

27 January 2017

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Australian Energy Market Operator

Submitted electronically: james.lindley@aemo.com.au

Dear Mr Lindley

Waterloo Wind Farm Pty Ltd makes this submission in response to the *Causer pays procedure – factors for asynchronous operation: draft report and determination* (January 2017) (**Draft Determination**). This submission has been jointly developed by Infigen Energy Services Pty Limited, Pacific Hydro Clements Gap Pty Ltd, Tilt Renewables Australia Pty Ltd and Waterloo Wind Farm Pty Ltd (**Coalition**). The Coalition members operate wind farms in South Australia.

Consultation processes should not be biased towards the status quo

The Draft Determination confirms the preferred position of AEMO to implement Option 1 (status quo) despite all but one submission received in response to the *Causer Pays Procedure – Factors for Asynchronous Operation: Issues Paper* (October 2016) (**Issues Paper**) supporting the implementation of Option 2. A determination to adopt Option 1 appears to have been a foregone conclusion on the basis of the application of the criteria for the consultation.¹

Assertions made in the Draft Determination assume that the current approach is the most appropriate and that current practice will continue. For example, a justification for rejecting Option 2 relies upon the existing methodology utilised in respect of asynchronous periods. The Draft Determination states:

because the need for regulation FCAS is not determined by the use of the service in real time, there is no imperative for the measurement period to coincide with the period of asynchronous operation for (j)(2) purposes.²

This is simply saying that because real time data is not being used to determine the need for regulation FCAS, there is no imperative to use real time data in the future. The Coalition does not consider that AEMO's stated commitment to determining a methodology for the asynchronous operation which is based on identifying the solution that meets the current requirements of the National Electricity Rules and national electricity objective,³ can be delivered through a consultation process biased towards existing practice.

¹ AEMO, Issues Paper, 6.

² AEMO, Draft Determination, 12.

³ AEMO, Draft Determination, 11.

To the extent, if any that this bias can be attributed to the timing constraint in the DRP Determination (3 October 2017), the Coalition looks forward to participating in the broader consultation on the methodology for allocating FCAS cost recovery where this constraint will not apply and there should consequently be no bias in the consultation process towards a particular outcome (including the status quo). The Coalition in particular welcomes the indication by AEMO that the practicalities of utilising real-time data to determine liability for FCAS costs will be investigated in more detail in the broader FCAS consultation.⁴

Option 3 should not be implemented

The Draft Determination indicates that in the second stage of consultation AEMO proposes to further investigate the practicalities of implementing Option 3.⁵ Option 3 should not be implemented as the causer pays methodology for asynchronous periods.

Of the options presented by AEMO for consultation, Option 2 is the most appropriate for a causer pays procedure for periods of asynchronous operation. This was supported by six of the seven submissions received in response to the Issues Paper and is consequently worthy of further investigation.

Only one submission suggested that Option 3 should be implemented. This submission, however, also recognised that Option 2 *'best complies with the Rules'*. In these circumstances, further investigation of the practicalities of implementing Option 2 (rather than Option 3) appears to be warranted.

AEMO dismisses the adoption of Option 2 on the basis that it is inconsistent with AEMO's criteria for the consultation in that there would need to be material change to systems or resourcing for AEMO in order to implement any option other than Option 1. The Draft Determination indicates that Option 2 is not consistent with the key criteria for the consultation. In particular, AEMO indicates that Option 2 is unacceptable due to the manual processes involved, the practicality of applying the methodology for short periods of synchronous separation and that undesirable outcomes may be incentivised.⁶ These issues also apply to the adoption of Option 3.⁷ For consistency, Option 3 should be rejected in the same manner as Option 2 has been rejected.

Option 3 is also likely to have negative regulatory consequences. Option 3 proposes that causer pays factors would be determined for asynchronous dispatch intervals using historical performance data for appropriately metered facilities inside the asynchronous region. This preserves the use of historic data (an approach rejected by the majority of responses to the Issues Paper), but varies the allocation of FCAS costs from the 'portfolio' approach generally used to determine causer pays factors.

⁴ AEMO, Draft Determination, 13, 15 and 16.

⁵ AEMO, Draft Determination, 16.

⁶ AEMO, Draft Determination, 3 and 28.

⁷ AEMO, Draft Determination, 15 -16.



The Coalition suggests that this type of disparity within a regulatory framework can lead to 'gaming' of the system. Market participants with a portfolio of generating units crossing regional boundaries would be enabled to take the upside of a portfolio approach to the calculation of causer pays factors generally, but then limit their exposure to FCAS costs during period of asynchronous operation to generating units within the asynchronous region. This seems likely to inflate FCAS costs for market participants with generating units solely within the asynchronous region. Option 3 should not be adopted without further consideration of the likelihood of this type of perverse regulatory outcome.

Yours faithfully

A handwritten signature in black ink, appearing to read "S. Brown", written over a horizontal line.

Steve Brown | General Manager Renewables
General Manager, Waterloo Wind Farm Pty Ltd