



Proposed National Electricity Amendment (Setting VoLL Following the Shedding of Interruptible Load) Rule 2008

Request for Submissions on a Specific issue Explanatory note

22 October 2008

Request for submissions

The Australian Energy Market Commission (the Commission) invites written submissions and comments from interested parties on a specific issue raised by the National Generators Forum (NGF) in relation to the Setting VoLL Following the Shedding of Interruptible Load Rule change proposal. Details on this issue are set out below. Submissions should not address any other matter concerning the proposal. Submissions will inform the Commission for the final Rule determination and final Rule.

Submissions must be received by **6 November 2008** and should be forwarded to submissions@aemc.gov.au. Submissions must be in accordance with the Commission's Guidelines for making written submissions on Rule change proposals. Submissions on their cover page should cite the reference ERC0061.

Background

On 17 March 2008 the Commission received a Rule change proposal from the Australian Energy Regulator (AER) to remove NEMMCO's obligation to set the dispatch price to VoLL (Value of Lost Load, currently equal to \$10 000/MWh) when load has been shed automatically as a result of a contingency event.

The Rule change proposal arose from the AER's investigation into the events that occurred on 16 January 2007 where there was a major imbalance between supply and demand, which caused a power system frequency to fall and led to the activation of the Victorian load shedding scheme.

On 31 July 2008, the Commission published its draft Rule determination and draft Rule on the proposal.

On 23 October 2008 the Commission published a notice under section 107A of the National Electricity law extending the time period for the Commission to make its final Rule determination and final Rule on this Rule change proposal until 21 November 2008. The Commission considers that a specific issue raised in a submission by the NGF to the draft Rule determination requires further consultation in relation to the draft Rule determination.

Specific issue

The specific issue on which the Commission invites submissions is whether it would be appropriate for the final Rule to provide for the dispatch price to be set to VoLL when the load restoration process, following automatic load shedding, is halted due to a lack of available generation

capacity. This issue was raised and expanded upon by the NGF in its submissions to the proposed and draft Rule.

Current Rule

The current Rule¹ provides that where no more interruptible load that has been shed as a result of a contingency event (automatic load shedding) can be restored then NEMMCO has an obligation to set the dispatch price to VoLL.

AER Rule change proposal

The AER has proposed to amend the Rule to remove NEMMCO's discretion to set the dispatch price to VoLL. The dispatch price would therefore be set on the basis of participant bids and offers.. This position was supported by NEMMCO, EnergyAustralia and ERAA in submissions to first round consultation on the proposal.

In its draft Rule determination the Commission adopted the proposal as promoting the National Electricity Objective (NEO), and hence consistent with the Rule making test, on the basis that:

- By allowing NEMMCO to concentrate on the primary task of returning the power system to a secure operating state and restoring load;
- Removing discretion allowed for ease of consistent application providing greater certainty for market participants; and
- Pricing the wholesale market on the basis of bids and offers promotes productive and allocative efficiency.

NGF alternative

In its submissions to first round and second round consultation, the NGF expressed support for removing NEMMCO's discretion to set the dispatch price to VoLL but with one exception. The NGF submitted that when the contingency event has been managed but load restoration is halted due to inadequate supply of available generation, then NEMMCO should set a VoLL price. In support of this position, the NGF contended that:

- Its alternative is practicable for NEMMCO to implement consistently; and
- Market prices other than VoLL are inappropriate in circumstances where the demand currently supplied is not the whole demand that should be supplied.

While noting these points, the Commission also notes the following:

- The NGF alternative continues to afford NEMMCO with a degree of discretion on when to invoke VoLL (e.g. in determining the reason for the halt in the load restoration process);
- Practically, prices might be expected to be very high in any event in these circumstances;
- If pricing at VoLL triggers 'dis-orderly' bidding (i.e. bidding at -\$1000/MWh), then this could magnify trading risk for some generators;
- Load restoration can be halted for reasons other than a lack of available generation, and
- Setting the price to VoLL may prompt demand-side responses which might add uncertainty to the load restoration process.

¹ National Electricity Rules clause 3.9.2e(ii)