

19 September 2017

Ms. Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Attention: Ms. Sarah-Jane Derby

AEMO's Declaration of Lack of Reserve conditions rule change proposal - Consultation Paper (22 August 2017)

Energy Networks Australia welcomes the opportunity to make a submission to the Australian Energy Market Commission's (AEMC) Consultation Paper on the Australian Energy Market Operator's (AEMO) Declaration of Lack of Reserve (LOR) conditions rule change proposal.

We understand that the potential outcomes of this rule change proposal include:

- » removing the current contingency based definitions with a high level description of lack of reserves
- » requiring AEMO to develop a "reserve level declaration guideline" based on the definitions and guidance under the National Electricity Rules
- » Apply a probability assessment to declare LORs
- » Retain the LOR declaration margins to *"initially remain at least as large as the current approach"*.

Energy Networks Australia appreciates and understands the reasoning for AEMO's proposed rule change. When assessing the rule change proposal, we encourage the Commission to:

- » Ensure there is a clear set of governance principles to ensure a robust guideline development process
- » Examine how the proposed changes will work practically and ensure there is sufficient guidance and detail for all stakeholders to implement the Rule as intended
- » Ensure there is sufficient clarity and understanding in the proposed changes and demonstrate how the proposed changes will be more accurate and effective compared to existing processes.

These are discussed in more detail below:

It is important that any proposed guideline development or review include a **process with a clear set of governance principles and arrangements**, which allows for stakeholder engagement and review. This could extend to which market body should be responsible for Guideline development (options could include an AEMO-convened Industry Working Group,

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or potentially approval by the Reliability Panel). In any case, however, the Rules should be clear on the governance around guideline development, consultation and amendment.

The AEMC should consider **how the proposed approach would work practically** to ensure there are no gaps as to how the new arrangements will be implemented or in how the rule is intended to operate in practice. For example, from our reading, there is nothing specific in the draft rule proposed by AEMO as to when it may seek to intervene nor does it provide any explicit guidance, nor a potential floor that stakeholders can understand and act upon. Without further detail, there is likely to be uncertainty, as to how and when any intervention would (or would not) occur.

This consultation is a key opportunity to help clarify the use of LORs as they currently have multiple meanings and purposes in the National Electricity Market (NEM). Energy Networks Australia sees benefit in a **clearer understanding of certain aspects of the proposed changes** including:

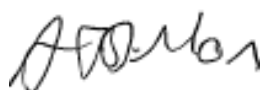
- » between AEMO and stakeholders on what the LOR notice is saying and what the implications for participants are.
- » around real time network operation. We understand the move to a more probabilistic approach has considerable validity at a LOR 1 and LOR 2 level. However, it is crucial from a system operator perspective not to have a widely varying MW number to operate to, or manage from one time period to another. Traditionally, load shedding that is driven by a shortfall in reserve margins normally requires a deterministic threshold that can be targeted and prepared for in real-time.

Finally, it will be important to **demonstrate how any revised process is more accurate and effective in comparison to existing LOR processes**. One indicator of this is whether the changes are likely to lead to a significant increase in the need for early AEMO market intervention or signalling more 'false positives'. The prospect of a Summer 2017/18 trial of existing and potential LOR arrangements may be worth considering.

These key messages are highlighted where appropriate in the responses to the Consultation Paper's specific questions provided in Attachment # 1.

Energy Networks Australia and its members would be happy to assist the AEMC in its deliberations on this rule change proposal. Should you have any additional queries, please contact Norman Jip, Energy Network Australia's Senior Program Manager - Transmission on (02) 6272 1521 or njip@energynetworks.com.au.

Yours sincerely



Andrew Dillon
Interim Chief Executive Officer

Attachment 1 - Responses to Consultation Paper Questions

1. (a) Is the assessment framework appropriate for considering the changes proposed in the rule change request?

Energy Networks Australia considers that the National Electricity Objective (NEO) framework and consideration of the key principles outlined in the Consultation Paper, including:

- » providing certainty and managing risk
- » improving the quality and transparency of information, and
- » balancing improved flexibility and costs

provide a reasonable framework to undertake the rule change assessment.

Market and registered participants must clearly understand what each level of Lack of Reserve (LOR) level actually means (otherwise it does not particularly matter how good the calculation tool in operation is).

1. (b) Are there any other relevant considerations that should be included in the assessment framework?

