **Progress of review to date**
 - **Scoping Paper – 2 June 2008**
 - **Issues & Options Paper – 29 July 2008**
 - **Draft Determination – 25 November 2008**

Introduction - Draft Determination



- **Draft Determination proposed to remove AEMO's Rule obligation for NSCS planning & procurement**
- **Concerns raised with this Draft Determination:**
 - **TNSPs not incentivised to coordinate NSCS planning & procurement on NEM-wide basis**
 - **If TNSPs fail to procure, may result in:**
 - **reduced network power transfer capability**
 - **compromise AEMO's ability to operate market to maintain power system security & reliability**
- **Review was deferred until AEMO transition & NTP**

Current Arrangements

Current Arrangements – What are NSCS ?

Network Support & Control Services are:

- **Critical to maintaining secure & reliable operation of the power system**
- **Provide the capability to control the active or reactive power flow into or out of a transmission network in order to:**
 - **maintain that transmission network in a secure operating state; and**
 - **maintain or increase its power transfer capability**

Current Arrangements – How are NSCS procured?



NSCS comprise of:

- **Network Control Services**
 - TNSP delivers from its own assets (EG: cap banks, SVCs, reactors) & recovers cost from its own customers via capex allowance

- **Network Support Services**
 - TNSP procures from others' assets via network support agreements (EG: Generators, Demand-Side) & recovers cost from its own customers via opex allowance

- **Network Control Ancillary Services (NCAS)**
 - AEMO procures from others' assets via NCAS contracts & recovers cost from all NEM customers on smeared basis

Current Arrangements – AEMO's Rule obligation



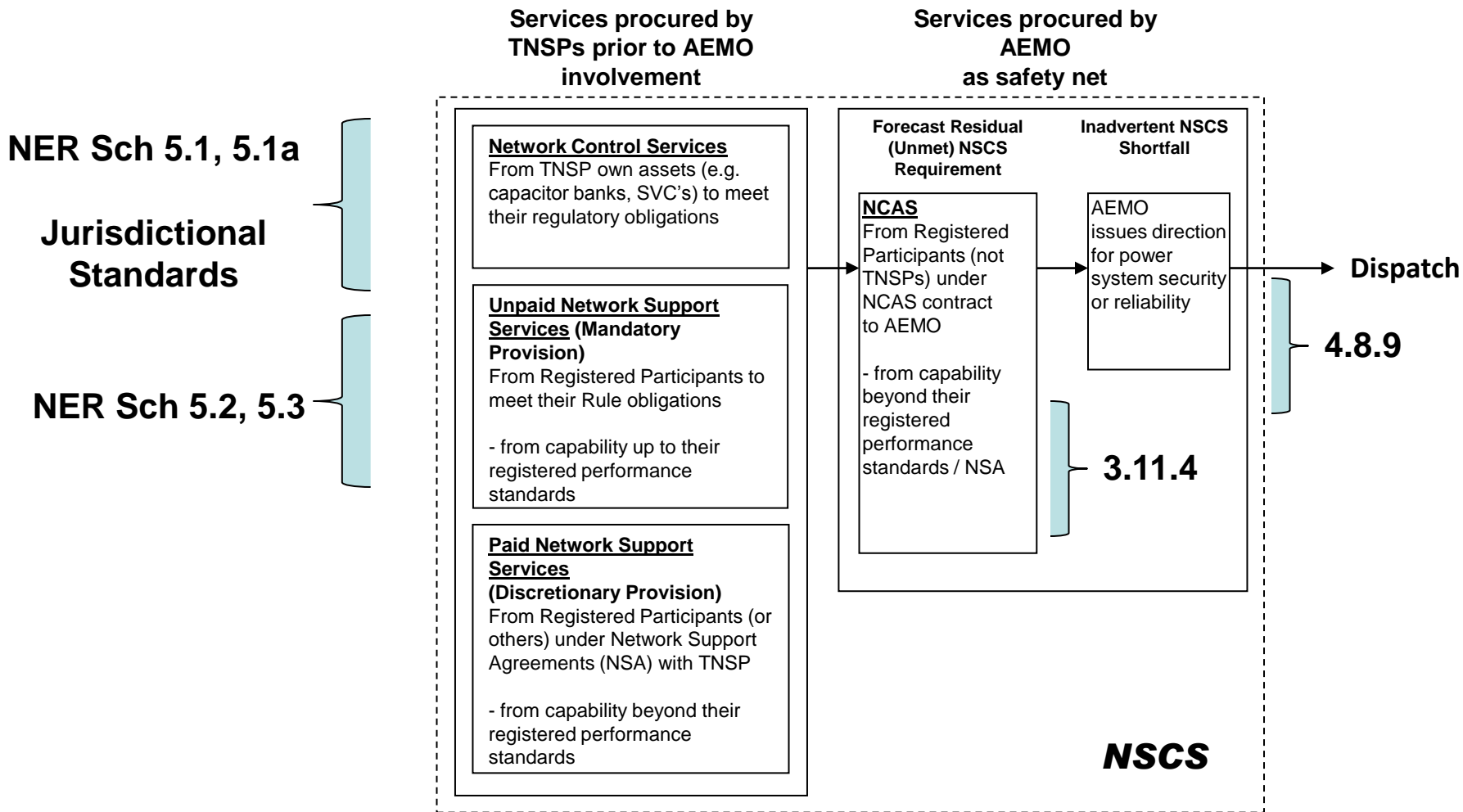
➤ AEMO NSCS obligations in NER Clause 3.11.4(b)

