



Australian Energy Market Commission

RULE DETERMINATION

National Electricity Amendment (Testing of
system restart ancillary services capability)
Rule 2018

Rule Proponent
AEMO

20 March 2018

**RULE
CHANGE**

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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Summary

The Australian Energy Market Commission (AEMC or Commission) has made a rule that creates an exception to the requirement that system restart ancillary service (SRAS) providers, as registered participants, provide the relevant network service provider with 15 business days' notice of a change to the operation of equipment at the connection point in clause 5.7.5(a) of the National Electricity Rules (NER). The exception is for the SRAS short notice test as provided for in the Australian Energy Market Operator's (AEMO) SRAS guideline 2017.

The rule has been made in response to a rule change request submitted by AEMO on 15 December 2017. The expedited rule change process was used for this rule change. The Commission determined that it should make the rule as proposed, with amendments.

The final rule commences on 10 April 2018.

Contents

1	AEMO's rule change request	1
1.1	The rule change request	1
1.2	Background	1
1.3	Rationale for the rule change request.....	3
1.4	Solution proposed in the rule change request.....	4
1.5	The rule making process	5
2	Final rule determination.....	6
2.1	The Commission's determination.....	6
2.2	Rule making test.....	6
2.3	Assessment framework	7
2.4	Commission's reasons	7
2.5	Final rule	9
	Abbreviations.....	11
A	Legal requirements under the NEL	12
A.1	Final rule determination.....	12
A.2	Power to make the rule	12
A.3	Commission's considerations.....	12
A.4	Civil penalties	13
A.5	Conduct provisions.....	13

1 AEMO's rule change request

1.1 The rule change request

On 15 December 2017, AEMO submitted a rule change request to the AEMC to amend clause 5.7.5(a) of the NER to exclude the short notice test, as provided for in the SRAS guideline 2017, from the requirement that generators provide the relevant network service provider with 15 business days' notice of a change to the normal operation of equipment related to a connection point.¹

The AEMC considered the rule change as being non-controversial, and as a result, it was assessed under an expedited rule change process.

1.2 Background

SRAS are non-market ancillary services that are procured by AEMO via contracts with parties whose facilities have the capability to start without drawing power from the grid.² SRAS agreements between AEMO and SRAS providers³ include provisions that require testing of the SRAS equipment. Existing testing requirements are based on a suite of SRAS guidelines developed by AEMO and implemented in 2014 (referred to in this paper as the "2014 SRAS guidelines").⁴

The test provisions in the 2014 SRAS guidelines include requiring the SRAS provider to conduct an annual test of the nominated SRAS equipment to demonstrate the equipment's capability to energise the nominated delivery point within the contracted performance requirements.⁵

Clause 5.7.5(a) of the NER states:

"A Registered Participant proposing to conduct a test on equipment related to a connection point, which requires a change to the normal operation of

¹ AEMO, Testing of system restart ancillary services capability, rule change request, 15 December 2017. See:

<http://www.aemc.gov.au/Rule-Changes/Testing-of-System-Restart-Ancillary-Services-capab>

² System restart ancillary service is defined in Chapter 10 of the NER as "a service provided by facilities with black start capability which allows energy to be supplied and a connection to be established, sufficient to restart large generating units following a major supply disruption."

³ SRAS provider is defined in Chapter 10 of the NER as "a person who agrees to provide one or more system restart ancillary services to AEMO under an ancillary services agreement."

⁴ The 2014 SRAS guidelines include the testing requirements applicable to SRAS contracts that commenced on 1 July 2015 until those contracts expire.

⁵ Clause 4.2.2 of the 2014 SRAS Guidelines. Testing of SRAS equipment generally requires the relevant generating unit(s) to be isolated from the transmission network, and the transmission bus to be de-energised. The SRAS provider must then demonstrate that the unit can be restarted without external power, and energise a path to the transmission network. See: AEMO, Testing system restart ancillary services capability, rule change request, 15 December 2017, p.3.

that equipment, must give notice in writing to the relevant *Network Service Provider* of at least 15 business days except in an emergency.⁶

Testing of SRAS capability requires a change to the normal operation of equipment at a connection point, which triggers the above requirement for an SRAS provider (as a registered participant) to give the relevant network service provider 15 business days' notice of a test. Currently under the 2014 SRAS guidelines, the SRAS provider selects its proposed test date and is responsible for making appropriate arrangements with the relevant network service provider, including giving the required notice of at least 15 business days under clause 5.7.5(a).