Based on the response to Q1 (a) above, the AEMC must be across, and be consistent with, the intent of related reviews and rule changes taking place across the NEM. These include, but are not limited to the concurrent and pending:

- » AEMC Reliability Frameworks Review
- » the Reliability Panel's Review of the Frequency Operating Standard, and
- » AEMO's Power System Frequency Risk Review.

The AEMC could consider seeking more data and evidence over a longer-time frame to assist its assessments in justifying such a proposal. If these are not convincing, is a change in calculation methodology the right approach or should it be considered in a wider review?

Some of our members have also raised concerns as to whether a move to a probabilistic assessment enhances certainty in real-time environments. In addition, will the transparency of information used for real-time purposes actually be improved as part of any new process?

2. (a) How do participants use the current LOR declaration framework? Do participants rely on or use any particular LOR level (e.g. LOR2)? Would moving away from this framework have any impact on participants?

Transmission Network Service Providers (TNSPs) monitor the advance Projected Assessment of System Adequacy situation and notification of LOR conditions. TNSPs seek to operate and manage their respective networks mindful of impending situations that may arise.

The current LOR framework is also used to provide real-time deterministic input into corporate emergency management processes.

Forecast LOR conditions in other states/jurisdictions are also monitored by TNSPs in order to ensure suitable interconnection capacity by potentially recalling outages in the days leading up to the likely reserve shortfall.

The Paper suggests participants need to have a clearer understanding of each LOR level.

2. (c) Are there any unforeseen consequences or impacts that may result from the proposed change to the LOR framework?

Changing the existing LOR framework will require a greater stakeholder explanation and education process. These are likely to include:

- » A need for participants to adapt relatively quickly should this rule change be implemented rapidly (i.e. in time for the 2017/18 Summer). Therefore, the option of maintaining the existing approach in parallel in the short-term may be valuable.
- » It will also likely require a re-education of operators, managers and politicians, and a re-write of several corporate policies, and procedures from a NSP perspective.

3. (a) What are stakeholders' views on the proposed framework (i.e. moving the detail of LOR levels from the NER to AEMO-maintained guidelines)? What aspects should be in the NER? What aspects should be in the guidelines?

Energy Networks Australia considers that a potential objective and high-level principles should be contained in the Rules. In theory, there should be no problem with the details of any LOR calculation being contained in the proposed 'reserve level declaration (RLD) guidelines', as long as there is transparency and explicit guidance around:

- » appropriate consultation on potential approaches
- » clear triggers for a review, and
- » whether there be a pre-set *ex post* review based on actual data (e.g. every two, three or four years).

Robust and strong governance surrounding the proposed RLD guidelines is critical and there might be a future role for the Reliability Panel to be involved in administering the guideline.

Energy Networks Australia acknowledges that a mutual understanding between AEMO and stakeholders on '*what the LOR notice is saying*' and '*what the implications for participants are*' is necessary, and the development of the guideline is necessary engagement to help provide assurance of this.

3. (b) Do stakeholders see any risks arising from the proposed approach?

Energy Networks Australia considers that a 'guided discretion' approach is warranted. Giving AEMO unbounded discretion and flexibility would appear problematic from a 'good governance' standpoint.

4. Do stakeholders have any views on AEMO's two options or any other views on the proposed probabilistic assessment methodology?

The envisaged outcomes from these two options seem sensible.

Both options have some validity, and there might be a strong case for a comparative trial of what currently occurs and what may occur under existing and any new arrangements during Summer 2017/18.

The AEMC needs to be aware that load shedding driven by a shortfall in reserve margins has traditionally required a deterministic threshold that can be used in real-time.

5. (a) Is the proposed level and scope of consultation for developing and amending the proposed guidelines adequate, both for the initial development and on an ongoing basis for any amendments to the proposed guidelines?

5. (b) AEMO is proposing targeted consultation with generators, TNSPs and JSSCs. Are there any other stakeholders that should be included in AEMO's proposed targeted consultation?

Energy Networks Australia considers that the AEMC should ideally contemplate discussions with some load¹, governments, direct connect customers, as well as user and consumer groups.

There does not appear to be a strong case made to a more restricted consultation approach.

Consultation could include workshops where experiences and views can be shared across all interested parties.

¹ As defined in the Glossary - Chapter 10 of the National Electricity Rules, Version 97) as "A connection point or defined set of connection points at which electrical power is delivered to a person or to another network or the amount of electrical power delivered at a defined instant at a connection point, or aggregated over a defined set of connection points" page 1211.