

28 November 2019

Mr John Pierce
Chair
Australian Energy Market Commission

10 Eagle Street
Brisbane QLD 4122
T 07 3347 3100

By electronic submission

Dear Mr Pierce

Rule change request – Removal of intervention hierarchy

AEMO submits the attached request for the Australian Energy Market Commission (AEMO) to make a Rule change under section 91 of the National Electricity Law.

The attached Rule change request proposes that the requirement for AEMO to exercise Reliability and Emergency Reserve Trader (RERT) before issuing directions or instructions should be removed from the Rules and replaced by a principle requiring AEMO to endeavour to minimise the costs and maximise the effectiveness of an intervention in the NEM.

This Rule change request was recommended in the AEMC's Final Report on Intervention mechanisms in the NEM.

Any questions on this Rule change request should be directed to Kevin Ly, Group Manager – Regulation, on kevin.ly@aemo.com.au.

Yours sincerely



Peter Geers
Chief Strategy and Markets Officer

Attachments:

1. Rule change proposal: Removal of intervention hierarchy

ELECTRICITY RULE CHANGE PROPOSAL

REMOVAL OF INTERVENTION HIERARCHY

November 2019





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1. SUMMARY

AEMO is proposing a rule to:

- remove the hierarchy that obliges AEMO to exercise the reliability and emergency reserve trader (RERT) before issuing directions or instructions during an AEMO intervention event; and
- replace it with a principle that would require AEMO to use reasonable endeavours to minimise the costs and maximise the effectiveness of an intervention.

The AEMC's Final Report on its Investigation into intervention mechanisms in the NEM (AEMC Final Report)¹ recommended that AEMO submit this rule change proposal.²

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 National Electricity Rules (NER) specify a hierarchy for AEMO intervention during times of supply scarcity:

- AEMO must first dispatch all valid bids and offers from scheduled plant.
- If that is insufficient to maintain system reliability, AEMO should then activate available reserve contracts under its RERT function.
- If that is still insufficient to maintain system reliability, AEMO should issue:
 - directions to scheduled plant or market generating units; or
 - clause 4.8.9 instructions (instructions) to other registered participants.

The Rules do not specify a hierarchy between issuing directions and clause 4.8.9 instructions.³ In practice AEMO has issued directions before issuing clause 4.8.9 instructions, because the latter have historically been limited to load shedding.

2.2 Narrative of issue and proposed changes

RERT has traditionally been preferred to directions or instructions because RERT contracts are voluntary (contract market) arrangements, whereas directions and instructions are not.

The AEMC's review of intervention mechanisms in the NEM questioned whether minimising the costs and maximising the effectiveness of intervention might be a more important goal than preferring voluntary to involuntary interventions in the NEM. The AEMC Final Report sided with minimising costs and maximising effectiveness during intervention. AEMO agrees with this conclusion.

This proposal requests that the obligation on AEMO to exercise RERT before issuing directions or instructions is removed from the Rules, and replaced with a principle requiring AEMO to use reasonable endeavours to minimise the costs and maximise the effectiveness of intervention.

¹ AEMC, Investigation into intervention mechanisms in the NEM, Final report, 15 August 2019

² Ibid, p.104 (Recommendation 7)

³ As they are respectively defined in the NER. Under the National Electricity Law, both are a form of direction.



3. STATEMENT OF ISSUE

3.1 Current Rules

The obligation on AEMO to exercise RERT before issuing directions or clause 4.8.9 instructions is in NER 3.8.14:

3.8.14 Dispatch under conditions of supply scarcity

During times of *supply scarcity*, AEMO must use its reasonable endeavours to ensure that the actions set out below occur in the following sequence:

- (a) subject to:
 - (1) any adjustments which may be necessary to implement action under paragraph (c); and
 - (2) any *plant* operating restrictions associated with a *relevant AEMO intervention event*, all valid *dispatch bids* and *dispatch offers* submitted by *Scheduled Generators*, *Semi-Scheduled Generators* or *Market Participants* are *dispatched*, including those priced at the *market price cap*;
- (b) subject to:
 - (1) any adjustments which may be necessary to implement action under paragraph (c); and
 - (2) any *plant* operating restrictions associated with a *relevant AEMO intervention event*, after all valid *dispatch bids* and *dispatch offers* referred to in paragraph (a) have been exhausted, exercise the *reliability and emergency reserve trader* in accordance with rule 3.20 by:
 - (3) *dispatching scheduled generating units, scheduled network services or scheduled loads* in accordance with any *scheduled reserve contract*; or
 - (4) *activating loads or generating units* under any *unscheduled reserve contract*; and
- (c) any further corrective actions required are implemented in accordance with clauses 4.8.5B and 4.8.9.