In 2015, the AEMC made a rule on the *System restart ancillary services* rule change request, which sought to improve the frameworks for SRAS in the NEM.⁷ The final rule included a requirement that AEMO develop a single SRAS guideline to replace the 2014 SRAS guidelines. The rule also required that the new SRAS guideline include SRAS testing arrangements, and that a registered participant must comply with a test request from AEMO.⁸

On 15 December 2017, AEMO published the first single SRAS guideline (referred to in this paper as the "SRAS guideline 2017"), as required by the *System restart ancillary services* rule. The SRAS guideline 2017 includes enhanced SRAS testing requirements that AEMO will include in SRAS agreements with an SRAS commencement date on or after 1 July 2018.⁹ The SRAS guideline 2017 states that an SRAS test will generally be required by AEMO:¹⁰

- within 20 business days after maintenance causing any major component of the SRAS equipment or SRAS transmission components to be out of service for seven days or more¹¹
- at one additional date and time per year, to be nominated by AEMO on no less than five business days' notice to the SRAS provider (termed a "short notice test").¹²

⁶ Apart from the addition of a civil penalty in 2010, this clause has not changed since inception of the NER.

⁷ National Electricity Amendment (System Restart Ancillary Services) Rule 2015 No. 5. See: <http://www.aemc.gov.au/Rule-Changes/System-Restart-Ancillary-Services>

⁸ Ibid.

⁹ SRAS guideline 2017, p.5.

¹⁰ Clause 4.3.2 of the SRAS guideline 2017.

¹¹ The SRAS provider schedules this test with the network service provider, subject to AEMO's approval.

¹² AEMO explains that the short notice test was included in the SRAS guideline 2017 to provide increased confidence that a service is 'always ready' to respond to a disruption or black system that will happen without warning. See: AEMO, Testing system restart ancillary services capability, rule change request, 15 December 2017, p.4 .

The SRAS guideline 2017 also provides that AEMO can request an SRAS test if AEMO has reasonable grounds to believe that SRAS equipment may not be capable of delivering contracted services.¹³

In its rule change request, AEMO notes that these changes to the SRAS testing regime were driven by a number of findings and recommendations, including:

- AEMO's final report on the black system event in SA in September 2016, which recommended that SRAS tests simulate the conditions of a real restart situation to the extent practicable (recommendation 13), among other SRAS test enhancements¹⁴
- the Reliability Panel's final determination on the system restart standard in 2016, which recommended that AEMO, SRAS providers and network service providers cooperate more fully to identify opportunities to fully test the operation of SRAS¹⁵
- recommendation 2.4 of the *Independent Review into the Future Security of the National Electricity Market*, which identified the need for regular testing of black start equipment and processes.¹⁶

1.3 Rationale for the rule change request

AEMO's consultation process on the SRAS guideline 2017 identified an inconsistency between the requirements of the SRAS short notice test and clause 5.7.5(a) of the NER.

A short notice test, as provided for in the SRAS guideline 2017, will require a change to the normal operation of equipment at a connection point, which triggers the existing NER requirement for an SRAS provider (as a registered participant) to give the relevant network service provider 15 business days' notice of the test. However, under the SRAS guideline 2017, SRAS providers will only receive five business days' notice of the test from AEMO.

SRAS providers will therefore not be able to comply with the SRAS guideline 2017 short notice test (as incorporated into SRAS agreements for SRAS services commencing 1 July 2018) as a result of the 15 business days' notice requirement under clause 5.7.5(a) of the NER.

¹³ Clause 4.3.3 (c) of the SRAS guideline 2017. This is not a short notice test. The SRAS provider arranges this test with the network service provider.

¹⁴ Section 7.3, Black System South Australia 28 September 2016, March 2017, pp.102-104. See: https://www.aemo.com.au/-/media/Files/Electricity/NEM/Market_Notices_and_Events/Power_System_Incident_Reports/2017/Integrated-Final-Report-SA-Black-System-28-September-2016.pdf

¹⁵ Section 7.4, Final Determination, Review of the System Restart Standard, 15 December 2016, p.113. See: <http://www.aemc.gov.au/Markets-Reviews-Advice/Review-of-the-System-Restart-Standard>

¹⁶ Independent Review into the Future Security of the National Electricity Market, p.62. See: <https://www.energy.gov.au/government-priorities/energy-markets/independent-review-future-security-national-electricity-market>

