

Sarah-Jane Derby
Australian Energy Market Commission
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Submitted online to: <http://www.aemc.gov.au/Markets-Reviews-Advice/Reliability-Frameworks-Review>

Dear Ms Derby,

Reliability Frameworks Review
Reference: EPR0060

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission’s (“**AEMC**’s”) *Reliability Frameworks Review Issues Paper*.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over ten million homes and businesses.

Introduction

Absent any other measures, the increasing proportion of renewable energy generation in the National Electricity Market (“**NEM**”) is likely to change the power system’s reliability, and it is appropriate for the AEMC to consider the system’s reliability frameworks. The Energy Council is concerned however, that the review is being conducted at the same time as the Reliability Panel’s *Reliability Standard and Settings Review 2018* and *Review of the Frequency Operating Standard*, therefore it may be premature to assess and determine reliability frameworks prior to the other reviews’ findings. In addition there are further, significant policy uncertainties which affect industry’s ability to provide comprehensive comment on the topics being canvassed by the Issues Paper, including any policy changes as a result of the Australian Energy Market Operator’s (“**AEMO**’s”) recent *Advice to Commonwealth Government on Dispatchable Capability*.

Discussion

The Issues Paper discusses the Generator Reliability Obligation proposed by the Finkel Review¹, which will require new renewable energy generators provide adequate, new dispatchable capacity, as determined by AEMO. The Energy Council fully supports arrangements which maintain the reliability of the power system, however the reliability of the NEM is best assessed dynamically, and on a regional or market-wide basis. While individual generators contribute to the power system’s reliability, it is not appropriate to attribute changes in reliability to particular generators, and particularly not to new renewable energy generators, since reliability can be affected by matters outside their control, such as the retirement of thermal generation. Requiring new generators to provide dispatchable capacity in addition to their proposed generation capacity will be a significant barrier to entry for them. In addition, not allowing such capacity to be contracted with existing generators provides an additional impost on new generators and creates inefficiencies in the provision of the services sought. The Energy Council prefers that these measures be provided to the market consistent with the existing NEM framework, i.e. by seeking market-based mechanisms and the competitive acquisition of services which match the dynamic nature of reliability needs, suitable for the current and forecast conditions within the power system.

The availability of these competitive services is linked to the investment and operational decisions made by market participants and prospective new entrants. At present these decisions are hampered by a lack of

¹ *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future*, Commonwealth of Australia 2017, Recommendation 3.3

certainty regarding government intentions. The most important thing which can be done to improve investment certainty and ultimately maintain power system security is for the Commonwealth Government to provide long-term policy stability and State Governments to avoid uncoordinated market interventions.

The *Non-scheduled Generation and Load in Central Dispatch Draft Rule Determination* dated 20th June 2017 acknowledged² that the outlook for generation capacity in the NEM is “a reduction in large non-intermittent generators”. The reduction in large non-intermittent generators is significant, with 5,000MW of coal-fired generation having left the market since 2012. Understandably, this has created difficulties for AEMO in maintaining forecasting accuracy, particularly as it is still using a limited 20 year-old neural network model³. The Energy Council believes that the diminution of accuracy may compromise reliability, but AEMO’s programme to improve its forecasting processes (for example, its *Visibility of Distributed Energy Resources* project) will significantly assist in ensuring that reliability will remain within the standard.

At Section 7.4.2 of the Issues Paper the AEMC observed that directions and *National Electricity Rules* Clause 4.8.9 instructions are not as efficient as the Reliability and Emergency Reserve Trader. The Energy Council agrees with this observation and supports the AEMC considering these provisions in its review. The AEMC should also consider whether the absence of compensation for market participants so directed is equitable, particularly if such services are to be called upon more frequently in the future.

Section 5.1.2 of the Issues Paper discusses ways in which the power system could best accommodate fluctuations in supply due to the prevalence of variable renewable energy sources. Flexible generation sources are able to increase or decrease output based on variable market fluctuations. Adequate consideration should be given to valuing flexible generation appropriately, as these sources will be increasingly relied upon as the market changes.

Section 6.1 of the Issues Paper considers the Wholesale Spot Market Framework and discusses day-ahead markets. The Energy Council cautions against the AEMC considering possible mechanisms before it has determined the problem which needs to be solved, and assessed the costs currently being borne by industry and customers. The *Five Minute Settlement Draft Determination* dated 5th September 2017 has recommended that a rule change be made to come into effect on 1st July 2021 which will align operational dispatch and financial settlement at five minutes. In its Draft Determination the AEMC identified that “there are potential risks to system security and reliability with the introduction of five minute settlement”⁴. It is inappropriate and premature for the Reliability Frameworks Review to conduct its assessment and make a recommendation without considering how it will change once Five Minute Settlement comes into effect. The Energy Council would also argue that this assessment cannot be conducted hypothetically, but must wait until evidence of the new market’s operations has been gathered.

At Section 7.3.3 the Issues Paper also discusses ways of improving the operation of the Reliability and Emergency Reserve Trader, and alleges that “The very short lead times limits (*sic*) the scope of RERT providers and *potentially leads to higher prices*” [emphasis added]. The Energy Council rejects this suggestion and submits that saying so is at odds with the AEMC’s *Extension of the Reliability and Emergency Reserve Trader Rule Determination* dated 23rd June 2016, which found that by increasing the timeframe that the market can respond to a projected reserve shortfall, and ensuring that AEMO can only act closer to real time, potential market distortions would be minimised.

² pp. 24-25

³ *Ibid.*, p.45

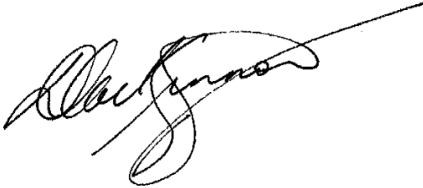
⁴ p.4

Conclusion

In conclusion, the Energy Council believes that the AEMC should use caution in its assessment of appropriate reliability frameworks. There is significant interconnection between this review, government policy and other reviews being conducted simultaneously. It is necessary to consider the implications of recommendations from this review affecting, and being affected by, related inquiries, proposed & impending rule changes, and policy decisions.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Duncan MacKinnon', with a long horizontal flourish extending to the right.

Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council