



LACK OF RESERVE DECLARATION

Consultation paper - September 2017

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Summary

Stanwell welcomes the opportunity to provide comment on the Australian Energy Market Commission’s (AEMC’s) Declaration of Lack of Reserve (LOR) conditions consultation paper (consultation paper).

The Australian Energy Market Operator (AEMO) as proponent of the rule change has requested that:

- the definitions of LOR events be moved from the Rules to AEMO-developed guidelines;
- the AEMO-developed guidelines be implemented without consultation in order to have the rule change become effective prior to summer 2017-18; and
- the guidelines allow or require AEMO to declare LOR events based on probabilistic modelling which has not yet been performed, or at least has not yet been published.

Stanwell considers that this proposal is unacceptable from a governance perspective and encourages the commission to reject or significantly alter the form of the proposal.

Recommendations for such alteration are provided within this submission. Stanwell has provided responses to the specific consultation paper questions in Attachment 1.

If you would like to discuss any aspect of this submission, please contact Luke Van Boeckel on (07) 3228 4529.

Publication of forecast uncertainty

Despite the unacceptable governance overall, AEMO's proposal to publish a dataset relating to forecast uncertainty is likely to be beneficial to the market going forward.

“According to AEMO, rapid deteriorations in short-term power system conditions resulting from non-contingency based variations now occur frequently. These non-contingency based variations occur as a result of:

- *short-term grid demand forecast error, particularly during extreme hot weather, which is in turn affected by small errors in weather forecasts*
- *short-term large-scale wind and large-scale solar generation forecast error*
- *widespread partial availability reductions in thermal generation during stressful ambient conditions*
- *variations in network constraints.*

...

AEMO states that all NEM regions frequently experience the identified forecast errors, and that, at times, their collective size may be larger than the largest traditional generation credible contingency event.”

Stanwell would support AEMO calculating and publishing this dataset. It is likely to be informative regardless of whether LOR conditions are declared, and is likely to be most useful if published on both a disaggregated and an aggregated basis.

Comparison of declarations under deterministic and probabilistic frameworks

Using the proposed dataset relating to forecast error, AEMO should publish a comparison between the LOR conditions which would be declared under the existing and proposed frameworks. This would provide context as to the risk of systemic under or over declaration of LOR conditions.

Backcasting this analysis would also provide insight as to whether the proposed changes could have affected the recent events referenced in the rule change request. For example, was the demand forecast error in South Australia on 8 February 2017 so extreme that a probabilistic framework would have had no material impact? Similar analysis in relation to availability on 12 February 2017 in Queensland may also provide context.

Attachment 1 – Response to consultation paper questions

Question 1 Assessment framework

(a) Is the assessment framework appropriate for considering the changes proposed in the rule change request?

(b) Are there any other relevant considerations that should be included in the assessment framework?

The framework appears broadly appropriate, subject to the resolution of issues covered in the following consultation paper questions.

Question 2 LOR framework

(a) How do participants use the current LOR declaration framework? Do participants rely on or use any particular LOR level (e.g. LOR2)? Would moving away from this framework have any impact on participants?

Stanwell typically only uses forecast LOR declarations as a qualitative input into its market analysis. Demand and availability forecasts are considered highly variable in the ST PASA timeframe, and Stanwell typically makes as much plant as possible available regardless of whether an LOR is declared.

(b) Do stakeholders use the information published on LORs in pre-dispatch information?

Stanwell has systems to automatically identify market notices, including LORs, and presents them for review by the trading team. Stanwell does not consider the current information on LORs published in pre-dispatch to be particularly useful, however Stanwell considers that improving rather than removing this information is likely to be beneficial to the market. In particular, providing LOR status in a database table which is able to be queried in the same manner as tables such as *predispatchload* and *predispatchregionsum* would improve participants' ability to incorporate this information into their decision making processes.

(c) Are there any unforeseen consequences or impacts that may result from the proposed change to the LOR framework?