1.4 Solution proposed in the rule change request

AEMO sought to resolve the issues discussed above by proposing a rule (the proposed rule) that excludes the short notice test from the requirement that generators provide the relevant network service provider with 15 business days' notice of a test. AEMO indicated that, under the proposed rule, it would work with the transmission network service provider to identify the most appropriate time period to conduct the short notice test, and provide the transmission network service provider not less than 15 business days' notice of the proposed short notice test.¹⁷ Only the SRAS provider would receive no less than five business days' notice of the short notice test as required under the SRAS guideline 2017.¹⁸ The proposed rule would substitute clause 5.7.5(a) of the NER with the following:

“A Registered Participant proposing to conduct a test on equipment related to a connection point, which requires a change to the normal operation of that equipment, must give notice in writing to the relevant Network Service Provider of at least 15 business days except:

- in an emergency; or
- in respect of a test arranged by AEMO with the Network Service Provider in accordance with the requirements of the SRAS Guideline, as required by AEMO under an ancillary services agreement with the Registered Participant.¹⁹”

In its rule change request, AEMO argued that the proposed exclusion for the short notice test is deliberately specific to avoid the possibility of inadvertently exempting other forms of testing from the existing 15 business days' notice requirement in the NER. Specifically, the proposed exclusion:

1. would only cover tests that have been arranged by AEMO with the network service provider
2. would not capture other tests under an SRAS agreement,²⁰ namely after maintenance or as required by AEMO if it suspects a possible issue.²¹

AEMO argued that the proposed rule, if made, would have the effect of removing an impediment to the smooth implementation of the SRAS guideline 2017 by exempting

¹⁷ Clause 4.3.2 of the SRAS guideline 2017.

¹⁸ Clause 4.3.2(e) of the SRAS guideline 2017 states that a transmission network service provider must not disclose short notice test details to an SRAS provider before AEMO has done so.

¹⁹ AEMO, Testing system restart ancillary services capability, rule change request, 15 December 2017, p.8.

²⁰ The full testing regime is detailed in clause 4.3.2 of the SRAS guideline 2017.

²¹ These tests would be arranged by the SRAS provider with the network service provider, and allow for sufficient time to meet the existing 15 business day notice requirement in clause 5.7.5(a)

SRAS providers subject to the short notice test from having to provide the relevant network service provider with 15 business days' notice of the test.²²

1.5 The rule making process

On 6 February 2018, the Commission published a notice under section 95 of the National Electricity Law (NEL) advising of its intention to commence the rule making process and consult in respect of the rule change request.²³ A consultation paper identifying specific issues for consultation was also published. Submissions closed on 6 March 2018.

The Commission received two submissions, which are available on the AEMC website.²⁴

The Commission considered that the rule change request was a request for a non-controversial rule as defined in section 96 of the NEL. Accordingly, the Commission commenced an expedited rule change process, subject to any written requests not to do so. The closing date for receipt of written requests was 20 February 2018, and no requests to not carry out an expedited rule change process were received.

Under an expedited process, the AEMC must publish its final rule determination within six weeks of commencement (subject to extension if warranted).

²² AEMO, Testing system restart ancillary services capability, rule change request, 15 December 2017, p.6.

²³ This notice was published under section 95 of the NEL.

²⁴ <https://www.aemc.gov.au/rule-changes/testing-of-system-restart-ancillary-services-capab>

2 Final rule determination

2.1 The Commission's determination

In accordance with section 102 of the NEL, the Commission has made this final rule determination in relation to AEMO's *Testing of system restart ancillary services capability* rule change request. In accordance with section 103 of the NEL, the Commission has determined to make, with amendments, the rule proposed by the rule proponent.

The Commission's reasons for making the rule, the key features of the final rule, and additional amendments made are described further in this chapter.

This chapter outlines:

- the rule making test for changes to the NER
- the assessment framework for considering the rule change request
- the Commission's consideration of the final rule against the national electricity objective

Further information on the legal requirements for making this final rule determination is set in Appendix B.

2.2 Rule making test

2.2.1 Achieving the national electricity objective

Under section 88(1) of the NEL the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national electricity objective (NEO).²⁵ This is the decision making framework that the Commission must apply.

The NEO is as follows:²⁶

“to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity;
and
- (b) the reliability, safety and security of the national electricity system.”

²⁵ Section 88 of the NEL.

²⁶ Section 7 of the NEL.

