

20 May 2008

Dr John Tamblyn
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Dear John

SUBMISSION ON THE NEM RELIABILITY SETTINGS: INFORMATION, SAFETY NET AND DIRECTIONS RULE

Thank you for the opportunity to comment on the above Rule proposal.

NEMMCO has reviewed the proposal in detail, and is supportive of the outcomes it seeks to achieve. Our comments relate primarily to the need for robust transitional arrangements and matters of detail relating to the drafting of the proposed Rule in the following areas:

- **Energy Adequacy Assessment Projection (EAAP):** NEMMCO supports the EAAP process set out in the Draft Rule but considers there would be merit in extending the target date for publication of the first EAAP by three months. This would provide a better fit with the market systems release program and would allow a more managed transition from the publication of drought impact reports. Comments are also provided on a number of issues relating to the inputs for the EAAP and detailed Rule drafting.
- **Reliability and Emergency Reserve Trader (RERT):** Transition arrangements from the current reserve trader to the RERT do not appear to be comprehensive, and the obligation to review various procedures needs greater clarity. Suggestions are offered in these areas and in respect of some more detailed drafting issues.

NEMMCO's detailed comments are contained in the Attachment.

We look forward to the AEMC's consideration of our submission. Please feel free to contact Murray Chapman on (02) 9239 9106 if you wish to discuss this submission.

Yours sincerely



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NEMMCO Submission on NEM Reliability Settings: Information, Safety Net and Directions Rule**Attachment: Detailed Comments**

The following comments, which cover both policy and drafting issues identified by NEMMCO, are structured to address issues identified in respect of each of the Schedules 1 to 4 of the Proposed Rule, in turn.

1 Schedule 1: Energy Adequacy Assessment Projection (EAAP)

The AEMC has indicated its intention to change the Rule proposed by the Reliability Panel, so that NEMMCO will determine the EAAP Guidelines, and the EAAP Guidelines will incorporate the proposed GELF (Generator Energy Limitation Framework) Guidelines. NEMMCO is comfortable with this change, and has considered the implications it has for implementation of the new EAAP process. The following comments are offered in respect of the implementation process and a number of detailed design elements in Schedule 1 of the draft Rule:

1.1 Timing of implementation and transition issues

In the first quarter of 2007, the MCE commissioned NEMMCO to prepare a report "Potential Drought Impact on Electricity Supplies in the NEM". The report was presented to the MCE on 25 May 2007, and has been updated on a quarterly basis since that time. To date a total of four such reports have been issued, and NEMMCO intends to continue updating them on a quarterly basis pending commencement of the EAAP.

To prepare these reports, NEMMCO collects information on projected water availability from Generators, who provide it on a voluntary basis, and the energy adequacy studies are carried out using some manual processes. Due to the likely ongoing nature of energy adequacy obligations in the form of the EAAP, NEMMCO has initiated a significant project to replace the current manual processes with a more automated process for assembling the data, carrying out the studies and disseminating the outcomes to stakeholders. The project will add the necessary flexibility to the mechanism to comply with the EAAP Rule, and add procedural rigour, which is particularly important given the EAAP will bring a new obligation to disseminate confidential results to participants.

Taking into account the draft Rule published by the Commission, and the implementation steps that NEMMCO needs to carry out to fully implement the EAAP, Figure 1 shows NEMMCO's current high level timeline for the work.

As can be seen from Figure 1, the project includes tender process for procurement of a more appropriate modelling tool to support the EAAP – that tender process is currently in progress, with a Request for Proposal (RFP) having recently taken place. The anticipated completion date for full implementation of the EAAP is December 2009, following implementation of the EAAP software through a scheduled release of the NEM market management systems in November 2009. Following implementation, NEMMCO is planning to run the EAAP process for the first time, covering the two year period from 1 November 2009 – the output of that run would be published as a transitional run of EAAP in early 2010, after any issues with the process and the output have been resolved. The same period will already have been covered by the drought impact report published in the fourth quarter of 2009 so the transitional EAAP and the

