



Australian Energy Market Commission

CONSULTATION PAPER

National Electricity Amendment (Amendments to PASA-related Rules) Rule 2010

Rule Proponent
AEMO

3 June 2010

**RULE
CHANGE**

For and on behalf of the Australian Energy Market Commission

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About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005 to be the rule maker for national energy markets. The AEMC is currently responsible for rules and providing advice to the MCE on matters relevant to the national energy markets. We are an independent, national body. Our key responsibilities are to consider rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council as requested, or on AEMC initiative.

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1 Introduction

On 29 April 2010, Australian Energy Market Operator (AEMO) submitted a Rule change request to the Australian Energy Market Commission (AEMC or Commission) to amend some of provisions in the National Electricity Rules (Rules) in relation to the Projected Assessment of System Adequacy (PASA) processes.

This Consultation Paper has been prepared by the staff of the AEMC to facilitate public consultation on the Rule change proposal and does not necessarily represent the views of the AEMC of any individual Commissioner of the AEMC.

This paper:

- sets out a summary of, and a background to, "Amendments to PASA-related Rules" proposed by AEMO;
- identifies a number of questions and issues to facilitate the consultation on this Rule change request; and
- outlines the process for making submissions.

2 Background

PASA is the primary tool used to assess the expected supply and demand of electricity.

Short Term PASA (STPASA) is a seven-day half-hourly reserve outlook which AEMO publishes every two hours. Medium Term PASA (MTPASA) is a two-year daily peak reserve outlook which AEMO publishes at least once per week. According to AEMO, Registered Participants use this information to make decisions about supply, demand and the scheduling of planned outages in the national electricity market (NEM). AEMO uses this information as a trigger to intervene in the market to address forecast reserve shortfalls.

Under clause 3.7.1 of the Rules, AEMO is responsible for administering the STPASA and MTPASA processes. These are comprised of information collection, analysis, and disclosure of short term and medium term power system security prospects to Scheduled Generators, Semi-Scheduled Generators and Market Participants¹.

On 29 April 2010, AEMO submitted a Rule change request to the Commission seeking to amend some of the provisions in the Rules relating to PASA. The Rule change proposal was received on the same day.

¹ Under the current Rules, only Scheduled Generators, Semi-Scheduled Generators and Market Participants receive the results of the PASA and PASA-related information. As part of this Rule change request, AEMO is also seeking to change the Rules to require AEMO to make this information electronically available to all Registered Participants rather than to only specific categories of Registered Participants. See section 4.5 of the Rule change request (Issue ID No. 2).

3 Details of the Rule Change Request

The Rule change request is divided into two parts:

- Part 1: Sharing of reserve across regions in the MTPASA process; and
- Part 2: Minor issues.

3.1 Part 1: Sharing of reserve across regions in the MTPASA process

On 21 December 2009, the Reliability Panel recommended that "AEMO considers developing the ability to use dynamic joint regional reserve requirements, where reserves can be shared between regions, as this would improve the quality of the information provided by medium-term PASA [MTPASA]."² The recommendation was made because there is a range of possible reserve level combinations for Victoria and South Australia that would be expected to deliver equivalent levels of reliability in both regions.³

The Rules currently do not provide for the use of dynamic joint regional reserve requirements in the MTPASA process. Rather, the current Rules require inputs and outputs of the MTPASA process to be prepared and published for each separate NEM region. Clause 3.7.2(c)(2) of the Rules requires AEMO to prepare, as an input to the MTPASA, the "reserve requirements of each region". In addition, clause 3.7.2(f)(1) of the Rules requires AEMO to publish the forecast load plus required reserve "for each region" as an output of MTPASA.

In order to allow AEMO to use dynamic joint regional reserve requirements in the MTPASA process, the proposed Rule is seeking to make the following changes to the Rules:

- Remove the "for each region" requirement from clauses 3.7.2(c)(2). Under this clause of the proposed Rule, AEMO will be required to prepare the "reserve requirements in accordance with the *medium term capacity reserve standards*", but not necessary for each region. This provides AEMO with the flexibility to prepare the reserve (as an input to MTPASA) reflecting dynamic joint regional reserve requirements as recommended by the Reliability Panel.
- Clause 3.7.2(f)(1) of the Rules requires AEMO to prepare and publish, as an output of the MTPASA, "forecasts of the most probable peak *power system load*⁴ plus required reserve". AEMO is seeking to amend the Rules to remove the need to include the reserves as part of the forecasts. This was proposed by AEMO to be

² AEMC 2009, *Review of the Operational Arrangements for the Reliability Standard: Final Report, Final Report*, 21 December 2009, Sydney, page 28.

³ As advised by NEMMCO. Ibid, page 27.

⁴ Under this Rule change request, AEMO also proposes to replace the term "power system load" with "load". This is discussed further in section 4.7 (Issue ID No. 16) of the Rule change request document.

achieved by deleting the phrase "plus required *reserve*" from this clause of the Rules.⁵ In lieu of the requirements to prepare and publish the *reserve* as part of the forecast load, AEMO is seeking to introduce a new clause 3.7.2(f)(1A) in the Rules. This new proposed clause (if implemented) will require AEMO to prepare and publish, as a separate output item from the forecast load, the *reserve* requirements in accordance with the *medium term capacity reserve standards*, but not necessary for each *region*. This provides AEMO with the flexibility to prepare and publish the *reserve* (as an output to MTPASA) reflecting dynamic joint regional reserve requirements as recommended by the Reliability Panel.

- In clause 3.7.2(f)(1) of the Rules, remove the "for each *region*" requirement relating to the preparation and publication of the forecast load. This will provide AEMO with the flexibility to prepare and publish forecast loads for the MTPASA as required but not necessarily for each separate NEM region.