The proposal to implement a revised framework - which is currently undefined - without consultation and immediately leading into the period most likely to give rise to LOR conditions greatly increases the likelihood that unforeseen impacts occur.

An increase in the number of declared events would logically increase the likelihood of AEMO interventions occurring, including false positive interventions. An increase in the number or severity of declared events is also likely to increase costs to consumers. It may also alter the amount of direct intervention by policy makers, although it is unclear whether this would be an increase or decrease.

There appears to be no consideration given to ensuring a smooth changeover between frameworks, or managing data compatibility for participants between frameworks.

Question 3 Balance between the NER and guidelines

(a) What are stakeholders' views on the proposed framework (i.e. moving the detail of LOR levels from the NER to AEMO-maintained guidelines)? What aspects should be in the NER? What aspects should be in the guidelines?

Stanwell considers that the deterministic triggers should remain in the NER with AEMO provided additional flexibility to develop guidelines in relation to other reserve notifications.

This does not preclude refinement of the existing NER definitions where such changes aided clarity and/or function.

(b) Do stakeholders see any risks arising from the proposed approach?

Yes.

The proposed approach would decrease the transparency of the existing methodology and increase the likelihood of market distorting interventions, whether by AEMO or government.

Question 4 LOR declaration levels

Do stakeholders have any views on AEMO's two options or any other views on the proposed probabilistic assessment methodology?

Stanwell notes that both of AEMO's proposed options would most likely cause the number of LOR notifications to increase, or at best, stay the same (i.e. no benefit) in regions with large reserve margins.

Stanwell considers that the deterministic approach under the current rules has the benefit of stability and should be retained – for example the LOR1 and LOR2 levels presented in figure 2.1 of the consultation paper vary by tens of MW while actual reserves vary by more than 1,000. A probabilistic approach is likely to produce LOR levels which are more variable, accommodating seasonal and time of day structural impacts.

The proposed probabilistic approach could be used as additional context. This approach would allow for multiple LOR notices of the same level to be issued, clearly identifying which trigger(s) have been activated.

For example, where forecast error is less than the largest contingency in a region it would provide valuable context to know that reserves have decreased below the contingency limit, then again when reserves had decreased below the forecasting error limit (or error plus one contingency in respect of an LOR1). The same benefit would apply where forecast error exceeded the contingency size.

In relation to the first notice issued, this approach would be consistent with AEMO's first option "setting the margin at the larger of the largest considered contingency (or contingencies) or a probabilistic margin". The presence (or absence) of subsequent notices in relation to lower reserve triggers may serve to decrease the chance of market distorting interventions in the case of "false positive" declarations.

Stanwell also notes that there does not appear to have been any consideration given to whether an LOR flagged under the current rules would or could be qualified by consideration of a forecasting error – that is, the risk/probability that reserves are actually greater than forecast.

Question 5 Level of consultation

(a) Is the proposed level and scope of consultation for developing and amending the proposed guidelines adequate, both for the initial development and on an ongoing basis for any amendments to the proposed guidelines?

No.

AEMO's LOR notifications are an important element of keeping the market informed about short term operational concerns. Ensuring participants and policy makers have clarity about how the notices are developed and what they mean is important.

The proposal to have initial guidelines developed prior to the rule change both decreases transparency and precludes the Commission from making a More Preferable Rule Change.

The proposal to not require a rule consultation process on future versions is not supported, as the proposed 15-day response period is likely to be inadequate for market participants and policy makers to provide informed feedback.

(b) AEMO is proposing targeted consultation with generators, TNSPs and JSSCs. Are there any other stakeholders that should be included in AEMO's proposed targeted consultation?

Stanwell does not support the proposed targeted consultation, however if it is implemented it is unclear why market customers, small generator aggregators and ancillary service aggregators would not also be consulted.

Demand response, and preferably demand-side participation, is commonly identified as a sector which is likely to grow significantly and contribute to grid security in the near future, and excluding such participants from the consultation also appears counterproductive.