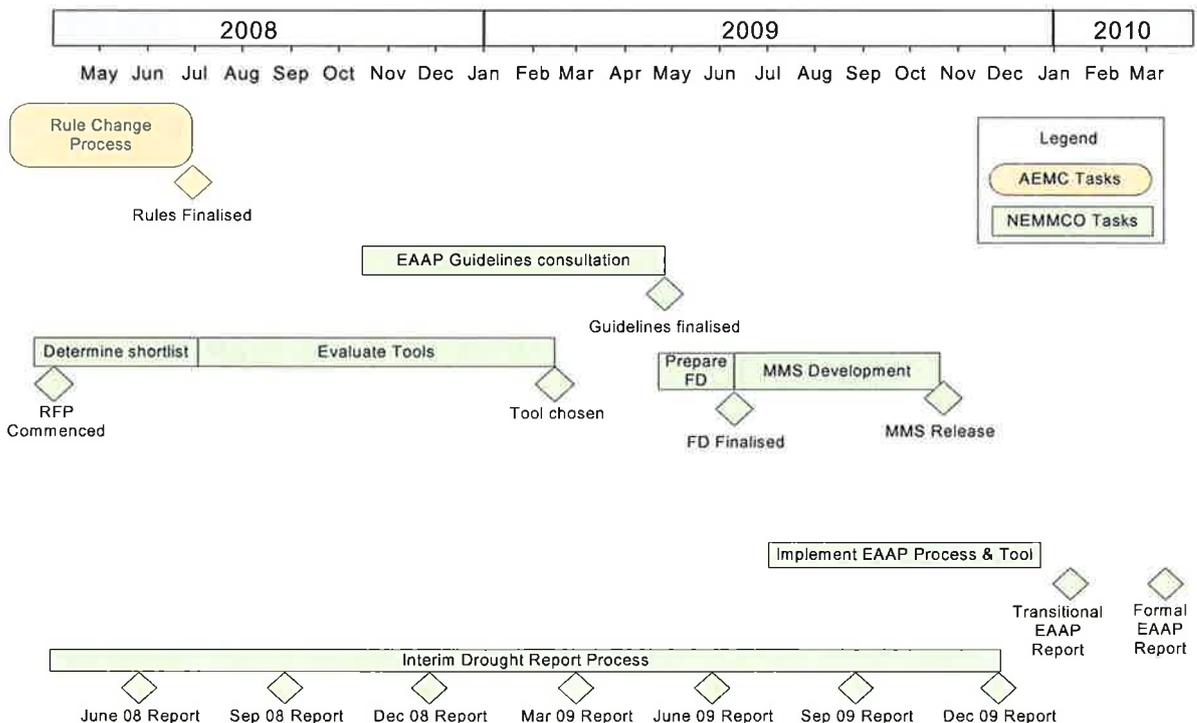
drought impact report will cover the same time period, with similar input data. NEMMCO proposes that this period of overlap between the drought report and the EAAP offers an opportunity for both NEMMCO and stakeholders to transition to the new process in an informed way, and to understand the differences between the two processes. We believe there is value in this even though the EAAP may operate on different scenarios under the EAAP Guidelines, and will use a different process.

A consequence of this plan is that the first formal EAAP would be published in accordance with the Timetable during the first quarter of 2010. The time period covered by this EAAP would need to be determined through the design process, but if the sequence used for the drought report continues, the first EAAP would cover the two year period commencing February 2010. The previously published transitional EAAP would be regarded as part of the validation and testing process using the drought report as a reference point, and may not follow the Timetable due to implementation of the systems in mid November 2009.

NEMMCO is therefore seeking for the date appearing in draft Clause 3.7B(d) to be moved back by three months to be 31 March 2010. The date for determination of the first EAAP Guidelines, 30 June 2009, fits well with the implementation program.

Bearing in mind that the drought impact report will be updated quarterly throughout this period, and the transitional EAAP will be published prior to the first formal EAAP, NEMMCO submits that the change of date will not detract from the information available to stakeholders, and should result in a more informed introduction of the EAAP.

Figure 1: Current project timelines for full EAAP implementation



1.2 Information for non-routine EAAP updates

Draft clause 3.7B(e) allows NEMMCO to publish additional updated versions of the EAAP in the event of changes which are “materially significant”. Given the EAAP will be updated on a quarterly cycle, NEMMCO considers there is likely to be little incremental value in additional updates, particularly if there is no binding mechanism to validate the inputs of additional runs. NEMMCO questioned in its submission to the Reliability Panel (dated 28 September 2007) whether NEMMCO should be empowered to require Generators to update their EAAP input data (primarily GELF parameters) in such cases. In the Rule proposal (section 4.1.7), the Reliability Panel responded that it considered placing additional obligations on Generators to provide updated EAAP inputs to be too arduous.

