



25 September 2017

John Pierce  
Chair  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

By electronic lodgement

### **National Electricity Amendment (Declaration of Lack of Reserve conditions) Rule 2017 (ERC0226)**

Origin welcomes this opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on the rule change on declaration of lack of reserve conditions (LOR) proposed by the Australian Energy Market Operator (AEMO). As a major generator and retailer of electricity, Origin has a strong interest in the rules governing reserve conditions in the National Electricity Market (NEM).

#### Changing the definition of LOR

Origin supports AEMO's intent to improving the LOR framework and that ongoing reliance on credible contingencies may no longer be sufficient as a mechanism to signal to the market of approaching shortfalls in supply.

However, we have some concerns with the proposed rule change. While we see merit in applying probabilistic modelling to determine whether to declare LOR conditions, we consider that the high-level description of lack of reserve may result in subjective assessments of what constitutes LOR conditions and may result in more uncertainty for market participants relative to the clear three-tiered system set out in the National Electricity Rules (NER) at present.

#### Setting LOR provisions within a guideline

A further concern Origin has with the rule change proposal is the use of a guidelines rather than the NER to set out the specifications for LOR declarations. While Origin believes AEMO will engage in consultation with impacted stakeholders and market participants in developing and updating any guidelines (as described in its rule change proposal), the certainty of current arrangements in the NER for market participants is preferable to the rule change proposed.

Origin would prefer that any changes to the definition and declaration of LOR conditions be made within the NER itself, rather than guidelines. This would maintain the certainty of the existing arrangements.

#### Adequacy of existing rules

In Origin's view, AEMO's proposed approach should be tested against the events highlighted in Appendix B of the rule change proposal.<sup>1</sup> Applying the proposed approach to determining a LOR declaration to these events would demonstrate how it contribute to better outcomes (with respect to the National Electricity Objective) than the existing rules. We acknowledge the work AEMO is

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<sup>1</sup> AEMO (2017), *Electricity Rule Change Proposal – Lack of Reserve Declarations*, page 18-19.

undertaking to assess the probabilistic risks of its short-term forecasts. While this analysis will be of value in assisting AEMO manage the risk of any shortfalls in the summer of 2017-18 and beyond, we note that AEMO already has some flexibility depending on known conditions when determining credible contingencies that might result in a LOR declaration, in addition to the parameters contained within the rules

Given this, and without applying the proposed probabilistic approach to past events, there is no reason to conclude that the existing rules are no longer adequate for their purpose (though this is not to say they cannot be improved upon). Furthermore, we note that the AEMC is considering the definition of credible contingencies through its Reliability Frameworks Review (the Review) and that work on this will be coordinated with AEMO's rule change request. We believe any change to the definition of credible contingency events should be incorporated into the NER, rather than placing these in reserve level declaration guidelines. This is more likely to provide ongoing certainty for market participants.

#### Closing

AEMO propose to change the criterion of credible contingencies through the rule change proposal. While the approach will add sophistication to the assessment of reserve conditions, there is a risk that the LOR declarations could be made more frequently or prematurely than they are at present. At the same time, there is no reason to believe that the same outcomes would not have occurred on 8 and 12 February 2017 (described in Appendix B of the rule change proposal) if AEMO was applying a probabilistic approach as described in the proposal.

Given AEMO's preference to have the rule made and in place by the summer of 2017-18, the coordination with the Review will be impacted as this process will take further time. As an alternative, Origin would suggest AEMO test both the existing and proposed LOR approaches to the events of 8 and 12 February and shadow the existing process with its probabilistic approach over the forthcoming summer. The results of this analysis could be presented to the AEMC and market participants and this would help all interested stakeholders understand how the proposed approach will impact upon LOR declarations and the need for any market intervention by AEMO.

Should the AEMC wish to discuss any of the matters raised in this response, please contact David Calder on (03) 8665 7712 in the first instance.

Yours sincerely



Steve Reid  
Manager – Wholesale Regulatory Policy  
(02) 9503 5111 – [Steve.Reid@Originenergy.com.au](mailto:Steve.Reid@Originenergy.com.au)