

RULE CHANGE REQUEST – MARKET SUSPENSION

A. Name and address of rule change proponent

COAG Energy Council
Energy Council Secretariat
Department of the Environment and Energy
GPO Box 787
CANBERRA ACT 2601

This rule change request proposes changes to the National Electricity Rules (NER) to implement the changes to market suspension arrangements recommended in Chapter 10 of the AEMC's 'Mechanisms to Enhance Resilience in the Power System – Review of the South Australian Black System Event' report.

B. Description of the rule proposed to be made

This rule change request proposes to clarify the applicability of existing market rules and provide AEMO with appropriate flexibility to prioritise arrangements for system security during a period of market suspension.

When AEMO has declared the spot market to be suspended, it is proposed that:

- AEMO continues to comply with existing provisions of the NER that explicitly relate to periods of market suspension (such as pricing arrangements under clause 3.14.5); and
- for remaining provisions of the NER, AEMO has some flexibility where compliance with a particular rule would impose a material risk on its ability to maintain power system security during the market suspension.

It is also proposed that AEMO be required to inform the market of its decision to prioritise certain obligations during periods of market suspension. In doing so, it is proposed that AEMO report, as soon as practicable, those provisions of the rules with which compliance would impose a material risk on its ability to maintain power system security, the reasons why it considers that compliance would pose such a risk, and whether it proposes any alternative arrangements to apply.

To implement the above proposal, the rule change request seeks amendments to clause 3.14.4 of the NER that:

- clarifies which provisions of the NER continue to apply during periods of market suspension (such as pricing arrangements under clause 3.14.5);
- provides additional flexibility where it is impossible to comply with a rule obligation (particularly an administrative-type requirement) without materially risking AEMO's ability to maintain power system security; and
- imposes reporting requirements on AEMO to demonstrate to the market why it chose to prioritise certain system security obligations.

C. Nature and scope of the issue being addressed

Existing arrangements provide for AEMO to suspend the operation of the spot market in a region:

When it suspends the market, AEMO must publish a notice of market suspension. The market remains suspended until such time as AEMO issues a notice that the suspension has been removed. When the market is suspended, the NER set out specific arrangements related to how spot prices will be set.¹ The NER also specifies a limited set of requirements specifically relating to market suspension. In particular:

- NER clause 3.14.4(e) explicitly allows AEMO to issue directions to Registered Participants in accordance with clause 4.8.9.
- NER clause 3.14.5(a) provides for AEMO to determine dispatch, spot and ancillary service prices under rules 3.8 and 3.9, to the extent practicable. If not practicable, then the market suspension pricing schedule applies.
- NER clauses 3.14.5(d)(2) and (3) then allows AEMO discretion to determine when it is practicable to resume central dispatch and the determination of prices under rules 3.8 and 3.9, (pending approval from the relevant jurisdiction in circumstances where the jurisdiction had directed AEMO to suspend the market).

Existing arrangements however do not explicitly set out the applicability of other provisions of the NER during a period of market suspension, and the extent to which AEMO must comply with these elements. Other than the provisions relating to market suspension pricing and provided for under clauses 3.14.4 and 3.14.5 (noted above), the NER are silent on the extent other NER provisions apply during a period of market suspension. The silence on the applicability of other elements of the NER during a period of market suspension has the potential to create uncertainty for market participants and AEMO, and compromise efforts by AEMO to co-ordinate with market participants to resolve the issues which have resulted in suspension of the market.

A period of market suspension may be accompanied by challenging or uncertain power system conditions. AEMO's power system operations staff may face unique challenges during this time. A rigid requirement for AEMO to comply with all elements of the NER, particularly those of a more administrative nature, may compromise its ability to focus on and prioritise actions needed to manage the security and safety of the power system during this period.

For AEMO to effectively resolve such issues, it needs to have appropriate levels of flexibility to prioritise. Failure to appropriately prioritise, given limited resources, during a period of market suspension may compromise the safety and security of the power system.

¹ NER clause 3.14.3.
219 NER clause 3.14.4 and 3.14.5.

Current rule arrangements do not explicitly provide AEMO with flexibility to prioritise core system security requirements during a period of market suspension. This rule change request seeks to provide AEMO with such flexibility.