NEMMCO considers that this position may be inconsistent with the expectations created by draft clause 3.7B(e). Consider a case where NEMMCO becomes aware, in general terms, of “materially significant” changed circumstances in relation to the energy available from a participant or group of participants, and forms the view that the changed circumstances, subject to their verification, warrant the publication of an additional EAAP update under clause 3.7B(e). There is little point in commencing the process to update the EAAP, which involves a significant amount of modelling, unless the changed inputs can be verified with the Generator or Generators concerned.

NEMMCO therefore requests that the AEMC consider this residual matter. If the AEMC remains of the view that draft clause 3.7B(e) is appropriate, it is suggested that there should be an associated obligation for Generators nominated by NEMMCO to provide updated GELF Parameters to facilitate delivery of the expectations created by the clause. If a power of this type is not considered appropriate, NEMMCO requests that the Commission reconsider the merits of leaving draft clause 3.7B(e) in the Rule in light of the above comments.

1.3 Use of MT PASA inputs for the purpose of the EAAP

Draft clause 3.7B(b)(6)(A) allows NEMMCO to use certain MT PASA inputs for the purpose of preparing the EAAP. The reference to clause 3.7.2(c) is however too narrow as it relates only to MT PASA inputs determined by NEMMCO such as load forecasts and constraints. NEMMCO will also need to use capacity related data that has been provided by participants as inputs to the MT PASA (see clause 3.7.2(d) of the existing Rules), and information relating to semi-dispatched generation, including that from the unconstrained intermittent generation forecasts (UIGFs). Some of these inputs arise from the AEMC’s recent determination in relation to the “central dispatch and integration of wind and other intermittent generation” Rule change (the semi-scheduled Rule change). Reference to the use of UIGFs for MT PASA purposes is made in clause 3.7.1 of the semi-scheduled Rule.

To ensure the availability of information for the EAAP is not unintentionally restricted, and to allow sharing of information with the MT PASA process, which also has a two year horizon, it is proposed that the reference in the new clause 3.7B(b)(6)(A) be altered to more broadly refer to clauses 3.7.1 and 3.7.2, without attempting to predict exactly which MT PASA inputs will ultimately be used in the EAAP.

1.4 Power system adequacy

Draft clause 3.7B(b)(5) would require NEMMCO to provide aggregated information on “*power system adequacy*” for each scenario of the EAAP. This appears to be an additional provision that has been included in the draft determination, but was not in the Panel’s proposal. It is not clear what is intended by the notion of power system adequacy in this context. NEMMCO had understood the purpose of the EAAP to be to assess the adequacy of energy supplies under defined scenarios. The energy assessments will consider the implications of energy limitations over a two year period, and will take into account known network and generating plant constraints, but the focus of the process would be on the impact of energy limitations rather than on capacity shortfalls at any particular point in time. NEMMCO had expected capacity limitations to continue to be assessed through the medium term PASA process as they are now. The new reference to “*power system adequacy*” therefore seems more aligned to the PASA process than to the EAAP process, unless it is intended to elicit qualitative commentary around projected energy shortfalls that arise from the EAAP. NEMMCO is seeking for the Commission to provide further clarity in respect of what is intended in this regard.

1.5 Specification of EAAP outputs

The Reliability Panel’s proposal indicates that one of the outputs of the EAAP would be projected energy shortfalls, “using each participant’s preferred energy usage pattern and also when monthly energy allocations are optimised by NEMMCO, with the difference between the two outputs representing the ‘gap’ between current participants’ preferences and the minimum USE outcome possible”¹. This was put to the Reliability Panel by NEMMCO in 2007 as a potential output of the EAAP process, on the assumption that only a portion of generators would be energy constrained.

Following more detailed analysis, NEMMCO is not confident that this form of output will always be feasible, as it may not be possible to readily determine projected unserved energy amounts that relate to participants’ preferred energy usage pattern if a majority of participants report a set monthly energy usage. Pending further assessment of what can be achieved through the EAAP, NEMMCO therefore considers it important to manage expectations in respect of this particular form of output. In the event the approach described by the Reliability Panel (on advice from NEMMCO) does not prove feasible, we believe it would be possible to report confidentially to each participant, the difference between their preferred energy usage pattern and their usage pattern after optimisation to minimise unserved energy.

