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29 September 2017

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Re: Submission on Reliability Frameworks Review (Issues Paper)

The AER welcomes the opportunity to provide our response to the Australian Energy Market Commission's (AEMC) Reliability Frameworks Review Issues Paper.

We commend the AEMC for initiating this review into the National Electricity Market's (NEM) market and reliability frameworks. Recent events in the NEM, some of which are subject to investigation by the AER, have drawn into focus whether our energy only market is delivering the desired reliability outcomes required by consumers at an affordable price.

There is considerable investment occurring in the NEM, particularly in renewable generation technology. This investment has in some cases replaced thermal generation, while in others it has complemented it. We are seeing increased investment in battery storage because of declining costs, and continued investment by residential customers in rooftop solar generation, even without government subsidies. Both trends are forecast to continue.

We acknowledge that the challenge of managing distributed generation will continue to grow, particularly without information on the location, type and operation of each of those services, as well as transparency and honesty from those responsible for managing these services throughout the supply chain. The quantity and rapidity of new solutions entering the market, suggests that the preferable grid management approach may be to utilise existing infrastructure better until certainty of direction occurs, rather than over-investing in new infrastructure that may not ultimately be needed and which will increase the delivered price of electricity at a time when costs are already high.

To that end we make the following observations addressing the questions raised by the AEMC in its Issues paper.

We believe that an energy only market delivers an appropriate balance between price and reliability outcomes. That is not to say that we should not continue to improve the market. The design was implemented with built in safeguards, such as the Reserve Trader provision, which are now being exercised to address any shortfalls. These provisions have been triggered 3 times since the commencement of the NEM.

There are several measures that are in the process of being introduced which should improve reliability, such as the changes to the technical standards in South Australia introduced by the Essential Services Commission of South Australia, and the inertia and system security rule changes recently released by the AEMC. Any changes to the market and reliability frameworks need to consider how these changes will improve the effectiveness of the current market.

While capacity markets may deliver the desired reliability outcomes, the additional complexity and cost of moving from the current approach must be weighed up against the reliability outcomes delivered. The learnings from other markets, such as Western Australia and US markets, must be carefully considered in conjunction with the practical challenges of implementing it in the NEM.

AEMO's daily forecasting has undergone many improvements over the past five years with the addition of the wind and solar forecasting systems. Notwithstanding those improvements, there have been occasions where the on-the-day forecast has significantly under estimated demand creating significant short term supply-demand balance issues. Accurate forecasting is pivotal to the effective operation of the market and we support a collaborative industry effort to improve these forecasts. We commend AEMO for its acknowledgement that it requires improvement, and its willingness to work with the industry.

One of the biggest challenges for the market is the limited information available on operation decisions, such as when and why a contingency is classified and re-classified. We encourage greater transparency around AEMO's decisions and recommend that a review be conducted on the probability and consequences of previous decisions from both a market and reliability perspective to inform future decisions. We also believe that distribution businesses must also work collaboratively with AEMO to share information and ideas on how their infrastructure could be utilised better to avoid some of the market and reliability effects. With more generation connecting to the sub-transmission and lower voltage networks this need will continue to grow.

The existing interconnectors are also vital to manage cross boundary supply reliability. While we expect that with the recent changes to the joint planning requirements which require the TNSPs to improve joint planning activities, we still believe that there needs to be a greater role for AEMO, in line with the Finkel recommendations. Given AEMO's role as the National Transmission Planner, there is a rising need for enhanced coordination on cross regional planning activities. While the TNSPs should still be responsible for investment decisions, AEMO could use its role as an independent planner to identify more efficient solutions.

We look forward to working with the AEMC and all interested stakeholders in this review and hope these comments are helpful. Please contact Ali Hassan, Senior Analyst, Wholesale Markets, on (02) 9230 9106 if you would like to discuss any aspect of this letter.

Yours sincerely



Joanna Gall
Director
Wholesale Markets

Sent by email on: 29.09.2017