

Record No: TGD2017/047742  
 Container No: F2014/362

Market Operations  
 Power and Water Corporation  
 7th Floor Mitchell Centre  
 GPO Box 1921, Darwin NT 0801

Dear Market Operations

**Secure System Guidelines V3.0 Consultation**

Territory Generation (TGEN) appreciates the opportunity to provide further feedback in response to the consultation on the Secure System Guidelines (SSG).

The letter provides feedback on the “Market Operator consultation response to submissions” document.

TGEN continues to have some reservations as to whether the proposed changes will deliver the best outcomes for the Northern Territory. TGEN restates its recognition of the importance of System Control having processes at its disposal to maintain a secure system.

<p><b>General Information regarding Ancillary Services</b></p> <p>In general, the issue of Ancillary Service remuneration was questioned throughout the submissions in various ways. As such, the following general information regarding Frequency Control and Inertia Ancillary Services (FCAS and IAS) have been outlined and will be referred to throughout the detailed response:</p> <p><b>Ancillary Services Current Technical State:</b></p> <ul style="list-style-type: none"> <li>• In Darwin – Katherine and Alice Springs regulated power systems the spinning reserve policy has a bundled inertia and frequency control service that is generally appropriate for the system, but is not accurate in its provision of machine responses and is technology specific (specific machine types required online for inertia).</li> </ul> <p><b>Ancillary Services Future Technical State:</b></p> <ul style="list-style-type: none"> <li>• For Darwin – Katherine the current analysis of FCAS and IAS in the secure</li> </ul>	<p><b><u>Response 1</u></b></p> <p>The Power System Controller's right to instruct System Participants to provide <i>ancillary services</i> is governed by section 5 of the SCTC and, in particular, is limited by:</p> <ul style="list-style-type: none"> <li>• the declared operating limits of the relevant plant; and</li> <li>• the definition of <i>ancillary services</i>.</li> </ul> <p>The definition of <i>ancillary services</i> in Attachment 1 of the SCTC is expressed to be exclusive - i.e. <i>ancillary services</i> are <u>[only]</u> the following services provided by <i>Generators</i> or other <i>System Participants</i>:</p> <ul style="list-style-type: none"> <li>• <i>voltage control</i>;</li> <li>• <i>reactive power control</i>;</li> <li>• <i>frequency control</i>;</li> <li>• <i>black start capability</i>.</li> </ul> <p>It follows that a service which does not fall within one of these specific categories of service is not an <i>ancillary service</i> for the purposes of the SCTC.</p> <p>It also follows that if the Power System Controller wished to expand the services that are to be treated as <i>ancillary services</i> for the purposes of the SCTC, it would need to amend the SCTC.</p> <p><b><u>Response 2</u></b></p> <p>The current Secure System Guidelines expressly recognise</p>
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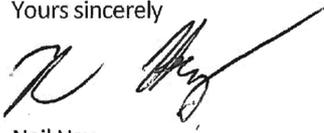
<p>system guidelines results in approximately the same requirement as the existing Spinning Reserve, with the difference that it is more accurate and will be appropriately allocating the amount of frequency control required.</p> <ul style="list-style-type: none"> <li>• This allows providers of ancillary services to improve ancillary service provisions to allow generation that is restricted down (as with the current spinning reserve) to operate at more efficient levels.</li> <li>• The specifications for IAS and FCAS are technology agnostic.</li> <li>• As ancillary service users (system participants) take action to reduce ancillary service requirements the cost to end users may decrease.</li> </ul> <p><b>Ancillary Services Current Regulatory State:</b></p> <ul style="list-style-type: none"> <li>• The costs of ancillary services are calculated at a rate of \$5.40MW/hr in accordance with the SCTC Attachment 6.11 Ancillary Services Calculations. This payment is to be made to TGEN by other generators (the SCTC implies that TGEN is the sole ancillary service provider). All system participants were involved in the consultation for SCTC Version 5.0 that introduced this provision in May 2015.</li> <li>• As there is a current means for TGEN to be reimbursed for ancillary service provision, the regulatory framework is not an inhibitor to a technical implementation of the FCAS and IAS.</li> </ul> <p><b>Ancillary Services Future Regulatory State:</b></p> <ul style="list-style-type: none"> <li>• System Control, Department of Treasury and Finance, and TGEN are working to unbundle the costs of ancillary services (as per section 5.1 of the System Control Technical code).