We recognise that the draft Rule does not refer specifically to this matter, and neither does the draft determination, so we are not seeking any changes to the draft Rule in this regard. NEMMCO proposes to consider the scenarios and form of analysis in detail with stakeholders when developing the EAAP Guidelines, and is making this comment to remove any likelihood of the earlier documentation leading to binding or implied expectations that this particular form of analysis can be readily delivered, pending more detailed consideration of the mechanisms involved.

¹ See Reliability Panel’s “NEM Reliability Settings” Rule proposal – top of page 10.

2 Schedule 2: Reliability and Emergency Reserve Trader (RERT)

Under the current version of the Rules, NEMMCO's power to act as Reserve Trader expires on 30 June 2008. It is understood that the Reliability Panel's RERT proposal is intended to replace the current Reserve Trader mechanism on Commencement of the Rule. NEMMCO has identified a number of practical issues with the proposed new arrangements.

2.1 Timing of RERT implementation and transitional issues

NEMMCO notes that the following steps would need to be carried out before the RERT mechanism would be fully operational:

- a) The Reliability Panel would need to determine the RERT Guidelines – draft clause 3.20.9(c) sets the deadline for this at 30 November 2008;
- b) NEMMCO would need to determine procedures for the exercise of the RERT, taking into account the RERT Guidelines – draft clause 3.20.8(g) sets the deadline for this at 30 June 2009;
- c) NEMMCO would need to review the procedure for pricing during an intervention event, as appears to be required by draft clauses 3.20.4(b) and 3.9.3(e). We note that this procedure already exists, and was last updated in December 2007²; and
- d) NEMMCO would need to update the methodology for activating generating units or loads under *unscheduled reserve contracts*, as required under draft clause 3.20.4(a) – we note that this procedure also already exists, and was last updated in January 2003³.

NEMMCO considers there is adequate time prior to 30 June 2009 to complete these steps, however there would be a 12 month period from 1 July 2008 during which NEMMCO would be reliant upon transitional arrangements for the RERT, and the power to issue directions to manage supply reliability issues. For this reason, it is important that the transitional measures for RERT, including those which appear in clause 11.X.4(b) of the draft Rule, are robust.

NEMMCO notes that each of the procedures it is required to develop require the undertaking of the Rules consultation procedures, a process that will take at least 17-22 weeks (depending on whether interested parties request meetings with NEMMCO). If it were necessary for NEMMCO to exercise RERT during the 2008-9 summer, it is doubtful that there would be sufficient time for these processes to be completed in time to permit NEMMCO to commence a proper procurement.

In the event that NEMMCO needs to use the RERT prior to publication of the first RERT Guidelines, draft clause 11.X.4(b) would require NEMMCO to take into account the draft Guidelines appearing in the Reliability Panel's second interim report. However, draft clause 11.X.4(b) does not provide a transitional mechanism in respect of procedure b) and possibly also procedures c) and d) in the list above.

² See "Intervention pricing methodology" at: <http://www.nemmco.com.au/dispatchandpricing/023.htm>

³ See "non-scheduled reserve contract consultation" on the NEMMCO website at: <http://www.nemmco.com.au/dispatchandpricing/198-0001.htm>

In respect of c) and d) above, NEMMCO has reviewed the existing procedures, and considers that, subject to the AEMC's response to the issue raised in section 2.2 below, only minor and administrative amendments are necessary to achieve compliance with the draft Rule. The AEMC has already proposed a mechanism for making such changes to the intervention pricing procedure (item c) above) in draft clause 11.X.8, and NEMMCO proposes that a similar mechanism be provided to allow NEMMCO to make minor and administrative changes to item d) above without the need for a consultation process.

In respect of the procedures referred to in b) above, a mechanism will be required, in addition to the provisions of clause 11.X.4(b) to allow NEMMCO to exercise the RERT prior to the procedures being finalised – ie potentially up to 30 June 2009 as per draft clause 3.20.8(g). Some options to address this transitional issue might be to:

- Extend the current Reserve Trader arrangement until end June 2009 as a transitional measure, instead of the approach in 11.X.4(b); or
- Allow NEMMCO to publish interim RERT procedures for b) in the list above, without the need for a consultation process for the interim period up to 30 June 2009. In the interest of efficient resource usage, it is suggested that the Rules only require NEMMCO to initiate the publication of such an interim procedure if the potential need for RERT was to be evident through the MT PASA process indicating a projected supply shortfall.