This rule change request proposes to amend the NER by:

- 1) clarifying the applicability of market rules during a period of market suspension thereby reducing uncertainty for AEMO and market participants
- 2) providing AEMO with flexibility to prioritise system security obligations if compliance with a rule provision (particularly an obligation of a more administrative nature) would place a material risk on their ability to maintain power system security during a period of spot market suspension, and
- 3) specifying transparency arrangements applying to any prioritisation of system security over other NER obligations by AEMO during a period of market suspension.

D. How the proposed rule advances the National Electricity Objective

This rule change request would advance the National Electricity Objective, which is to:

promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.

The relevant aspects of the NEO in this case include promoting efficient operation and use of electricity services in the long term interests of consumers of electricity with respect to the safety and security of the national electricity system.

As previously noted, the NER allows AEMO to suspend the operation of the spot market in a region. AEMO may declare the spot market suspended if any of the following occur:

- a black system has occurred
- the relevant jurisdiction has directed AEMO to do so, or
- it determines it has become impossible to operate the spot market in accordance with the NER

In each of these cases, there is likely to be significant uncertainty as to the safety and security of the national electricity system. As noted, current arrangements do not include a transparent framework which provides AEMO and market participants with clarity on the applicability of market rules during a period of market suspension with clear flexibility to prioritise system security related matters.

Clarifying the applicability of rules arrangements during a period of market suspension, providing AEMO with flexibility to reasonably prioritise system security arrangements, and enhancing transparency as to AEMO's actions during a period of market suspension will enhance AEMO's ability to resolve the matters leading to the market suspension and

therefore advance the NEO by enhancing the safety and security of the national electricity system. It will also help market participants and policy-makers make more efficient decisions during a period of market suspension since arrangements applying to all parties will be clearer.

It is possible that participants may face some uncertainty as to how AEMO may choose to use its power to prioritise compliance with power system security elements of the NER. However, this uncertainty is countered by the fact that the proposed rule retains the overarching requirement for AEMO to comply with the NER. Furthermore, AEMO must also follow transparency obligations when it decides to use these powers. This should help to limit the degree of uncertainty, by providing some transparency as to how AEMO will use its powers. Therefore the Commission considers the costs of uncertainty to be outweighed by the benefits of this additional flexibility.

More generally, by making AEMO's processes explicit for prioritising different elements of the NER, the proposed rule addresses the uncertainty identified by the AER in its assessment of the SA black system event - that is, the uncertainty as to the applicability of the various elements of the NER during a period of market suspension. All parties including AEMO, the AER and market participants, will benefit from clarity as to the applicability of market rules during a period of market suspension.

Enhanced transparency would assist the AER in its compliance activities, will enhance market participant confidence in AEMO's actions and assist co-ordination between AEMO and market participants.

E. Impact of the proposed rule on affected parties

The above proposal, if made, will affect AEMO, the AER, and market participants.

It is possible that participants may face some uncertainty as to how AEMO may choose to use its power to prioritise compliance with power system security elements of the NER. More specifically, participants may face some uncertainty as to AEMO's actions, if it elects to not comply with administrative elements of the NER, such as the issuance of market notices. This uncertainty may create some costs for market participants, and ultimately customers, if it results in less efficient operational decision-making.

However, this uncertainty is countered by the fact that the proposed rule retains the overarching requirement for AEMO to comply with the NER. Furthermore, AEMO must also follow transparency obligations when it decides to use these powers. This should help to limit the degree of uncertainty, by providing some transparency as to how AEMO will use its powers. Therefore the costs of uncertainty are outweighed by the benefits.

More generally, by making AEMO's processes explicit for prioritising different elements of the NER, the proposed rule addresses the uncertainty identified by the AER in its assessment of the SA black system event - that is, the uncertainty as to the applicability of the various elements of the NER during a period of market suspension. All parties including AEMO, the AER and market participants, will benefit from clarity as to the applicability of market rules during a period of market suspension.

Enhanced transparency would assist the AER in its compliance activities, will enhance market participant confidence in AEMO's actions and assist co-ordination between AEMO and market participants.

AEMO would also be provided with enhanced scope to transparently and efficiently prioritise system security considerations during a period of market suspension, where reasonable to do so. This would help to reduce the security risks associated with a period of market suspension, ultimately benefiting market participants and customers.