



Australian Energy Market Commission

CONSULTATION PAPER

**National Electricity Amendment (Energy
Adequacy Assessment Projection timeframes)
Rule 2016**

Rule Proponent
AEMO

24 March 2016

**RULE
CHANGE**

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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1 Introduction

On 27 November 2015, the Australian Energy Market Operator (AEMO) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) seeking to:

- change the Energy Adequacy Assessment Projection (EAAP) reporting frequency from quarterly to annually;
- provide for additional EAAP reporting when prompted by trigger events; and
- require AEMO to define trigger events for additional reporting in the EAAP Guidelines.

This paper has been prepared to facilitate public consultation on the rule change proposal.

2 Background

The EAAP is required under s3.7C of the National Electricity Rules (NER). Its purpose is to 'make available to *Market Participants* and other interested persons an analysis that quantifies the impact of *energy constraints* on *energy* availability over a 24 month period under a range of scenarios.'

The EAAP is an information mechanism that provides the market with a two-year outlook on the effect of energy constraints in the National Electricity Market (NEM). Energy constraints refer to fuel shortages or constraints that limit the ability to use a generator, such as access to water for cooling or for hydro generation.

The NER require AEMO to prepare and publish an EAAP every three months using, among other inputs, information supplied by scheduled generators via the Generator Energy Limitation Framework (GELF). Each scheduled generator submits GELF 'parameters' to AEMO on a quarterly basis and when there has been a material change to any of its generating units that has an impact on energy constraints. Under the NER, AEMO is also required to establish the EAAP Guidelines to assist with the administration of the EAAP. These guidelines were first developed and published by AEMO in 2009, with the latest version published in 2013.

The EAAP complements the operation of AEMO's weekly Medium Term Projected Assessment of System Adequacy (MT PASA), which only considers generators' capacity constraints, by also considering the generators' energy constraints.

3 Details of the rule change request

This section summarises the issues identified and solutions proposed in the rule change request.

3.1 Issues raised in the rule change request

AEMO has identified the following issues with EAAP quarterly reporting:

- **The purpose of EAAP:** AEMO considers that the EAAP is still relevant as the only centralised energy adequacy test in the NEM.
- **The frequency and costs of reporting:** Reporting too frequently creates more administrative burden and costs for AEMO and generators, and which could potentially exceed the value of the information produced. Reporting too infrequently potentially increases the risk of not identifying energy constraints in a timely basis.

3.2 Proposed solution

The proposed rule change aims to reduce the administrative burden and costs of reporting on both participants and AEMO while maintaining the value of a centralised energy adequacy assessment when it is appropriate. As proposed, the rule change would require:

- AEMO to publish the EAAP annually instead of quarterly;
- scheduled generators to update GELF parameters annually instead of quarterly, while maintaining the obligation for scheduled generators to report material changes to any generating units that have an impact on energy constraints; and
- AEMO to define through the EAAP Guidelines:
 - the trigger events for when AEMO must undertake additional EAAP reporting, and
 - the timing for when additional EAAPs must be published and additional GELF parameters must be submitted.

AEMO considers that the use of triggers for additional EAAP reporting will mitigate against the risk of not identifying energy constraints on a timely basis. Trigger events and timing for publishing additional EAAPs and submitting additional GELF parameters would be developed through the consultation process required to update the EAAP Guidelines. As such, the precise nature of the trigger events and timing would be determined outside of this rule making process. There is a risk that setting specific trigger events in the EAAP Guidelines may be inflexible, leading to too much or too little additional EAAP reporting. However, clear trigger events may provide

more certainty to scheduled generators about the circumstances in which additional GELF parameters for additional EAAP reporting may be required.

Copies of the rule change request may be found on the AEMC website, www.aemc.gov.au.

4 Assessment framework

The Commission's assessment of this Rule change request must consider whether the proposed Rule promotes the National Electricity Objective (NEO). The NEO is:¹

“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 objective captures the three dimensions of efficiency: productive (efficient operation), allocative (efficient use of) and dynamic efficiency (efficient investment).²

Based on a preliminary assessment of this rule change request, the most relevant aspect of the NEO for the purpose of this rule change request is:

- the efficient operation of electricity services with respect to the price of supply of electricity and the reliability of the national electricity system.