2.2.2 Northern Territory legislative considerations not required

From 1 July 2016, the National Electricity Rules (NER), as amended from time to time, apply in the Northern Territory, subject to derogations set out in Regulations made under the NT legislation adopting the NEL.²⁷ Under those Regulations, only certain parts of the NER have been adopted in the NT.²⁸ As the proposed rule relates to parts of the NER that currently do not apply in the Northern Territory, the Commission has not assessed the proposed rule against additional elements required by Northern Territory legislation.²⁹

2.3 Assessment framework

In assessing the proposed rule, the Commission considered that the relevant aspect of the NEO is the promotion of the efficient operation of electricity services with respect to the security of supply of electricity and the security of the national electricity system. To determine whether the proposed rule promotes the NEO, the Commission considered the following principles.

- **Promoting regulatory certainty** - Clear regulatory responsibilities for all participants in the NEM promotes the efficient operation of the electricity system. Therefore, the Commission considered whether the proposed rule promotes regulatory certainty for SRAS providers.
- **Regulatory and administrative burden** - The Commission considered whether the proposed rule creates any unnecessary regulatory or administrative burden on market participants and whether the benefits of making the proposed rule outweigh these costs.

The consultation paper included an additional principle, “creating confidence in the SRAS process.” The Commission determined that the issues identified under this principle are sufficiently addressed under the “promoting regulatory certainty” principle.

2.4 Commission's reasons

Having regard to the issues raised in the rule change request and submissions to the consultation paper, the Commission is satisfied that the final rule will, or is likely to contribute to the achievement of the NEO.

²⁷ National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations.

²⁸ For the version of the NER that applies in the Northern Territory, refer to : [http://www.aemc.gov.au/Energy-Rules/National-electricity-rules/National-Electricity-Rules-\(Northern-Territory\)](http://www.aemc.gov.au/Energy-Rules/National-electricity-rules/National-Electricity-Rules-(Northern-Territory)).

²⁹ National Electricity (Northern Territory) (National Uniform Legislation) Act 2015.

2.4.1 Promoting regulatory certainty

The Commission considered whether the proposed rule would promote regulatory certainty for NEM participants. The efficient operation of the NEM is supported by regulatory obligations that are clearly defined and understood by the parties required to meet them. Short notice test requirements set out in the SRAS guideline 2017 do not align with clause 5.7.5(a) of the NER, as currently written.³⁰ This inconsistency between what AEMO will contractually require of SRAS providers, and what the NER requires of SRAS providers as registered participants, creates conflicting objectives for SRAS providers and the potential for inefficiency and uncertainty in the operation of SRAS. The proposed rule provides regulatory certainty for SRAS providers regarding their obligations by aligning the NER and the SRAS guideline 2017, thus supporting the power system's restart capability and improving energy security.

2.4.2 Regulatory and administrative burden

The Commission considered whether the benefits of making the proposed rule outweigh the costs or risks of doing so. In the rule change request, AEMO considered that the proposed rule would not have any cost impact on NEM participants, and accordingly would not have additional costs for consumers.³¹ The Commission agreed with this assessment, and submissions to the consultation process did not identify any costs of implementing the proposed rule. The effect of the final rule is that SRAS providers will be able to meet their obligation to conduct a short notice test, as required under the SRAS guideline 2017 (and as incorporated as a term in SRAS agreements for SRAS services commencing 1 July 2018). On this basis, the Commission determined that the benefits of making the proposed rule outweigh the costs and risks of doing so.

2.4.3 Submissions

Energy Networks Australia

Energy Networks Australia's submission was supportive of the overall intention of the rule change proposal for the following primary reasons:

- “• It will align the requirements in the NER with the requirements contained in AEMO's recently finalised SRAS Guidelines. This will provide clarity to our members, AEMO, SRAS Providers and market participants
- The updated SRAS Guidelines should facilitate an improvement to existing system restart processes by allowing AEMO to undertake short notice tests on SRAS providers' equipment and facilities. It is crucial that these SRAS providers are able to respond in a timely

³⁰ The SRAS guideline 2017 is subject to the NER and in the event of inconsistency, the NER prevails.

³¹ AEMO, Testing of system restart ancillary services capability, rule change request, 15 December 2017, p.10.

fashion and operate as anticipated at times of heightened system and stakeholder stress.³²

The submission also made two recommendations. The first of these was that there should be an obligation on SRAS providers to always have an agreed test plan in place with relevant network service providers. The second recommendation was that the AEMC should explicitly clarify that network service providers can recover all reasonable costs associated with SRAS capability tests. These issues are outside the scope of this rule change request and are therefore not considered further in this final determination.