- (1) to achieve the *power system security and reliability standards*; and
- (2) where practicable to enhance *network* transfer capability whilst still maintaining a *secure operating state* when, in *AEMO* 's reasonable opinion, the resultant expected increase in *network control ancillary service* costs will not exceed the resultant expected increase in benefits of trade from the *spot market*.

➤ TNSPs & AEMO share (1); AEMO only for (2)

Current Arrangements – NSCS for Security & Reliability

Shared NSCS Procurement for power system security & reliability



Issues & Proposed Arrangements

NCAS NER 3.11.4(b)...

- ***Excludes TNSP as service beneficiary***
 - Says that NSCS is only provided for AEMO benefit
- ***Spot Market Trading objective is too narrow***
 - Excludes wider range of benefits, such as capital & operating cost savings realised by deferring a network augmentation otherwise required
- ***Network Performance standards are ill-defined***
 - Only AEMO obliged to pursue power transfer capability enhancements for net market benefit
 - TNSP obligations unclear

RPAS & NLCAS

- ***Definitions are too narrow***
 - Technology-specific
 - Bias towards a particular method of service provision

New NSCS definition in Rules:

A service with the capability to control the *active* or *reactive power flow* into or out of a *transmission network* in order to:

- maintain that *transmission network* in a *secure operating state* and
- maintain or increase its *power transfer capability*

so as to maximise the present value of net economic benefit to all those who produce, consume and transport electricity in the *market* as contemplated under clause 5.6.5B(b)

- **Replaces “spot market trading benefits” objective in NCAS definition with the broader “net market benefits objective” of the Regulatory Investment Test for Transmission (RIT-T)**

New Rule definitions for:

transmission network control service

→ NSCS provided by a TNSP

transmission network support service

→ NSCS provided to a TNSP

Amended Rule definition for:

network support agreement

→ agreement to provide *transmission network support service* to a TNSP

Review of RPAS & NLCAS definitions as part of amendments to AEMO's NSCS Procedures

Service Planning & Procurement – Issues (1)



- **AEMO-procured NSCS is not least-cost, as:**
 - Tenders restricted to certain Registered Participants & excludes TNSP solutions, so little competitive price pressure
 - Service requirement over-estimated as based on the location of (restricted) providers → hence substantial transport losses/costs
 - RPAS costs up to \$23million pa more than TNSP-equivalent
- **Inflexible NSCS contract timeframes:** duration (3 yrs) & lead-time too short to encourage new asset investments
- **Dual procurer issues** → inefficiencies, gaps, omissions
- **TNSP jurisdictional focus:** TNSPs focus on state-based customer supply obligation & lack the incentive to pursue inter-regional network enhancements for NEM-wide market benefit