3.2 Issues with the current Rules

3.2.1 The current Rules might not minimise costs

Prescribing the use of RERT before directions or instructions limits the number of available options for AEMO to manage supply scarcity, and the smaller the number of available options, the less likely that AEMO can select the option that minimises expected costs.

RERT can be more expensive than directions or instructions. The National Electricity Amendment (Enhancement to the Reliability and Emergency Reserve Trader) Rule 2019 No.3⁴ recognises the potentially high cost of RERT by adding a clause 3.20.2(b)(3) to specify that for each region the average cost of RERT should not exceed the estimated average VCR.⁵

⁴ <https://www.aemc.gov.au/sites/default/files/2019-05/Final%20rule.pdf>

⁵ This clause starts operation on 26 March 2020.



Exercising RERT before issuing directions or instructions does not necessarily mean that the intervention will be more expensive, but it does increase the likelihood.

3.2.2 The current Rules might not maximise effectiveness

Just as prescribing a hierarchy of intervention mechanisms does not allow AEMO the greatest flexibility to intervene in a way that minimises expected costs, it also limits AEMO's ability to intervene in a way that maximises anticipated effectiveness, again by reducing the number of options available to AEMO.

For example, pre-activation times for RERT may be longer than recall times for directions, meaning that AEMO might need to intervene earlier than desirable, when forecast information is less reliable.

Alternatively, minimum activation times for RERT may be longer than the duration of the supply scarcity, meaning that AEMO might need to intervene for longer than desirable.

Exercising RERT before issuing directions or instructions does not necessarily mean that the intervention will be less effective, but it does increase the likelihood.

3.2.3 The current Rules might not be sufficiently adaptable

The current Rules assume intervention involves a projected choice between:

- RERT contracts for plant that sits outside the energy market;
- directions in respect of scheduled plant or market generating units; and
- clause 4.8.9 instructions to shed load.

The changing structure of the NEM, including the development of distributed resources and virtual power plants (VPPs), mean that this range of options, while still valuable, may not be sufficiently adaptable.

For example, depending on how they register – or what registration options are available to them – VPPs may choose to sit outside the market (making them available for RERT), inside the market and scheduled (making them available for directions), or outside the market and not contracted for RERT (making them available for load shedding under a clause 4.8.9 instruction). In these circumstances, and with further potential for unforeseen developments, maintaining a hierarchy between different forms of intervention could become increasingly untenable.

4. PROPOSED RULE

4.1 Description of proposed rule

AEMO proposes that NER 3.8.14(b) and (c) are replaced by a clause requiring AEMO to use reasonable endeavours to minimise the costs and maximise the effectiveness of exercising RERT or issuing directions or instructions during an AEMO intervention event.

AEMO should continue to dispatch all valid bids and offers from scheduled plant before intervening.

4.2 How the proposal will address the issues

Removing the current intervention hierarchy will allow AEMO to choose between the fullest range of options to minimise the expected cost and maximise the anticipated effectiveness of any intervention.



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

The costs of intervention must ultimately be paid by electricity consumers. Therefore, anything that has the potential to reduce the costs of intervention by giving AEMO greater flexibility in its choice of intervention mechanisms also has the potential to contribute to the NEO.

Similarly, anything that has the potential to increase the effectiveness of intervention by giving AEMO greater flexibility in its choice of intervention mechanisms also has the potential to contribute to the NEO by increasing the efficient operation of electricity services.

6. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

Removing the hierarchy of intervention mechanisms from the Rules would provide AEMO with the flexibility to deploy the least cost and most effective suite of options if it becomes necessary to intervene during times of supply scarcity.

There are no obvious costs associated with removing the hierarchy of intervention mechanisms other than the rule change process itself and corresponding changes to AEMO operational procedures.