Australian Energy Regulator

The Australian Energy Regulator's (AER) submission was supportive of AEMO's rule change proposal. The AER:

“consider(ed) the relevant clause (of the NER) ought to be amended to align the rules with an improved testing regime as set out under the SRAS guideline 2017.³³”

2.5 Final rule

For the above reasons, the Commission considered that AEMO's proposed rule would promote the NEO, and has determined to make a final rule, with amendments. The final rule creates an exception to the requirement that SRAS providers, as registered participants, provide the relevant network service provider with 15 business days' notice of a change to the operation of equipment at the connection point in clause 5.7.5(a) of the NER. The exception is for the short notice test as provided for in the SRAS guideline 2017.

The final rule is largely the same as the proposed rule. The amendment to the proposed rule is limited to specifying that the exclusion will apply where AEMO has *notified*³⁴ the relevant network service provider of the proposed date and time of a test of a registered participant's equipment, rather than where a test has been *arranged by* AEMO.³⁵

³² Energy Networks Australia, Submission to the *Testing of system restart ancillary services capability* rule change, 6 March 2018, p.1. See:

<https://www.aemc.gov.au/rule-changes/testing-of-system-restart-ancillary-services-capab>

³³ AER, Submission to the *Testing of system restart ancillary services capability* rule change, 7 March 2018. See: <https://www.aemc.gov.au/rule-changes/testing-of-system-restart-ancillary-services-capab>

³⁴ Clause 4.3.2 (c)(iv) of the SRAS guideline 2017 states that AEMO will provide formal notice of the proposed test date and time to the transmission network service provider not less than 15 business days in advance.

³⁵ Both the proposed rule and the final rule state that this test is conducted in accordance with the requirements of the SRAS guideline, under an ancillary services agreement between AEMO and the registered participant.

This change to the proposed rule was made to reduce ambiguity about which tests the exception to clause 5.7.5(a) applies to in accordance with the SRAS guideline 2017. The amendment was also made to ensure that the exception is consistent with clause 5.7.5(a), namely that network service providers are provided notice of a test on equipment to be conducted by a relevant registered participant.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
MCE	Ministerial Council on Energy
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
SRAS	System Restart Ancillary Services

A Legal requirements under the NEL

This appendix sets out the relevant legal requirements under the NEL for the AEMC to make this final rule determination.

A.1 Final rule determination

In accordance with section 102 of the NEL the Commission has made this final rule determination in relation to AEMO's *Testing of system restart ancillary services capability* rule change request. In accordance with section 103 of the NEL, the Commission has determined to make, with amendments, the rule proposed by the rule proponent.

The Commission's reasons for making this final rule determination are set out in section 2.4.

A copy of the final rule is attached to and published with this final rule determination. Its key features are described in section 2.6.

A.2 Power to make the rule

The Commission is satisfied that the final rule falls within the subject matter about which the Commission may make rules. The final rule falls within section 34 of the NEL as it relates to:

- the operation of the national electricity system for the purposes of the safety, security and reliability of that system (clause (1)(a)(ii))
- the activities of persons (including Registered participants) participating in the national electricity market or involved in the operation of the national electricity system (clause (1)(a)(iii))

A.3 Commission's considerations

In assessing the rule change request, the Commission considered:

- its powers under the NEL to make the rule;
- the rule change request
- submissions received during consultation; and
- the Commission's analysis as to the ways in which the proposed rule will or is likely to, contribute to the NEO.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.³⁶

The Commission may only make a rule that has effect with respect to an adoptive jurisdiction if satisfied that the proposed rule is compatible with the proper performance of AEMO's declared network functions.³⁷ The final rule is compatible with AEMO's declared network functions because it does not affect the performance of the functions at all.

A.4 Civil penalties

The Commission's final rule amends clause 5.7.5(a) of the NEL which is currently classified as a civil penalty provision under Schedule 1 of the National Electricity (South Australia) Regulations. The Commission considers that the final rule creates a specific exception which does not change the nature of the obligation under the clause, namely a registered participant's obligation to give notice in writing at least 15 business days to the relevant network service provider prior to conducting a test on equipment.

The Commission considers that this clause should continue to be classified as civil penalty provisions and therefore will not recommend any change to their classification to the COAG Energy Council.

A.5 Conduct provisions

The final rule does not amend any clauses that are currently classified as conduct provisions under the NEL or the NER. The Commission does not propose to recommend to the COAG Energy Council that any of the proposed amendments made by the draft rule be classified as conduct provisions.

³⁶ Under section 33 of the NEL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for Energy. On 1 July 2011 the MCE was amalgamated with the Ministerial Council on Mineral and Petroleum Resources. The amalgamated council is now called the COAG Energy Council.

³⁷ Section 91(8) of the NEL.