

4 December 2017

Suzanne Falvi  
Executive General Manager - Security and Reliability  
Australian Energy Market Commission

By e-mail

### **Declaration of Lack of Reserve Conditions ERC0226**

Dear Suzanne,

I refer to the Australian Energy Market Commission's (the AEMC or the Commission) draft determination in response to the Declaration of Lack of Reserve Condition rule change request from the Australian Energy Market Operator (AEMO).

Energy Consumers Australia believes the move from a deterministic to a probabilistic approach is not merely desirable but essential. In its submission, AEMO highlighted the changing mix of energy sources and the degree to which probabilistic assessment is required. They also identified the uncertain nature of weather forecasts and the catastrophic consequences that can occur from incorrect forecasts.

To these considerations need to be added the recent Australia Institute discussion paper *Can't stand the heat* (<http://www.tai.org.au/content/coal-and-gas-reliability-liability-heat-report>). This report has highlighted the extent to which thermal generation is unreliable in extreme weather events, and if generating is likely to generate below capacity. The response of thermal plant to heat waves becomes more significant given the increased incidence of heat waves (see Figure 2 of AEMO's *Summer operations 2017-18* [https://www.aemo.com.au/-/media/Files/Media\\_Centre/2017/AEMO\\_Summer-operations-2017-18-report\\_FINAL.pdf](https://www.aemo.com.au/-/media/Files/Media_Centre/2017/AEMO_Summer-operations-2017-18-report_FINAL.pdf)).

These changes and trends mean a reliance on definitions based on failure of single generating units are no longer appropriate.

The Draft Determination provides a Rule that is sufficiently flexible to be enable AEMO to institute a Guideline that is probabilistic in nature but that also includes appropriate public consultation. It is, however, important that such a guideline is regularly reviewed against outcomes and experience.

The Draft Rule requires AEMO to review the guideline at least every four years. Energy Consumers Australia sees this as an appropriate review period for the Guideline, but we suggest there is a more frequent monitoring required of the effect of the Guidelines. Two outcomes need to be continually reviewed. The first is the extent to which the revised Guideline has led to unnecessary intervention in the market. The second is, if there is additional intervention, that this has not resulted in increased costs to consumers.

Energy Consumers Australia notes with the AEMC that the intention of the lower levels of Lack of Reserve notification is to promote market responses. We share the AEMC's view that the revised Declaration of Lack of Reserve Conditions may result in more frequent declarations of initial concern, but that such declarations will be met by more market response rather than more intervention thus keeping costs down for consumers.



The AEMC needs to ensure the reporting and evaluation under the Guideline is ongoing so that any adverse consequences can be immediately addressed.

Yours sincerely,

David Hayyatt  
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