Service Planning & Procurement – Issues (2)



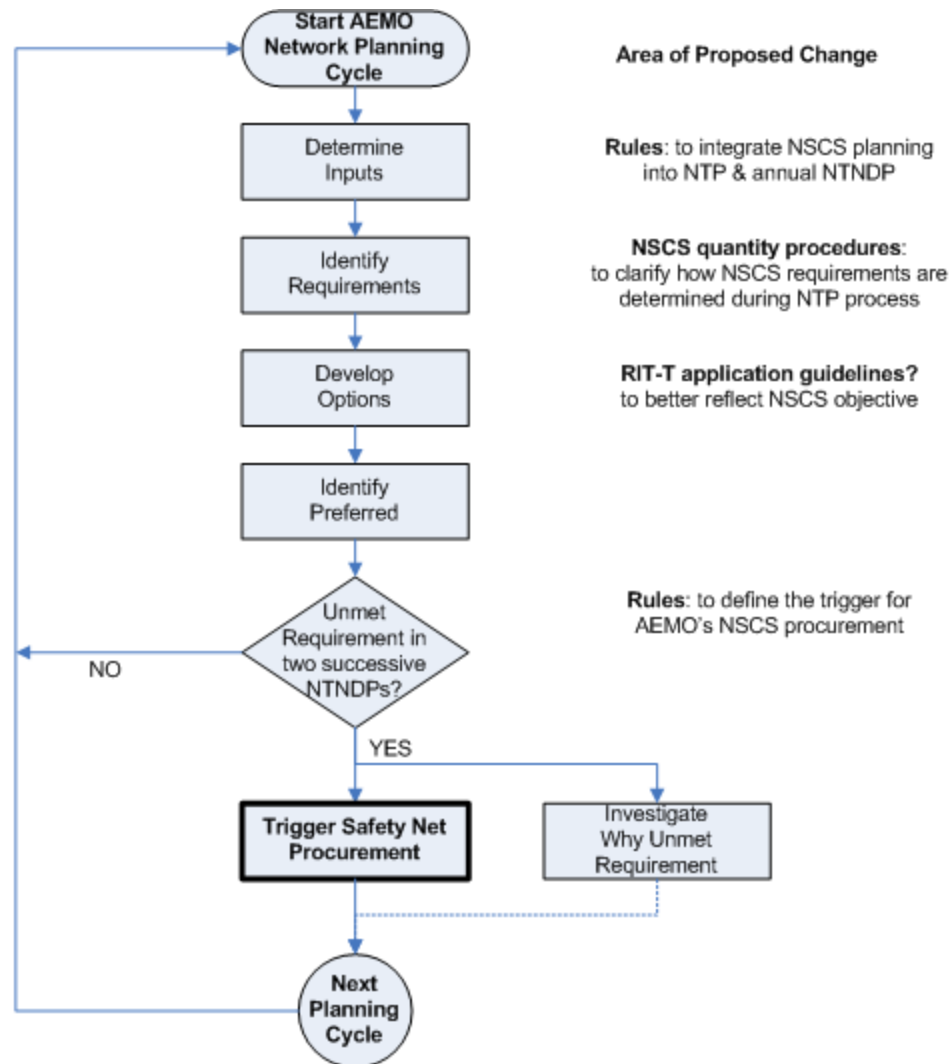
- **Lack of clarity in AEMO vs TNSP responsibilities:**
Rules unclear on NSCS planning & procurement responsibilities of AEMO & TNSPs
- **Different NSCS planning standards:**
Lack of consistency of planning processes between AEMO & TNSPs, & between TNSPs themselves