To determine whether the proposed rule, if made, is likely to promote the NEO, the following principles may be considered as part of the AEMC's assessment of the rule change request:

- **Maintaining an appropriate level of information on generation energy constraints that could impact energy reliability and dispatch efficiency.** EAAP reporting provides information to market participants and stakeholders on potential energy constraints. This information can lead to market responses that improve the use of constrained generation inputs, therefore contributing to the reliability of the national electricity system and potentially leading to more efficient prices.
- **Reducing administrative burden.** Generators incur costs in preparing GELFs including costs of undertaking modelling and analysis, and preparing data inputs to provide to AEMO. AEMO incurs costs in preparing EAAPs including costs of preparing data inputs, carrying out the reporting functions and reviewing reports prior to publication. A reduction in these costs has the potential, at the margin, to flow through to consumers as a decrease in the price of electricity supply.

¹ As set out under section 7 of the National Electricity Law (NEL).

² Productive efficiency means goods and services should be provided at lowest possible cost to consumers; allocative efficiency means that the price of goods and services should reflect the cost of providing them, and that only those products and services that consumers desire should be provided; dynamic efficiency means arrangements should promote investment and innovation in the production of goods and services so that allocative and productive efficiency can be sustained over time, taking into account changes in technologies and the needs and preferences of consumers.

5 Issues for consultation

This section identifies a number of issues for consultation that are relevant to this rule change request. The 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 consultation paper including the proposed assessment framework.

5.1 An alternative solution

The objective of AEMO's rule change request appears to be to reduce the frequency and burden of EAAP reporting while maintaining the ability to issue an EAAP when necessary. Rather than using trigger events, this objective and the principles discussed in section 4 could be met by setting a clear obligation in the NER for AEMO to produce an additional EAAP if new information becomes apparent that would materially change the most recent EAAP.

This alternative approach would require:

- AEMO to publish an EAAP at least once in every 12 month period and also as soon as practicable after AEMO becomes aware of any new information that may materially alter the most recently published EAAP;
- AEMO to stipulate in the EAAP Guidelines:
 - the *factors* that AEMO would consider in determining whether it would need to publish additional EAAPs; and
 - the process (including timeframes) for scheduled generators to submit the additional GELF parameters that enable AEMO to perform required additional EAAP reporting; and
- scheduled generators to submit updated GELF parameters annually and in accordance with the EAAP Guidelines, while maintaining the obligation for scheduled generators to report material changes to any generating units that have an impact on energy constraints.

Both the proposed rule change and the alternative solution would reduce the fixed frequency of EAAP reporting to an annual basis. The major difference between the two approaches is:

- In the proposed rule change, AEMO would be required to define trigger events for additional EAAP, however there would be no proposed test in the NER to base these triggers on.
- The alternative solution would require AEMO under the NER to do additional reporting when there is a change in circumstances that would materially alter the most recent EAAP. *Factors* for AEMO to consider when assessing whether a

material change had occurred would be developed through an AEMO consultation process and would be stipulated in the EAAP Guidelines.

This alternative approach has the effect of requiring AEMO to publish EAAPs only annually, thereby reducing administrative burden and cost, or when there is a material change, thereby identifying energy constraints in a timely manner and minimising the frequency and cost of reporting. The factors for considering additional EAAP reporting and the process for scheduled generators to submit additional GELF parameters would be developed through the consultation process required to update the EAAP Guidelines. This would provide some certainty to scheduled generators about the circumstances in which additional GELF parameters for additional EAAP reporting may be required.

