



Mr John Pierce
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000
Lodged via www.aemc.gov.au

Wednesday, 29 November 2017

Dear Mr Pierce,

RE: Declaration of Lack of Reserve conditions (ref ERC0226)

ENGIE appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) draft determination on Declaration of Lack of Reserve conditions (Draft Determination).

As noted in our previous submission, ENGIE is supportive of the principle of improving the reliability (and security) frameworks that apply within the NEM to ensure that they continue to remain effective and efficient in the changing landscape of the electricity industry. ENGIE does not support however, the proposal to make an abrupt step change from the current rules based lack of reserve (LOR) framework, to the proposed new arrangements.

Although ENGIE supports the new approach, it does represent a major change from the reserve arrangements that have been integral to the National Electricity Market (NEM) since its inception in 1998. In implementing significant change to a fundamental aspect of the NEM, it is very important that a carefully considered transition process is used that allows the new process to be introduced and if necessary, refined, whilst at the same time, preserving the existing process as a fall back, should the new process not function as expected, or reveal unintended consequences.

Currently, the National Electricity Rules (NER) describe the LOR framework and define specific triggers for LOR1, 2 and 3. These are well understood by participants and provide a key signal to the market to ensure sufficient supply investment and availability.

The proposed NER changes would remove the LOR definitions from the Rules, and replace them with a single high level definition for lack of reserve conditions as "when AEMO determines, in accordance with the reserve level declaration guidelines, that the probability of involuntary load shedding is, or is forecast to be, more than remote."





In other words, the current clear set of LOR definitions in the NER would be replaced by a vague statement that provides AEMO with considerable discretion in establishing reserve thresholds. The phrase “more than remote” is so vague there seems little point including it in the NER.

ENGIE reiterates the suggestion made in its submission to the previous consultation paper which was to retain the current LOR definitions in the NER, and to include an additional clause in the NER that allows AEMO to add an additional uncertainty amount to the LOR triggers for periods into the future where their forecast uncertainty measure (FUM) exceeded the relevant LOR trigger. This is in effect what AEMO are proposing to do under their draft guideline. However, ENGIE believes that the current LOR framework needs to be retained in the Rules until such time that the new probabilistic, Bayesian Belief Network process is well established and understood.

This suggested approach is preferable to doing away with the current LOR framework in the NER before the new method has been bedded down. It provides AEMO with the opportunity to fine-tune the FUM methodology and guidelines as they gain more experience under a range of different circumstances. It also allows participants to come to terms with the new methods whilst retaining the current LOR levels as a fall-back should something unexpected arise with the new probabilistic method.

ENGIE has also responded to AEMO’s consultation on its reserve level declaration guidelines, which are being prepared in parallel to this rule change consultation process. ENGIE’s submission to AEMO noted that the descriptions of the Bayesian Belief Network and the process overview were very brief and therefore difficult to fully comprehend. In particular, ENGIE suggested that the guidelines include a number of worked examples to demonstrate how the new arrangements would play out under a range of scenarios.

In recent dialogue with AEMO which discussed the new reserve level declaration arrangements, a number of questions were put to AEMO to seek to understand how the new arrangements would operate under a range of scenarios. Although AEMO were able to provide high level answers to how the new arrangements might play out under these scenarios, it became clear that there are likely to be a number of challenges introduced by these new arrangements, and that AEMO, quite reasonably, need to be given an opportunity to fully comprehend these challenges, and fine tune the arrangements to ensure the most appropriate outcomes.



ENGIE understands that introducing a new and complex process does take some time to properly bed down, and believes that both AEMO and industry participants need to be allowed time to transition smoothly from the current Rules defined LOR framework to the new, guidelines defined FUM process.

ENGIE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Chris Deague".

Chris Deague
Wholesale Regulations Manager