AEMO
AUSTRALIAN ENERGY MARKET OPERATOR

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23 October 2019

Mr John Pierce
Chair
Australian Energy Market Commission

By electronic submission

Dear Mr Pierce

Rule change request – Removal of mandatory restrictions framework

AEMO submits the attached request for the AEMC to make a rule change under section 91 of the National Electricity Law.

AEMO proposes that the mandatory restrictions framework be removed from the National Electricity Rules.

This rule change request was recommended by the AEMC, in your Final Report on Intervention Mechanisms in the NEM, published in August, 2019.

Any questions on this Rule change request should be directed to Kevin Ly, Group Manager – Regulation, on (02) 9239 9160 or at kevin.ly@aemo.com.au.

Yours sincerely

Peter Geers
Chief Strategy and Markets Officer

Attachments:

1. Rule change proposal - Removal of the mandatory restrictions framework

ELECTRICITY RULE CHANGE PROPOSAL

REMOVAL OF MANDATORY RESTRICTIONS FRAMEWORK

October 2019

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1. SUMMARY

AEMO is proposing a rule to remove the mandatory restrictions framework from the National Electricity Rules (NER).

The AEMC's Final Report on its Investigation into intervention mechanisms in the NEM (AEMC Final Report)[1] recommended that AEMO submit a rule change request to remove the mandatory restrictions framework.[2] This rule change proposal is responding to that recommendation.

AEMO asks that this proposal is fast-tracked because it responds to a request from an AEMC review.

2. RELEVANT BACKGROUND

2.1 Current framework

The mandatory restrictions framework was introduced to the NER in 2001 in response to supply shortages in Victoria and South Australia during January and February 2000.

The NER defines mandatory restrictions as "restrictions imposed by a participating jurisdiction, by a relevant law, other than the rules, on the use of electricity in a region". In the event of mandatory restrictions, AEMO must:

- Create a mandatory restriction schedule. The mandatory restriction schedule estimates the profiled decrease in demand arising from the mandatory restrictions for the current or following trading day.
- Call for mandatory restriction offers from scheduled generators or scheduled network service providers. Mandatory restriction offers are the quantities and prices of capacity that may be used to meet the mandatory restriction schedule.
- Use the cheapest available mandatory restriction offers to meet the mandatory restriction schedule. The accepted mandatory restriction offers are then repriced at the Market Price Cap for use in central dispatch.

The trading system is detailed in SO_OP_3713 Mandatory Restriction Offers.[3] Settlement of the mandatory restriction offers is addressed in NER 3.12A.7.

2.2 Narrative of issue and proposed changes

The mandatory restrictions framework is complicated, and mandatory restrictions have never been used in the 18 years since their introduction.

The AEMC Final Report identified several issues indicating that the mandatory restrictions regime is no longer fit for purpose. These are reprised in Section 3.2 of this proposal.

This proposal requests that the entire mandatory restrictions framework is removed from the NER.

1 AEMC, Investigation into intervention mechanisms in the NEM, Final report, 15 August 2019
2 Ibid, p.135 (Recommendation 10)
3 https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security_and_Reliability/Power_System_Ops/Procedures/SO_OP_3713---Mandatory-Restriction-Offers.pdf. This specification of the mandatory restrictions trading system is required under NER 3.12A.1(a).

3. STATEMENT OF ISSUE

3.1 Current Rules

The mandatory restrictions framework, including settlement arrangements, is contained in Rule 3.12A. There are attendant references to Rule 3.12A elsewhere in the NER, most notably in clause 3.15.10B.[4]

3.2 Issues with the current Rules

The AEMC Final Report identified several reasons why the NEM mandatory restrictions framework is no longer appropriate to address the circumstances for which it was introduced. AEMO agrees with these reasons, which are summarised below.

3.2.1 Mandatory restrictions schedule

There are inherent difficulties in accurately forecasting the demand reductions associated with mandatory restrictions (or rationing) of electricity imposed by jurisdictional authorities. These difficulties are exacerbated by the scarcity of data on which to base the forecasts. Mandatory restrictions were last invoked by jurisdictions nearly 20 years ago and the market has changed significantly in that time.

3.2.2 Preserving price signals

The NEM mandatory restrictions framework was intended to preserve the high prices that signalled energy scarcity without the need for involuntary load shedding. However, this works well only if the mandatory restrictions schedule is accurate. If the mandatory restrictions schedule underestimates the demand reductions, then high prices may be suppressed. If the mandatory restrictions schedule overestimates the demand reductions, then high prices may be exacerbated. Furthermore, if high prices are exacerbated that could trigger administered pricing earlier than would otherwise happen, which in turn would reduce the incentive for demand-side response at a time when it is most valuable.

3.2.3 Alternative mechanisms

The market has evolved since the mandatory restrictions framework was introduced. The Reliability and Emergency Reserve Trader (RERT) is the backstop form of intervention currently used to manage reserve shortfalls. New technologies have also enabled greater demand-side response, including energy storage systems, to emerge in the NEM. The AEMC is currently consulting on the introduction of a wholesale demand response mechanism to facilitate the increased participation of scheduled demand response in the spot market.

4. PROPOSED RULE

4.1 Description of proposed rule

AEMO proposes that Rule 3.12A and attendant clauses are removed from the NER.

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4 The relevant rules are not reproduced in this proposal because they are lengthy, and AEMO is not seeking to amend the mandatory restrictions framework but remove it.

4.2 How the proposal will address the issues

Removing the mandatory restrictions framework will obviate concerns about the uncertainties inherent in the mandatory restrictions schedule and any consequent deleterious effects on pricing signals during forecast reserve shortfalls.

5. HOW THE PROPOSED RULE CONTRIBUTES TO THE NATIONAL ELECTRICITY OBJECTIVE (NEO)

The proposed rule would contribute to the NEO by increasing reducing costs to consumers, as outlined in section 6, without any reduction in security, reliability or safety.

6. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

Removing the mandatory restrictions framework from the Rules would ultimately benefit electricity consumers by eliminating supplementary and ongoing costs of maintaining unnecessary systems and processes. It will also reduce the potential for undesirable NEM pricing outcomes in the event the framework were ever used. Specifically, removing the framework will:

- Eliminate the need to maintain mandatory restrictions trading systems and train staff to use them. This applies to participants and AEMO.
- Eliminate the need to build a new mandatory restrictions trading system to accommodate the shift to five-minute settlement. This applies to participants and AEMO.
- Eliminate the need to recover the costs of any mandatory restriction offer from Market Customers.
- Eliminate the uncertain consequences of mandatory restriction pricing during reserve shortfalls.

The cost of removing the mandatory restrictions framework is expected to be minimal. The mandatory restrictions elements in the current bidding systems would be expected to remain in place but become redundant if the mandatory restrictions framework is removed from the NER. It may be desirable to add a bid validation check to reject any bids that include mandatory restrictions offers if this rule change proposal is successful.

The current bidding systems are being comprehensively rebuilt to manage the shift to five-minute settlement from 1 July 2021. Removing any mandatory restrictions functionality from the new systems in the process of being built should be simple, because the mandatory restrictions elements are an adjunct to the core bidding systems, and not a central component of them.