



19 September 2017

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Via electronic lodgement

Dear John

**Consultation Paper: Declaration of Lack of Reserve Conditions (Ref ERC0226)**

AusNet Services welcomes the opportunity to make this submission to the Commission's Consultation Paper on the Australian Energy Market Operator's (AEMO) rule change request on the declaration of lack of reserve (LOR) conditions.

AEMO's documentation explains that the current contingency analysis approach to identifying LOR1 and LOR2 levels is becoming less able to quantify the actual risk of involuntary load interruption, as significant, rapid deteriorations in short-term power system conditions now frequently occur due to non-contingency based variations. AEMO considers it essential to implement a more sophisticated warning and intervention trigger, derived from its view of the probability of involuntary load interruption (refer page 2 of AEMO Rule Change Proposal).

LOR declaration is an important alert for AusNet Services Distribution and Transmission network control room operations. The sequence of LOR thresholds facilitates preparedness for management of the networks under tight supply-demand conditions, and stakeholder communications and load restoration in the event that customer load is involuntarily shed.

AusNet Services supports improvements in the arrangements to facilitate adoption of a methodology for declaration of lack of reserve conditions that better reflects the actual risk of involuntary load interruption. Whether or not the National Electricity Rules (the Rules) would currently allow AEMO to include probabilistic techniques in its assessment of supply - demand balance, such an approach is inherently less transparent than a deterministic approach for operational timeframe activities. Accordingly, improved governance arrangements will be necessary to give affected industry participants and other stakeholders' confidence in the outputs.

AusNet Service's understanding is that the declaration regime is increasingly being used beyond national electricity market participants as an escalating warning system. This consultation gives the opportunity for the purpose of the regime be clarified and this will also provide improved context for the broader stakeholder audience.

Whilst the Rules will provide overarching guidance, the effectiveness of the guideline is critical. Accordingly the guidance in the Rules must facilitate this outcome. AEMO appears best placed

and having the technical position to develop the guidelines in liaison with stakeholders. However the development and maintenance processes for the guidelines must give stakeholders assurance that the guidelines fully achieve intended objectives. In addition, the processes should ensure agility for the guidelines to adapt with the changing power system landscape.

The following are key governance aspects that we believe should be included in the AEMCs considerations for the framework:

- **Purpose or objective statement:** in Section 2.1 of its Rule Change Proposal AEMO notes that *the Rules do not provide a clear purpose of the LOR regime, except that they exist within a suite of obligations and intervention mechanisms relevant to power system operations*. Such a statement, if included in the Rules, would provide guidance on the appropriateness of different methodologies, and facilitate consultation for development of the guideline proposed in the rule change proposal
- **Functional principles:** the Rule Change Proposal would relocate the LOR definitions from the Rules into a guideline, to make the framework more responsive to the drivers of change occurring in the NEM. This approach is supported, however functional principles which establish the regime as an escalating warning system, and the intent for the critical threshold points, should be provided in the Rules. This has additional importance since the declaration regime is potentially being used by other than national electricity market participants for key risk threshold identification, and the Rules provide the appropriate mechanism to reflect national electricity market intent
- **Cooperatively agreed methodology:** transparency of the method may be insufficient to give stakeholders confidence that the modelling most effectively achieves the purpose. Participants require confidence in the outputs if they are to respond to the signals appropriately. Preferably the proposed methodology, and information provision to participants that would be included in the guideline, would be tested with stakeholders so that concerns are alleviated. We envisage this expressly being established in the framework as a cooperative exercise.
- **Accessible review approach:** flexibility should be included in the regime to enable participants to request a review of the guideline where they are able to identify the need to AEMO. While the Rule Change Proposal would not preclude participants making the case for review to AEMO, it does not provide assurance that a review would follow.
- **Network contingency consideration in the guideline:** The illustrative inclusions for the guideline structure provided by AEMO in the rule change proposal (section 4.2.3) includes 'critical network elements (to be defined)'. Currently the Rules provide for interconnectors to be included in the assessment, however this illustrative guideline inclusion demonstrates the potential for a broader set of risk inclusions. In particular it is unclear as to how intra region constraints, and non-creditable contingencies, may contribute to the probabilistic assessment. Discussion / clarification on AEMO's intended direction is necessary to provide more complete understanding of the potential implications of the proposed framework changes.

We would be pleased to assist you further if you have any queries in relation to this submission, and we look forward to opportunities to provide further input into the AEMCs considerations as the review progresses.

Yours sincerely,



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