Service Planning & Procurement – Proposed Arrangements

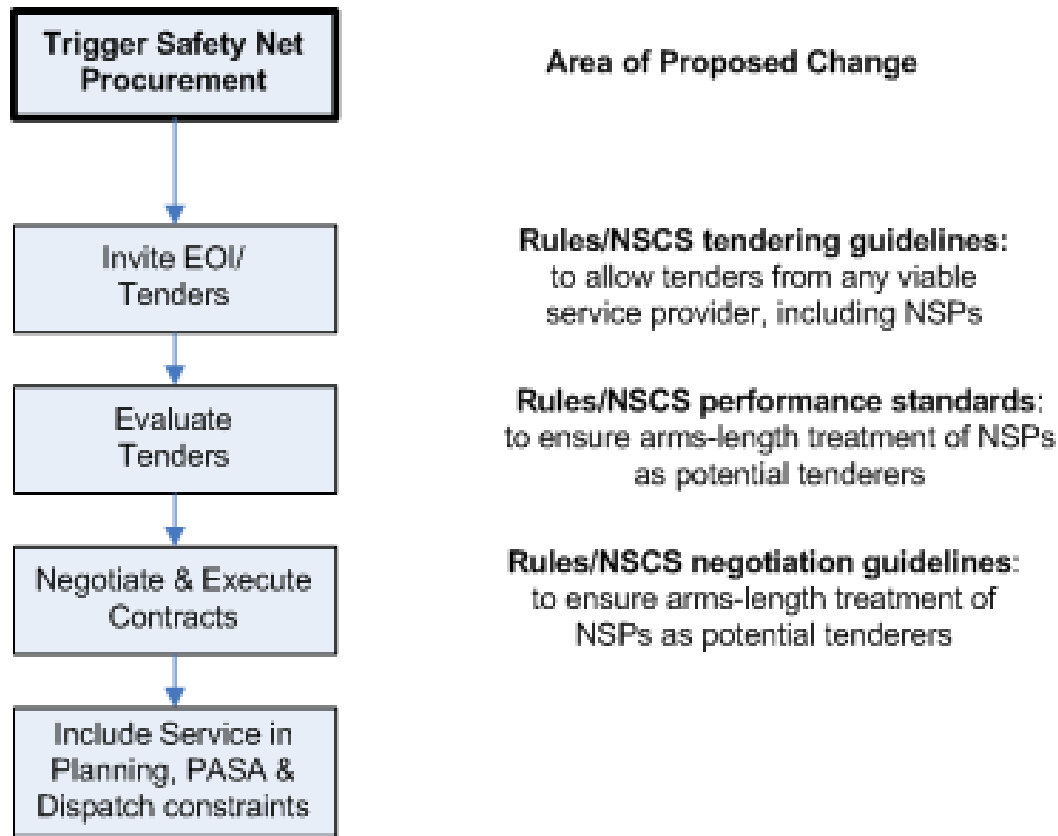


- **AEMO retains its current NSCS responsibilities:**
AEMO retains its current responsibilities under the Rules for NSCS planning & procurement
- **AEMO is “safety net procurer” of NSCS:** Rule changes to clarify AEMO’s (non-TNSP) responsibility as “safety net procurer” of NSCS under NER 3.11.4(b)
- **More open NSCS tendering:** Rule changes to allow AEMO to contract with ANY viable service provider (not only Registered Participants) to ensure greater competition & cost-effective provision, including NSPs
- **More flexible NSCS contract timeframes:** AEMO to identify NSCS requirements over next 5 years & allow flexibility in contracts for delivery lead-time & duration

Proposed Arrangements – AEMO's NSCS Planning process



Proposed Arrangements – AEMO NSCS Procurement process



- **Lack of information on how AEMO should dispatch network support services procured by TNSPs:**
 - No Rules obligation on TNSPs to provide information that AEMO requires to efficiently deploy its network support service within central dispatch process

Service Deployment - Proposed Arrangements



➤ TNSP obligation to disclose dispatch-related network support agreement information to AEMO:

Rule change to oblige TNSPs, for each of their network support services provided under a network support agreement, to:

- Provide information to AEMO on purpose, description, location, quantity, enablement notice, response time, availability & usage;
- Provide instructions to AEMO on how & when to deploy;
- Negotiate in good faith with AEMO on form of instructions provided, to ensure they are comprehensive & practicable for AEMO to implement in central dispatch

Service Cost Recovery - Issues



➤ **Poorly-targeted NSCS cost recovery:**

Cost of NSCS contracts are not recovered from those benefitting from NSCS, in accordance with market design principle in NER Clause 3.1.4(a)(8)

➤ **Inconsistent cost recovery mechanisms:**

Current NEM-smear cost recovery inconsistent with:

- AEMO's "regional beneficiaries" approach in relation to its other "safety net" roles for RERT & energy directions
- TNSPs "customers-only" approach for recovering NSCS via TuoS

➤ **Extent of current inter-regional cross-subsidy:**

Cost of smearing current NCSC contracts (over 3 yrs) →

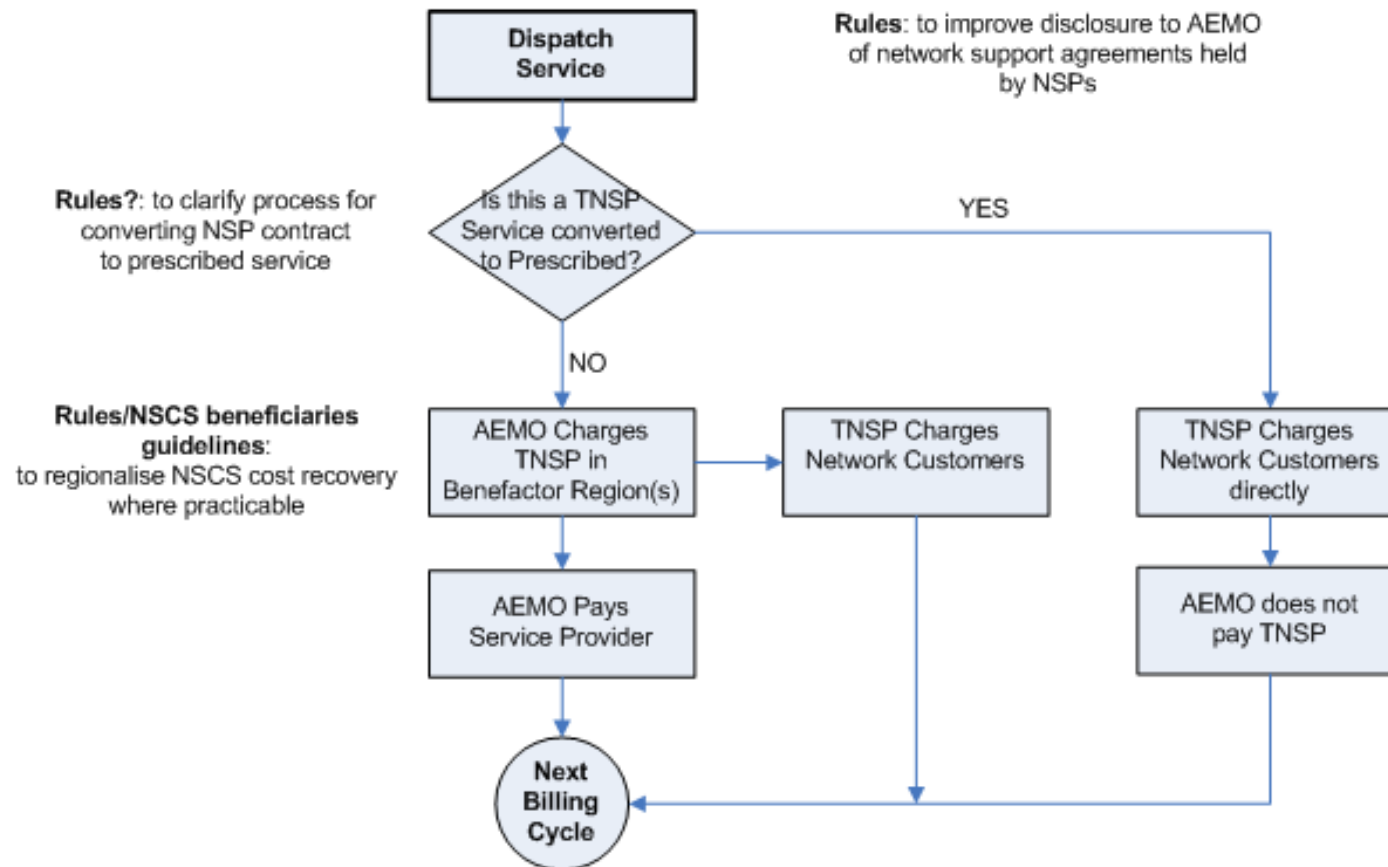
- Benefits NSW customers ~\$51m &
- Costs QLD, VIC, SA & TAS customers ~\$22m, \$16m, \$7m & \$6m

