



# Regionalisation of Regulation FCAS

Industry briefing 12 August 2021

# AEMO Competition Law Meeting Protocol

AEMO is committed to complying with all applicable laws, including the Competition and Consumer Act 2010 (CCA). In any dealings with AEMO regarding proposed reforms or other initiatives, all participants agree to adhere to the CCA at all times and to comply with this Protocol. Participants must arrange for their representatives to be briefed on competition law risks and obligations.

Participants in AEMO discussions **must**:

1. Ensure that discussions are limited to the matters contemplated by the agenda for the discussion
2. Make independent and unilateral decisions about their commercial positions and approach in relation to the matters under discussion with AEMO
3. Immediately and clearly raise an objection with AEMO or the Chair of the meeting if a matter is discussed that the participant is concerned may give rise to competition law risks or a breach of this Protocol

Participants in AEMO meetings **must not** discuss or agree on the following topics:

1. Which customers they will supply or market to
2. The price or other terms at which Participants will supply
3. Bids or tenders, including the nature of a bid that a Participant intends to make or whether the Participant will participate in the bid
4. Which suppliers Participants will acquire from (or the price or other terms on which they acquire goods or services)
5. Refusing to supply a person or company access to any products, services or inputs they require

Under no circumstances must Participants share Competitively Sensitive Information. Competitively Sensitive Information means confidential information relating to a Participant which if disclosed to a competitor could affect its current or future commercial strategies, such as pricing information, customer terms and conditions, supply terms and conditions, sales, marketing or procurement strategies, product development, margins, costs, capacity or production planning.

# Welcome and briefing purpose

- Meeting protocols:
  - Australian Competition Law Meeting Protocol
  - Please remain on mute and video off, as this improves to quality of the call
  - Questions can be asked through the WebEx chat window, or in person when appropriate
- Acknowledgement of country
- Purpose:
  - This briefing session is intended to provide participants with an update on proposed changes to the Regulation Frequency Control Ancillary Service (FCAS) that are required to address emerging challenges that can impact power system security

# Agenda

1. Welcome and briefing purpose
2. Context
3. Emerging challenges
4. Options considered
5. Proposed approach
6. Potential impact
7. Implementation
8. Next steps

# Context

- Regulation FCAS is a service that is procured to manage the supply/demand imbalances during normal power system operation
  - Currently this is 220MW of raise service and 210MW of lower service under most conditions
- It is dispatched (enabled) through NEMDE, and utilised through centrally coordinated AGC
- Regulation FCAS requirements consist of:
  - Global requirements, which can be delivered in any region
  - Local requirements, which can only be delivered in a subset of regions
- Local (or regional) requirements are especially important when the power system is islanded (or at risk of islanding), or where there are limitations on the amount of FCAS that can be delivered across interconnectors

# Emerging challenges

- Large grid-scale batteries have the ability to deliver large amounts of Regulation FCAS:
  - This has benefits to the NEM in terms of diversity of providers and the response characteristics of batteries
- However having a large proportion delivered from a single source gives rise to risks to power system security:
  - The source can become unavailable, usually as a result of a credible contingency
  - The location of the source becomes a factor, and the impact on interconnector flows
- A limit on Regulation FCAS being delivered in Tasmania is already in place, reflecting the technical characteristics of Basslink frequency control

# Options considered

#	Option	Implications
1	Limit the registered capacity of Regulation FCAS providers	<ul style="list-style-type: none"><li>• Restricts the ability to enable additional amounts of Regulation during abnormal conditions</li></ul>
2	Constrain the amount of Regulation FCAS enabled by particular facilities	<ul style="list-style-type: none"><li>• The constraint would be treated as a local requirement that may impact pricing and recovery outcomes</li></ul>
3	Constrain the amount of Regulation FCAS enabled in each region	<ul style="list-style-type: none"><li>• The constraint would be treated as a local requirement that may impact pricing and recovery outcomes</li></ul>
4	Require a proportion of Regulation FCAS to be provided in regions other than those with a large single source	<ul style="list-style-type: none"><li>• The constraint would be treated as a local requirement for associated regions</li><li>• Minimises the likelihood of impact to pricing and recovery outcomes</li></ul>

# Proposed approach

- AEMO's proposed approach is to use constraints to require a minimum proportion of Regulation FCAS to be dispatched on the Mainland outside of Victoria:
  - E.g. LOWERREG: Qld + NSW + SA > 25% of regulation requirement
  - RAISEREG: Qld + NSW + SA > 25% of regulation requirement
- This is considered an appropriate medium-term solution, however further changes to Regulation FCAS requirements are likely to be needed:
  - This will be informed by operational experience, as well as activities conducted through the Frequency Control Work Plan
  - AEMO will communicate these changes in advance wherever possible



# Potential impact

- The proposed approach will be treated as a local requirement for pricing and recovery purposes – if the constraint binds:
  - Pricing in associated regions will be impacted
  - Costs associated with the constraint will be recovered from participants in those regions (through causer pays)
- Based on historical analysis, the proposed constraint would bind very rarely, however future outcomes would depend on:
  - The offers from Regulation FCAS providers
  - Power system conditions at the time
- There are particular arrangements that apply for the recovery of local requirements through causer pays, and participants with portfolios in multiple regions are encouraged to consider any specific impact

# Implementation

- AEMO proposes to implement the proposed approach over the next 2-3 months – currently targeting late October 2021
- Participant feedback is welcome on the suitability of the proposed approach, and any other considerations that AEMO should be aware of
- AEMO will refine the proposed approach based on feedback and any further analysis as appropriate
- Implementation will occur through changes to system normal constraints, which will be advised through normal channels (i.e. Market Notice)

# Next steps

- Participants to provide any feedback or questions on the proposed approach
- A follow-up briefing session will be organised for 9 September 2021 to discuss in detail the implement steps and timing
- Further information and feedback to: [stakeholderrelations@aemo.com.au](mailto:stakeholderrelations@aemo.com.au)

