

Sarah-Jane Derby
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

28th November 2017

Submitted online to: <http://www.aemc.gov.au/Rule-Changes/Declaration-of-lack-of-reserve-conditions>

Dear Ms Derby,

Declaration of Lack of Reserve Conditions
Reference: ERC0226

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission to the Australian Energy Market Commission (“**AEMC**”) on the *Declaration of Lack of Reserve Conditions Draft Rule Determination*.

The Energy Council is an 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.

Discussion

The rule change proposed will modify the existing framework for the declaration of Lack of Reserve (“**LoR**”) conditions. The Energy Council appreciates the consideration the AEMC has put into the proposed rule change, particularly in addressing stakeholder concerns by including a more robust consultation procedure for amendments to the Reserve Level Declaration Guidelines. The Energy Council acknowledges that the AEMC has increased the consultation period from the 15 business days requested by the Australian Energy Market Operator (“**AEMO**”) to 20 business days¹, but suggests that there is no compelling rationale to reduce the standard consultation period from the existing 25 business days, given the number of rounds of consultation has been reduced from two to one. On this basis the Energy Council believes the interval of 25 business days must remain.

While the proposed rule change has not been treated as an expedited rule change under the National Electricity Law, the AEMC has accorded the rule change priority treatment, and if the planned timetable is met, the rule will take effect from 9th January 2018². To the Energy Council, this seems to be an inappropriate time to implement changes which are likely to be used almost immediately, and any difficulties experienced will be compounded by occurring in the midst of the summer holiday season when many market participants’ staff will be on leave. It would make more sense for the rule change’s operation to be delayed until the National Electricity Market’s shoulder period in April or May.

The Energy Council notes that AEMO has published its draft Reserve Level Declaration Guidelines to provide context to the proposed rule change. The 12 page document provides little more detail than the presentation made at the industry teleconference on 5th October. While industry is supportive of a move from a deterministic assessment of LoRs to a probabilistic assessment, there is concern that the rule change has been hurried, with the consequence that AEMO’s preparations (and those of industry) may be inadequate to meet the early January implementation date.

¹ Draft Rule 4.8.4A(e)(1)

² p.13

This lack of detail in the Guidelines affects aspects of the changes proposed. For example the Forecast Uncertainty Measure (“**FUM**”) is intended to provide more indication of a likely LoR. The Energy Council believes that as it is written, generators will ignore the possible LoR signal since the value of FUM decays to zero, the closer the time is to actual dispatch. This results in the measure lacking efficacy, particularly as the Energy Council’s recommendation to publish the FUM separately was not accepted.

The AEMC acknowledges the increased likelihood of Lack of Reserve conditions being declared³, but believes that this is likely to elicit a market response⁴. The Energy Council’s members believe that this is not the case, and the converse is true; LoR is the upshot of market participants not having their capacity available in the market (for whatever reason, e.g. planned maintenance), a circumstance which is unlikely to change by the declaration of LoRs. The result of this will be more market intervention by AEMO through activation of the Reliability and Emergency Reserve Trader, directions or instructions, and consequently the market will be distorted, compromising its efficiency, and leading to increased costs for consumers.

Conclusion

The Energy Council is supportive of AEMO changing its LoR assessment basis from deterministic to probabilistic, however it has reservations about the hurried introduction and in particular the date the change will become law, being in the peak summer period. In addition to allowing more time for AEMO and industry to conduct their preparations for the impending change, a later date would reduce the risk of implementation or early operation coinciding with a peak demand day.

Should you have any questions in relation to this rule change request please contact the writer at Duncan.MacKinnon@energycouncil.com.au or 03 9205 3103.

Yours faithfully,

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

³ p.29

⁴ p.30