The AEMC might develop other options to facilitate a robust transitional mechanism. NEMMCO would be happy to work with the AEMC as appropriate to finalise a workable solution.

2.2 Management of Double dipping

In relation to scheduled reserve contracts, we note that clauses 3.20.3(g) and 3.20.3(j)(2) require NEMMCO to take measures to not enter into scheduled reserve contracts in relation to services that might be made available for dispatch in the market.

In relation to unscheduled reserve contracts, we note that draft clause 3.20.4(b) appears to require a review of the intervention pricing methodology developed under draft clause 3.9.3(e) (ie item c) in the list in section 2.1 above) to reduce the possibility of double dipping in relation to such contracts.

Draft clause 3.20.9(a)(3) requires the Reliability Panel to determine what actions NEMMCO may take to be satisfied that the reserve that is the subject of a reserve contract is not available to the market through any other arrangement. This provision appears to relate to both scheduled and unscheduled reserve contracts.

In light of the above provisions, NEMMCO has identified a number of issues that we believe need clarification in the Rule:

- Clause 3.20.4(b) appears to be inappropriately mixing measures to manage double dipping (a tendering / contracting matter), with the measures to activate reserve contracts and price the market during intervention (dispatch and pricing issues). We do not understand how this would work, and we suggest that double dipping matters be dealt with separately from those related to dispatch and pricing.

- Clause 3.20.4(b) refers to services being “otherwise engaged”, which implies consideration of a broad range of ways in which the service could be provided to the market – eg through distributors, retailers, generators or aggregators. Similarly, clause 3.20.9(a)(3) refers to reserve being “not available to the market through any other arrangement”. Given the broad application of these clauses, NEMMCO will need some discovery powers to carry out effective verification. For example, if NEMMCO is considering an unscheduled reserve tender from a consumer, access to the retail contract, and ability to get information from the relevant retailer and DNSP in relation to the existence of interruptibility agreements and connection agreements would be important measures that could only be taken by NEMMCO if adequate discovery powers were provided.

To address the above issues, we suggest that:

- Clause 3.20.4(b) be deleted;
- A separate obligation be provided for NEMMCO to develop measures for to minimise the likelihood that an unscheduled reserve contract will be entered into in respect of services that will be otherwise provided to the market. This may be following the Reliability Panel’s determination under clause 3.20.9(a)(3), which should be constrained to take account of any discovery powers available to NEMMCO. The AEMC should consider whether these measures should be consulted on under the RERT procedures in clause 3.20.8(c), or whether publication of the measures would be counterproductive; and
- Adequate powers of discovery should be included in the Rule to enable NEMMCO to validate that tendered unscheduled services are not being offered to the market in other ways.

2.3 Rolling tender process

The Reliability Panel’s Rule proposal refers to a ‘rolling tendering process’ – page 31 of Rule proposal. NEMMCO agrees with the motivation for such a process, which is explained by the Reliability Panel in section 4.3.1 of their proposal – primarily allowing NEMMCO greater flexibility to incrementally alter (increase or decrease) its reserve contract portfolio as circumstances change, but without carrying out a full new tendering process.

While agreeing with the motivation, NEMMCO is not yet clear as to whether there are any specific expectations arising from the term ‘rolling tender’. At this stage, we are examining the options for a flexible acquisition process, and consider that one possible approach might be to establish, if the need arises, a “panel” of qualified providers from an initial tender process. The “panel” could then be used for a period of time to allow incremental changes to the portfolio at short notice if the need arises. If feasible, this would provide a flexible and responsive mechanism. We seek confirmation or otherwise from the AEMC as to whether this type of mechanism is consistent with what the Commission has in mind in response to the Reliability Panel’s proposal.

As a further matter for clarification, we note that draft clause 3.20.3(g) requires NEMMCO to publish a notice of its intention to commence contract negotiations for the provision of reserves. It is not clear whether this requirement is intended to apply also to an intention to commence renegotiation of existing contracts as might take place under 3.20.3(e)(3) and in a tendering process such as the one described above. For example, would the notice be required only at the initial tendering stage, or when the

need for an adjustment to the portfolio is identified? We ask that these matters be addressed in the Rule to clarify the intention of clause 3.20.3(g).