"*Medium term capacity reserve standards*" is defined in the Rules as the "level of *medium term capacity reserves* required for a particular period as set out in the *power system security and reliability standards*". In practice, AEMO calculates the *medium term capacity reserves* as the Minimum Reserve Levels (MRLs). The MRL is the means by which AEMO operationalises the Reliability Standards⁶ defined by the Reliability Panel in the *power system security and reliability standards*.

AEMO submitted that the "proposed Rule change would allow AEMO to use reserve requirements that apply across multiple regions so that MTPASA can more optimally share medium term capacity reserves between those regions in accordance with the Reliability Standard." AEMO considers that this would improve the quality of the MTPASA information.

Initially, AEMO intends to fully optimise the South Australian and Victorian reserve requirement for the summer 2010/2011 outlook. AEMO submitted that it also intends to progressively convert the single-region reserve requirements for the other regions into the fully optimised form as those reserve relationships are determined by AEMO.

3.2 Part 2: Minor issues

AEMO is also seeking to address a number of inconsistencies between the current design of the PASA processes and the relevant Rules provisions. Many of these issues were identified by National Electricity Market Management Company (NEMMCO, now AEMO) in consultation with members of the MTPASA Users Reference Group (MURG). The consultation was undertaken as part of a broad review of the MTPASA

⁵ In clause 3.7.2(f)(1) of the proposed Rule, the term "*reserve*" was incorrectly referred to as "*scheduled reserve*". Therefore, the term "*reserve*" should have been proposed to be deleted from this clause of the Rules, rather than "*scheduled reserve*" as shown in page 22 of the Rule change request document.

⁶ The Reliability Standard is expressed in term of unserved energy (USE). See Appendix D of the Comprehensive Reliability Review, <http://www.aemc.gov.au/Market-Reviews/Completed/Comprehensive-Reliability-Review.html>.

and STPASA processes that was completed in March 2009. The review recommended that NEMMCO seeks Rules changes to address these issues.

AEMO considers these issues to be minor. These issues are set out in sections 4.5 to 4.8 of the Rule change request document.

These issues are divided into four categories. These are as follows:

- inconsistencies between the Rules and the current AEMO's PASA processes (10 issues);
- incorrect or ambiguously defined terms (5 issues);
- misuse of defined terms (6 issues); and
- duplicate definitions of defined terms (1 issue).

4 Assessment Framework

The AEMC's assessment of this Rule change request must consider whether the proposed Rule promotes the National Electricity Objective (NEO) as set out under section 7 of the National Electricity Law (NEL).

Section 7 of the NEL sets out the NEO as follows:

The objective of this Law 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 Commission considers that the following criteria are relevant in regards to the NEO:

- Quality of the PASA outputs - for each of the proposed changes to the Rules, the AEMC proposes to consider whether or not the PASA processes as set out in the proposed Rule if implemented⁷ (rather than the PASA processes as set out in the current Rules) will enhance the quality of PASA outputs.
- Efficiency of the PASA processes - for each of the proposed changes to the Rules, the AEMC proposes to consider whether or not the PASA processes as set out in the proposed Rule if implemented (rather than the PASA processes as set out in the current Rules) will result in more efficient PASA processes.
- Clarity of the Rules - for each of the proposed changes to the Rules, the AEMC proposes to consider whether or not the PASA processes as set out in the proposed Rule if implemented (rather than the PASA processes as set out in the current Rules) will provide better clarity for the PASA processes. Lack of Rules clarity can pose unnecessary risks to participants the NEM. NEM participants are likely to incur unnecessary costs in managing these risks, and these costs would be a factor contributing to inefficiencies in the NEM. Clarity of the Rules is likely to promote regulatory certainty which would reduce NEM participants' risk, hence promotes efficiency in the NEM.

⁷ AEMO submitted that the proposed Rule reflects the actual PASA process.

5 Issues for Consultation

Taking into consideration the assessment framework and the potential requirement to implement the proposed Rule change, we have identified a number of issues for consultation that appear to be relevant to this Rule change request.

These issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the Rule change request or this paper including the proposed framework.

The issues the Commission invites comments on are:

- Will the proposed Rule contribute, or be likely to contribute, to the achievement of the NEO? Please explain your view. In particular:
 - How does the proposed Rule improve the quality of the PASA outputs?
 - How does the proposed Rule improve the efficiency of the PASA processes?
 - How does the proposed Rule improve clarity of the Rules?
- Do you consider providing AEMO with the flexibility to prepare and report on the reserve requirements (as discussed in section 3.1) would improve the quality of the MTPASA process?
- What are the likely impacts (including operational and procedural impacts) of the proposed Rule change?
- What costs are stakeholders likely to incur, and what benefits are likely to accrue to stakeholders, if the proposed Rule is made?
- Will the proposed Rule introduce any risks to stakeholders? If so, what risk and how?
- What transitional arrangements, if any, would be required to for this Rule change proposal?
- What other consequential Rule changes would be required?
- Please provide any other relevant information for the Commission's consideration.

6 Lodging a Submissions

The Commission has published a notice under section 95 of the NEL for this Rule change proposal inviting written submission. Submissions are to be lodged online or by mail by 2 July 2010 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change proposals.⁸ The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Ignatius Chin on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code "ERC0107". The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: ERC0107.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

⁸ This guideline is available on the Commission's website.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
MRL	Minimum Reserve Level
MTPASA	Medium Term PASA
MURG	MTPASA Users Reference Group
NEL	National Electricity Law
NEM	national electricity market
NEMMCO	National Electricity Market Management Company
NEO	National Electricity Objective
PASA	Projected Assessment of System Adequacy
Rules	National Electricity Rules
STPASA	Short Term PASA
USE	unserved energy