Service Cost Recovery – Proposed Arrangements



- **Causer/Beneficiary Pays cost recovery:**
AEMO favours NSCS cost recovery on a “causer pays” or “region beneficiaries” basis, where practicable for AEMO to determine
- **Note:** AEMC’s Energy Markets Framework Review report proposed inter-regional TuoS charging based on interconnector flows – could use this as basis for AEMO’s NSCS cost allocation
- **AEMO is seeking views on this matter**

Proposed Arrangements – Deployment & Cost Recovery



➤ Potential need for “inertia support” service for wind-related stability issues:

This is being considered through other workstreams, such as:

- current review of emerging inertia issues in Tasmania chaired by Transend with AEMO’s close involvement
- AEMO’s technical monitoring of CPRS/RET risks (yet to get underway)

➤ **AEMO's Rule 3.11.3(c) obligation to develop minimum technical ancillary service standards:**

Redundant Rule obligation on AEMO to develop minimum technical ancillary service standards to apply to Registered Participants during network connection negotiations

- AEMO has procured NSCS rather than rely on the above standards, which are already adequately captured in NER Chapter 5 technical performance standards
- Rule change proposed to remove this redundant obligation

Implementation & Transition

Implementation & Transition – Identification of NSCS Requirements



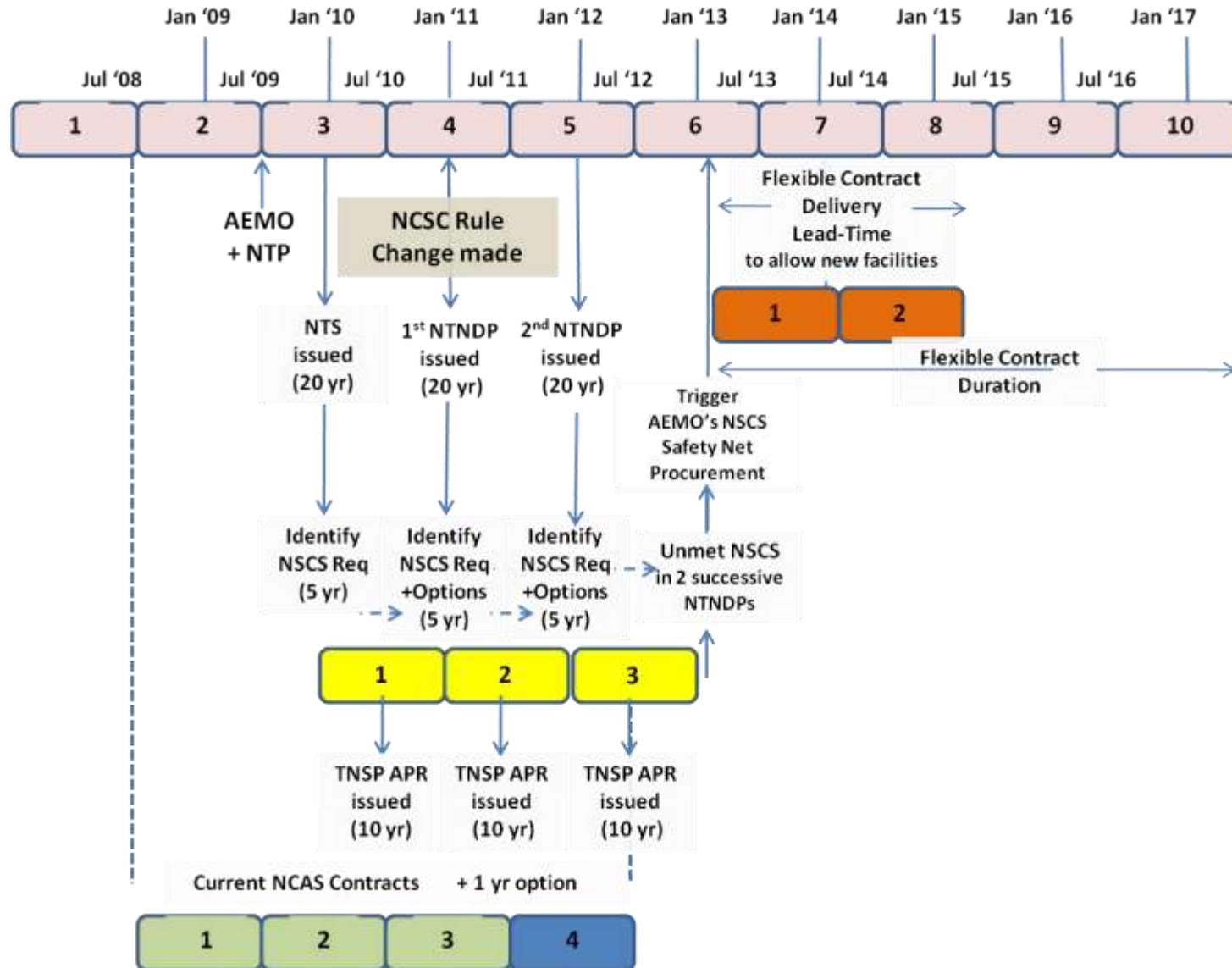
- **Retain current NSCS contracts to 30 Jun 2011**
- **Initial publication of forecast NSCS requirements in the Dec 2009 NTS**