2.4 Other drafting issues relating to Schedule 2

Other less fundamental drafting issues that have been identified are as follows:

- Relocation of sections of clause 3.15 – currently, the Rules are structured with nearly all settlements related rules located in clause 3.15. This structural attribute of the Rules is used in some places to refer to settlement rules collectively – for example clauses 2.5A(b)(2), 2.5B(b)(2), 3.6.5(a)(6) and 3.6.5(b) require that certain classes of participant be treated as market participants for the purposes of clause 3.15. The Rule proposal and the draft determination depart from this structure by moving parts of the current clause 3.15 to a new clause 3.20. It is assumed that the driver for this is that it puts reserve trading rules in a single location in the Rules, replacing the current functional grouping of rules with a different one. However, this approach will result in consequential changes to the application of other clauses such as the ones listed above. We have not encountered any discussion of rationale for the consequential changes in the Rule proposal or the draft determination, so they appear to be unintentional. NEMMCO has not done an exhaustive search of the consequential changes that would arise from this practice in this instance, but is noting the potential implications to ensure they are considered from a policy perspective by the Commission at this stage of the process, if it has not already done so.
- Draft Rule 3.20.7(c) requires NEMMCO to publish a report within 30 days of the end of each financial year, containing details of certain aspects of usage of the RERT in the financial year just ended. The current drafting would require NEMMCO to publish such a report whether or not the RERT was exercised – if the RERT was not used in the previous financial year, NEMMCO would publish a brief report stating that to be the case. As we would expect usage of the RERT to be uncommon, we seek confirmation that the AEMC intends that a report be published every year rather than only when the RERT is used.
- Draft clause 3.20.5(e) refers to the term 'E' as “the sum of ... *amounts* in a *region* in each *trading interval* which commences between 0800 hours and 1930 hours on a *business day* ...”. NEMMCO suggests that it should be clearer whether the period referred to in this clause relates to Eastern Standard Time or local time, and whether or not the trading interval ending 2000 hours is intended to be included. This could be achieved by referring to the *trading intervals* between the *times* of 0800 and 2000 hours. Use of the defined term '*time*' would make it clearer that Eastern Standard Time is being used, and use of a time period would make it clearer which trading intervals are included. NEMMCO recognises that this is an issue with the existing Rule drafting, but suggests that clarification of the drafting is in the interests of all parties.

3 Schedule 3: Amendments necessary to implement the RERT

NEMMCO has identified the following issues with the drafting presented in Schedule 3 of the draft Rule:

3.1 Recovery of amounts payable to affected participants

Draft clause 3.20.6 (clause 3.15.9 in the current Rules) provides a means for NEMMCO to recover amounts payable under reserve contracts, but does not provide any means to recover amounts payable to affected participants – the obligation to compensate affected participants arises under draft clause 3.12.2 (clause 3.12.11 in the current Rules). This appears to have been an oversight in the existing Rules, which NEMMCO has identified in considering the Reliability Panel's earlier exposure draft – it will become an issue if a reserve contract is dispatched as contemplated by the proposed Rule. It is suggested that the scope of changes being made as a result of this Rule proposal offer an opportunity to rectify the deficiency by including a recovery provision similar to that for directions appearing in clause 3.15.8(a). If the Commission considers the rectification of this matter to be beyond the scope of this Rule change proposal, NEMMCO will consider lodging a Rule change proposal to address it as previously indicated in a submission to the Reliability Panel.

3.2 Other drafting issues relating to Schedule 2

Other less fundamental drafting issues that have been identified are as follows:

- In draft clause 3.8.14, *inflexibilities* is italicised as a defined term. However, the defined term relates only to fixed loading levels as used in clause 3.18.19(a) of the Rules. In the context of clause 3.8.14 the term 'inflexibilities' appears to have a broader meaning than that attaching to the defined term – see footnote 22 on page 37 of the Reliability Panel's proposal document. It is suggested that a more generic undefined term be used in clause 3.8.14.
- The definition of *scheduled reserve* refers to '*scheduled generating units*' and '*scheduled network services*'. Each of these terms needs to be italicised.

4 Schedule 4: Savings and transitional Rules

NEMMCO's comments on savings and transitional matters have been covered elsewhere in this submission.