

Australian Energy Market Commission
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Lodged online: <http://www.aemc.gov.au/Rule-Changes/Declaration-of-lack-of-reserve-conditions>

19 September 2017

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 Consultation Paper*.

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 10 million homes and businesses.

Discussion

In its consultation the AEMC has sought feedback on a rule change request from the Australian Energy Market Operator (AEMO) to replace the current lack of reserve (LOR) conditions in the National Electricity Rules (NER). While the Energy Council recognises the importance of appropriate LOR conditions to avoid unnecessary shortfalls, it does not support the proposal to replace the current arrangements.

The Energy Council believes it is inappropriate to remove the direction of when to declare a LOR from the NER, despite AEMO's assurance that it will be consultative in developing suitable guidelines. The proposed high level definitions of lack of reserve are imprecise and open to interpretation. While it could be argued this is to allow flexibility, it does not offer specific, transparent signals to market participants. Where the current three-tiered LOR levels are clearly set out and understood by participants, the proposed broader definition does not provide the same level of clarity.

Further casting into doubt the need for the proposed rule change, there is a lack of evidence to demonstrate that the current rules would have materially influenced previous shortfalls. To necessitate the change requested, it should be verified that the proposed rule would have avoided previous shortfalls and additionally that the current rules are not adequate to avoid similar shortfalls in the future. Stakeholders would need to be provided with detailed back casting on recent historical events to determine if they would have been captured in the probabilistic analysis as proposed by AEMO. Additionally, members feel there is a lack of detail regarding the proposed guidelines which increases uncertainty and heightens the risk if the rule change is adopted.

The Energy Council notes that while the largest credible contingency is often set as the largest generator, the current rules include provision for AEMO to set an appropriate MW level considering prevailing conditions. The rules also provide a requirement that AEMO update in real time any changes in the contingency levels. However the proposed rules do not include this, which would have the undesirable effect of reducing transparency into the determination of reserve levels. The fitness for purpose of the definition of credible contingency events is being considered through the

AEMC's Reliability Frameworks Review. If this review finds that the definition of credible contingencies as it currently stands is inappropriate, an updated definition would be more preferable to removing the current LOR definitions and replacing them with a probabilistic model. The existing powers, if used appropriately with a possible amendment to credible contingency definitions should be sufficient to provide appropriate signals to avoid any shortfalls in supply.

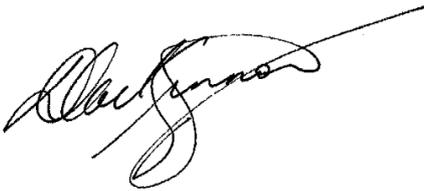
The framework proposed by AEMO to declare LOR based on a wider range of risks provides a higher probability of false positives. This will almost certainly lead to an increased frequency of market intervention by AEMO through the RERT or directions. This will have a distorting effect on the market by altering generator return expectations and their contracting profiles. Additionally, market intervention will lead to the more frequent imposition of intervention "what if" pricing, distorting market outcomes even further.

Conclusion

Considering the risks involved in removing the current transparent, well-understood LOR framework to replace it with a high level, imprecise arrangement, the Energy Council does not support the rule change.

Should you have any questions in relation to this rule change request please contact Isobel Graham (Policy Adviser), telephone 03 9205 3107 or isobel.graham@energycouncil.com.au.

Yours sincerely

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

Duncan MacKinnon
Wholesale Policy Manager