This alternative approach would be consistent with the approach to other reporting information mechanisms in the gas and electricity markets, such as:

- Medium Term Projection Assessment of System Adequacy (MT PASA)³;
- Gas Statement of Opportunities (GSOO)⁴; and
- Gas planning reviews.⁵

Box 5.1 **Is annual EAAP reporting sufficient, with additional reporting when required, in providing information about energy constraints to NEM participants and other interested stakeholders?**

Box 5.2 **Should AEMO be required to publish an additional EAAP within a certain period of trigger events or when it becomes aware of new information that could materially change the EAAP, or should it have discretion to publish an additional EAAP when it becomes aware of new information that may materially alter the most recently published EAAP?**

Box 5.3 **How should the obligation for scheduled generators to provide GELF parameters for additional EAAP reporting be activated?**

Box 5.4 **Where should trigger events or factors to consider in relation to additional EAAP reporting be specified?**

³ National Electricity Rules, rule 3.7.2(b).

⁴ National Gas Rules, rule 135KD.

⁵ National Gas Rules, rule 323.

6 Process for this rule change

6.1 Treatment as a non-controversial rule change

The Commission considers that the rule change request is a request for a non-controversial rule because it is unlikely to have a significant impact on the national electricity market⁶ because:

- the proposed rule does not fully remove information from the market by maintaining EAAP reporting (albeit on a less frequent reporting basis); and
- the proposed rule provides for additional EAAP reporting where necessary which mitigates against the risk of not identifying energy constraints in a timely manner.

Rule changes that are considered to be non-controversial may be processed under an expedited (faster) process under which there is only one round of consultation.⁷ The Commission proposes to use this expedited process to consider the rule change request provided that it does not receive any valid requests not to use the expedited process by 7 April 2016. To be valid, an objection should set out the reasons why the rule change request will have a significant impact on the national electricity market.

If there are no valid objections to the expedited process, the final determination will be published on 19 May 2016. The time for making the final determination on this rule change under the expedited process has been extended by two weeks as it raises issues of sufficient complexity or difficulty.⁸ While the rule change is considered appropriate for an expedited process, it warrants an extension of the time between the publication of the consultation paper and the final determination from six weeks to eight weeks. The extension allows more time to consider submissions to the consultation paper.

6.2 Key dates

Submissions are invited in relation to the matters identified above, and any other relevant issue.

The **key dates** for stakeholders in this process are as follows:

- Commencement of this rule change process: Thursday 24 March 2016
- Objections to an expedited process to be received by: Thursday 7 April 2016
- Submissions to the proposal to be received by: Thursday 21 April 2016
- Final decision to be published by: Thursday 19 May 2016

⁶ Section 87 of the National Electricity Law.

⁷ The AEMC has published a notice under sections 95 and 96 of the National Electricity Law to commence and assess this rule change request as a non-controversial rule.

⁸ National Electricity Law, section 107.

7 How to lodge a submission

The Commission invites requests not to make a rule under the expedited process and written submissions on this rule change proposal.

All enquiries on this project should be addressed to Emily Brodie on (02) 8296 7800.

7.1 Lodging a request not to make a rule under an expedited process

Written requests not to make a rule under the expedited process in section 96 of the National Electricity Law must include reasons for the request, and must be lodged with the Commission by 7 April 2016, either online or by mail, in accordance with the requirements specified below.

7.2 Lodging a submission to this rule change request

Written submissions on the rule change request must be lodged with Commission by Thursday 21 April 2016, either online or by mail, in accordance with the requirements specified below.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change requests⁹. Please note that the Commission publishes all submissions on its website, subject to a claim of confidentiality.

7.3 Lodging a submission electronically

Electronic submissions, or requests not to make a rule under the expedited process, 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: ERC0200.

The request or submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

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

7.4 Lodging a submission by mail or fax

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

Australian Energy Market Commission

⁹ This guideline is available on the Commission's website.

PO Box A2449
Sydney South NSW 1235

The envelope must be clearly marked with the project reference code: ERC0200.

Alternatively, the submission may be sent by fax to (02) 8296 7899.

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.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
EAAP	Energy Adequacy Assessment Projection
GSOO	Gas Statement of Opportunities
GELF	Generator Energy Limitation Framework
MT PASA	Medium Term Projection Assessment of System Adequacy
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules