



EnergyAustralia

19 September 2017

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Dear Commissioners

Lodged electronically: www.aemc.gov.au (ERC0226)

AEMC, Declaration of Lack of Reserve conditions, 22 Aug 2017

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market.

EnergyAustralia welcomes the opportunity to comment on the proposed changes to the declaration of lack of reserve (LOR) conditions by the Australian Energy Market Operator (AEMO). In its current form, we do not support the proposed rule change.

As outlined by AEMO in their rule change proposal, there are potential issues with the current LOR declaration method as it is based on the loss of generating units or interconnection as part of a contingency event. Increasing reliance on variable renewable energy (VRE) sources subject to large variations in output opens the possibility of a large aggregate loss of generation in a short period.

We do consider, however, that AEMO currently has the discretion under the rules to adjust elements related to the declaration of LOR, such as adjusting the size of the contingency based on the market conditions at the time. This could include defining the contingency based on the potential loss of generation from VRE due to the prevailing conditions. Rule 4.2.3(b) does not limit the classification of credible events to the loss of one generating unit or transmission line, and should enable AEMO to reclassify a contingency if required. This would also require AEMO to provide the market with prior notification of this reclassification, thereby giving the market appropriate warning of the change. The rule change proposal does not provide clarity on whether this approach has been considered as an alternate approach to creating a new set of powers and guidelines.

We have significant concerns with the process for this AEMO rule change proposal, particularly the lack of details or proposed guideline that would allow us to properly assess the risks inherent in making such a change. There are multiple issues likely to be impacted by the proposed guidelines. As a market participant, we would assess the guidelines based on whether they provide the appropriate level of transparency, consistency and accountability that would allow us to make the appropriate responses to declarations of lack of reserve.

We also have concerns that the proposed methodology could be implemented in a manner that results in a far higher level of market intervention by AEMO, if the conditions for declaration of a lack of reserve were set too broad. In particular, the declaration of LOR 2 could be used by AEMO to trigger interventions under the Reliability and Emergency Reserve Trader (RERT) scheme. The RERT scheme has been subject to a high level of focus from AEMO for the upcoming summer. Activation of the scheme will add additional costs which would ultimately be borne by consumers. As part of this consultation we request that AEMO release the analysis upon which the rule change and proposed guidelines are based. This should provide some indication of the likelihood of increased declarations of LOR 2 and the potential for market intervention.

AEMO have proposed that the details of the LOR levels should reside in the proposed guidelines. While we agree that some level of flexibility may be needed we have concerns that repeated modification of the LOR levels would provide less certainty for those seeking to respond and would therefore render them less effective. A higher level of discretion, even subject to consultation with market participants by AEMO, could reduce confidence in the value of the declarations and thus the level of market response. If this led to further market interventions, it could also create additional costs for consumers.

We support the retention of the current classifications for lack of reserve (i.e. LOR 1, LOR 2 and LOR 3), whether or not they are modified as per the rule change. These classifications are well understood and, even if modified, should still provide the same signals to the market on the predicted timing of potential generation shortfalls and allow participants to respond appropriately.

The draft guidelines should provide some mechanism or obligation for AEMO to provide detailed information to the market following the declaration of LOR, particularly LOR 2. This would include an ex-post assessment of the necessity of the declaration as well as the effect and value of the subsequent AEMO interventions. Without such a mechanism, we are concerned that declarations and interventions may occur on a more arbitrary basis. Given the consequences of increased interventions are likely to be higher costs for consumers and increasing distortion of the market price, there should be an appropriate level of accountability. AEMO has not sufficiently outlined a need for the proposed rule change, and likely has the required flexibility under the existing rules to adjust its declaration of LOR to take into account a wider array of potential contingencies.

If you would like to discuss this submission, please contact Chris Streets on (03) 8628 1393 or chris.streets@energyaustralia.com.au.

Regards

Melinda Green

Industry Regulation Leader