- **Subsequent annual publication of forecast NSCS requirements & preferred options in Dec NTNDP**

- **AEMO to consult on required changes to:**
 - **NSCS Description**
 - **NSCS Quantity Procedures**
 - **NSCS Tendering & Negotiating Guidelines**
 - **NSCS EOI/ITT/Agreement**
 - **NSCS Performance Standards**

AEMO to submit Rule changes that:

- Define NSCS in terms of its expanded scope & objectives
- Clarify AEMO's NSCS planning & procurement role
- Extend AEMO's NSCS procurement to non-Registered Participants, to align with TNSP network planning & procurement process
- Change AEMO's NSCS contract cost recovery, to allocate costs to causer/beneficiary regions identified in the NTNDP, where practicable
- **Note:** No Rule change would be required to extend NSCS tendering to NSPs, as they are Registered Participants

Implementation & Transition - Timeline



Next Steps

Next Steps

Milestone or Activity	By Date
Release of Final Scoping Paper	<i>2 Jun 2008</i>
Release of Issues & Options Discussion Paper	<i>29 Jul 2008</i>
Release Draft Determination Report	<i>25 Nov 2008</i>
Release Revised Draft Determination Report & Invite Submissions (19 business days allowed)	<i>12 Oct 2009</i>
Public Forum	<i>20 Oct 2009</i>
Submissions Close on Revised Draft Determination	<i>6 Nov 2009</i>
Release Final Determination	<i>11 Dec 2009</i>
Submit Related Rule Changes to AEMC	<i>Within 3 months of Final Determination</i>



- **Further details of the NSCS review available on AEMO website at:**

<http://www.aemo.com.au/electricityops/168-0089.html>