</li> <li>• The intention of unbundling the ancillary services is to separate out the costs for ancillary services from the bundled energy tariff and will be utilised in the regulatory reform process.</li> </ul>	<p>that if there is an inconsistency between the SCTC and the Secure System Guidelines, then the SCTC will prevail. For example, if the SCTC states that only certain services are <i>ancillary services</i> and the Secure System Guidelines states that other services (outside of the definition of <i>ancillary services</i>) are also to be treated as <i>ancillary services</i>, then the SCTC will override the Secure System Guidelines to deal with this inconsistency. It follows that the SCTC need to line up with the Secure System Guidelines in order for the documents to work together.</p> <p><b>Response 3</b></p> <p>It is clear that the proposed 'inertia ancillary service' does not constitute <i>voltage control</i>, <i>reactive power control</i> or <i>black start capability</i>. The only category that could potentially apply to the inertia ancillary service is <i>frequency control</i>.</p> <p>This term is not defined in the SCTC. However, at a National Electricity Market level, it is clear that inertia does not currently form part of any of the frequency control ancillary services. As you are aware, the AEMC is currently considering whether inertia should be classified as a new market ancillary service under the NER. Given the intention to move toward the NEM arrangements it would be premature to include this service prior to this being finalised in the NEM.</p> <p><b>Response 4</b></p> <p>The initial price for <i>ancillary services</i> in Attachment 6 of the SCTC was a 'placeholder rate'. That price, along with the scope of the ancillary services required in the Northern Territory, was to be reviewed by the Power System Controller within six months of commencement of the amended SCTC (i.e. by November 2015) and a determination subsequently made to ensure that <u>the price properly reflected the actual cost to TGen in providing those services</u>.</p> <p>This requirement was included as a condition by the Utilities Commission on approving the amended SCTC in May 2015. We understand that this review has not been progressed because up until now there has only been one <i>Generator</i> supplying electricity to retailers in the Darwin-Katherine Region (i.e. TGen). However from 1 June 2017 this is no longer the case. The entry of a new <i>Generator</i> into the Darwin-Katherine market together with the Power System Controller's proposal to require TGen to supply additional services as '<i>ancillary services</i>' without any increase in the ASPrice means that this review needs to be completed as a matter of urgency.</p> <p>From the perspective of good regulatory practice, these review should be completed prior to any increase in the scope of ancillary services under the SCTC. The current proposal raises the likelihood that TGen will be effectively subsidising other <i>Generators</i> because:</p> <ul style="list-style-type: none"> <li>• TGen will be required to provide more than its fair</li> </ul>
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	<p>share of services to support power system security; and</p> <ul style="list-style-type: none"><li>• TGen will be paid far less than its cost of providing these services.</li></ul> <p>Without an ancillary service price that reflects the costs incurred by TGen in providing the service, TGen will be subsidising the costs of any other Generator operating and selling electricity in the Darwin-Katherine region. Also, the price in Attachment 6 of the SCTC was only intended to cover the defined <i>ancillary services</i>. The Power System Controller is now seeking to expand the scope of these services.</p> <p>Good regulatory practice and the requirements of clause 3.5.4 of the SCTC would require an ASPrice that at least recovers the costs incurred in providing these additional services. It is clearly inappropriate for a price to be fixed simply by notice without any proper consultation at a level of \$0.</p>
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TGEN remains committed to working with Power and Water System Control and Market Operations, as well as DTF to ensure the system can be maintained in a secure state as efficiently as possible.

Should you have any queries in relation to this submission please do not hesitate to contact me on (08) 8936 4737.

Yours sincerely



Neil Hay  
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2 June 2017