

STAGE 2 DISPUTE UNDER CL 8.2.5 OF THE NATIONAL ELECTRICITY RULES

Between

ORIGIN ENERGY ELECTRICITY LIMITED

and

THE AUSTRALIAN ENERGY MARKET OPERATOR (AEMO)

SA WIND FARM COALITION: PRELIMINARY OUTLINE OF POSITION

1. This preliminary outline of position is submitted on behalf of Energy Pacific (Vic) Pty Ltd, Infigen Energy Markets Pty Ltd, Lake Bonney Wind Power Pty Ltd, Pacific Hydro Clements Gap Pty Ltd, Pacific Hydro Retail Pty Ltd, Snowtown Wind Farm Pty Ltd, Snowtown Wind Farm Stage 2 Pty Ltd, Waterloo Wind Farm Pty Ltd and Woodlawn Wind Pty Ltd (together, the **Coalition**).
2. The Coalition submits this document as an initial outline of its position as to the legally correct method of allocating the costs of the regulating FCAS acquired by AEMO:
 - a. during the periods between 11 October 2015 and 10 November 2015 that are the subject of the dispute referred by Origin, except for the asynchronous period referred to below (the **synchronous period**); and
 - b. during trading intervals 22:00 and 22:30 on 1 November 2015, when the SA region operated asynchronously for 35 minutes, following a trip on the Heywood No 1 Interconnector at 21:51 (the **asynchronous period**).
3. Although this is a preliminary outline of position, and will be supplanted by the Coalition's detailed submissions to the Panel, this document is submitted on an open (not on a "without prejudice") basis. Stage 1 of the dispute resolution having concluded, this outline is not submitted in connection with an attempt to negotiate settlement of the dispute.
4. The Coalition does not wish to join issue on the power security or other factual aspects of the dispute in this preliminary outline, but reserves its right to do so at a later stage of the process.
5. We address the correct allocation methods below separately in respect of the synchronous period and the asynchronous period.

The correct allocation of regulating FCAS costs during the synchronous period

6. In Stage 2, once the dispute is referred to a Panel, the Panel's obligation is to determine the dispute according to law: specifically, in accordance with cl 3.15.6A(i) of the NER,

which specifies the formula for the allocation of regulating FCAS costs among market participants for each trading interval.

7. Neither the settlements applied by AEMO for the synchronous period, nor Origin's proposed alternative method, accords with the text of, and the formula set out in, cl 3.15.6A(i).
8. During the synchronous period, the mainland NEM operated synchronously.
9. As a consequence of ancillary services constraints applied by AEMO, ancillary services generating units in the SA region were continuously enabled to provide 35 MW of raise and lower regulating FCAS.
10. Because the NEM was operating synchronously, any regulating raise or lower responses provided by those SA ancillary services generating units contributed to the regulation of network frequency and time error correction across the mainland NEM.
11. The para (i) formula is an allocation of the aggregate *TSFCAS*. *TSFCAS* is the total sum of all costs of acquiring regulating FCAS (whether "global" or "local" FCAS) across all synchronous regions of the NEM: para (h)(2).
12. Because the NEM was operating synchronously, AEMO was required to use, as the value for *MPF* for metered participants in para (i), the contribution factors it had most recently set in accordance with the Causer Pays Procedure. That is the procedure for determining contribution factors that AEMO has prepared and published under para (k).
13. AEMO has no power to apply an *MPF* that is determined otherwise than by a procedure set out in the Causer Pays Procedure, or to allocate the costs of regulating FCAS otherwise than in accordance with para (i).
14. It appears that, in fact, AEMO has used the *MPFs* determined under para (j)(1), and has then "scaled up" those *MPFs* by dividing them by an *AMPF* that relates to all market participants who have generating units or loads in the SA region, by a method recorded in its "Efficient Dispatch Business Specification". However, the Efficient Dispatch Business Specification is not part of the Causer Pays Procedure, and was not made in accordance with the Rules consultation procedures: para (m).
15. AEMO's method, as described in the Efficient Dispatch Business Specification, assumes that separate pools of costs are allocated for the "global" and each "local" requirement respectively. That is not permitted under the para (i) formula, which requires that *TSFCAS* is a single pool of costs, being the total sum of the cost of acquiring global and local regulating FCAS for all regions in a particular interval: see the definition of *TSFCAS* in para (i)(1), referring to para (h)(2).
16. Similarly, because *TSFCAS* is a single pool of costs, *AMPF* must include the *MPFs* of all market participants across synchronous regions of the NEM; otherwise, the allocation formula will miscarry arithmetically. In any event, during the synchronous period, all

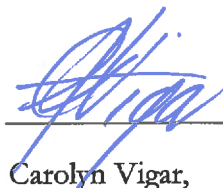
mainland regions of the NEM were relevant to the raise and lower regulating FCAS in fact provided by the SA ancillary services generating units.

17. Whether the regulating FCAS contingently enabled by AEMO were “local” or “global” FCAS is not to the point: the para (i) formula is required to be applied to the total sum of costs of all regulating FCAS (ie *TSFCAS*) in all regions during the relevant trading interval.
18. It follows that, during the synchronous period:
 - a. AEMO was required to allocate the costs of regulating FCAS on the globalised recovery basis, applying the *MPF* values most recently set in accordance with the Causer Pays Procedure; and
 - b. AEMO did not have power to impose a regional recovery variant of the allocation method in the manner that it did.
19. That outcome makes it unnecessary to resolve Origin’s complaint that, in determining a regional recovery for the SA region, AEMO has used *MPFs* that relate to generating units and loads both within and outside the SA region.

The correct allocation of regulating FCAS costs during the asynchronous period

20. In respect of the asynchronous period on 1 November 2015, the Coalition accepts in principle that the regulating FCAS costs in each separated region of the NEM should be settled regionally. The Coalition also agrees with AEMO that, under para (i)(1), *MPFs* are required to be set for each metered market participant, rather than for individual generating units or loads.
21. The Coalition reserves its rights as to the correctness of the allocations determined by AEMO for the two trading intervals in question. Despite AEMO’s reference to the Efficient Dispatch Business Specification, there is no transparency as to the actual calculation undertaken by AEMO to determine the trading amounts for each market participant.

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