OFFICE OF THE CHIEF EXECUTIVE

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16 May 2019

Ms Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Attention: Katy Brady

Dear Anne

Investigation into Intervention Mechanisms and System Strength in the NEM – Consultation Paper

Powerlink Queensland (Powerlink) welcomes the opportunity to respond to the AEMC's Consultation Paper on its Investigation into Intervention Mechanisms and System Strength in the NEM (the Investigation).

With the recent emergence of maintaining minimum levels of system strength as a key issue in maintaining a secure operating state for the power system, Powerlink considers the Investigation to be timely. The Investigation provides the opportunity to ensure the intervention mechanisms in the Rules remain fit for purpose and that the associated compensation framework provides value to consumers and appropriate incentives to market participants.

In responding to the Consultation Paper Powerlink's submission focusses on:

1. **Assessment principles** – there should be consistency in the market outcomes that result from AEMO interventions and those that result from alternative mechanisms such as network support agreements;

2. **Hierarchy of intervention mechanisms** – a prescriptive hierarchy is unlikely to deliver lowest cost outcomes to consumers in all circumstances;

3. **Compensation following intervention events** – ensuring ongoing alignment between the parties who benefit from an AEMO intervention and those who fund the resulting compensation;

4. **Regional Reference Node test** – the application of intervention pricing needs to provide a genuine economic signal that can be responded to by the market; and

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5. **System strength** – the need to ensure that system strength is fairly valued and is appropriately paid for to minimise the need for intervention.

These matters are discussed in more detail in the Attachment.

Powerlink appreciates the opportunity to comment on the Consultation Paper and looks forward to engaging with the AEMC and other stakeholders as part of this Investigation and related work programs.

If you have any queries in relation to this submission, please contact Jennifer Harris.

Yours sincerely

Merryn York

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Chief Executive

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ATTACHMENT
Investigation into Intervention Mechanisms and System Strength in the NEM – Consultation Paper

1. Assessment Principles

The Commission has set out a number of principles to guide the development of recommendations for any changes to the interventions, system strength and inertia frameworks. These principles are:

- appropriate allocation of risk;
- efficiency;
- flexibility; and
- transparency and predictability.

Powerlink agrees that these proposed assessment principles are appropriate for the Investigation but also recommends an additional principle of Consistency.

By consistency, we mean that regardless of the mechanism used to procure a response, there should be the same, or very similar, outcomes for participants. Powerlink considers there should be consistency in the market outcomes that result from AEMO interventions and those that result from alternative mechanisms such as network support agreements.

For example, consider the case of procuring additional synchronous generators in South Australia to be on-line to meet a system strength shortfall. This could be achieved by the TNSP contracting with generators to provide the service, or it could be delivered by AEMO directing the same generators. Under the current framework, the AEMO intervention triggers a form of regulated compensation to the directed generators, intervention pricing is applied to the market, and compensation is paid to other affected participants. A TNSP contracted solution will only provide negotiated payment to the generator(s) providing system strength, and no intervention pricing or compensation to other affected parties.

It is not appropriate that such very different market outcomes can result, depending on the mechanism adopted to procure the response.

Adopting a principle of Consistency will influence a number of the areas for investigation considered in the Consultation Paper, including:

- counteractions (question 5);
- further changes to intervention pricing (question 6);
- changes to the Regional Reference Node (RRN) test (question 7);
- compensation following intervention events (question 8);
- compensation for affected participants (question 10); and
- quantum of compensation to directed participants (question 11).

2. Hierarchy of Intervention Mechanisms

Powerlink considers the current requirement to prioritise use of RERT ahead of directions and instructions is potentially inefficient. As the Commission points out in the Consultation Paper "It is reasonable to expect that directing in-market generators may deliver reliability outcomes at costs lower than those associated with dispatching out-of-market reserves.". This is even

more likely with the recent changes to the RERT rules that now explicitly require a RERT provider to have been out-of-market for at least the 12 months prior to being contracted for RERT.

The current requirement to prioritise the use of RERT ahead of directions or instructions should be removed. Powerlink considers AEMO should be obliged to use reasonable endeavours to minimise the costs to consumers of an intervention and be able to use whichever mechanism, or combination of mechanisms will best achieve this. To avoid the prospect of parties second guessing AEMO's cost minimisation efforts after the event it should be made explicit that the objective to minimise costs to consumers is to be considered with reference to the information reasonably available to AEMO at the time of the intervention.

3. Compensation Following Intervention Events

The Consultation Paper devotes considerable effort to canvassing questions around compensation for interventions. These questions include the circumstances in which compensation will be paid, whom the compensation will be paid to, and how the compensation will be calculated.

Powerlink considers that the Commission should also consider the question of who should fund the compensation.

In many instances it can be readily demonstrated that consumers are the principal beneficiaries of an AEMO intervention, and should therefore fund the cost of the compensation to be paid. However, in the case of intervention for system strength services, Powerlink suggests this reasoning is less compelling.

Directions for system strength provide for the secure operation of the power system and thus benefit consumers. However these directions also allow inverter connected generators to generate when they otherwise wouldn't be able to. Indeed, it is often the case that electricity is exported from South Australia to Victoria when system strength directions are in place in South Australia. As a result, these South Australian based inverter connected generators are beneficiaries of the system strength directions.

Powerlink considers at least part of the compensation costs for system strength directions should be recovered from those inverter connected generators that benefit from being able to generate when they otherwise wouldn't. This would achieve a degree of consistency with the "do no harm" principle set out in the system strength rule changes.

4. Changes to the RRN Test

The Consultation Paper considers the AEMO proposal to change the wording of clause 3.9.3(d) of the NER. This clause is referred to as the Regional Reference Node test, or RRN test. As noted in the Consultation Paper, the RRN test resulted from the consolidation of different types of directions (ie reliability, security and other) and the need to distinguish those situations when 'what-if' pricing should apply.

Powerlink considers that 'what-if' pricing should only apply when an intervention is required to deliver a service that is priced at the Regional Reference Node. Adjusting prices for energy and/or ancillary services at the RRN should only apply when it is energy or ancillary services that are required to be provided. This purpose of 'what-if' pricing, to preserve a price signal for a product or service, means its application should be limited to those circumstances where it provides a price signal that can be responded to by the market.

The current wording of the RRN test essentially asks whether direction of a plant at the regional reference node would not have avoided the need for the direction actually given. Given the history

of this clause, which is discussed in the Consultation Paper, Powerlink considers this clause should be directed towards direction of a hypothetical plant at the regional reference node. By considering a hypothetical plant this would promote greater consistency in outcomes as it should not be possible for a similar direction in different regions to have different outcomes in terms of 'what-if' pricing based on whether or not an actual generator is located at the regional reference node.

5. System Strength

As part of the Investigation the Commission is considering potential changes to the framework for managing minimum levels of system strength. While this framework has only been fully operational for just less than 12 months, Powerlink's experiences to date in working under the framework have highlighted a number of areas that should be addressed as priorities. These include:

- The framework for assessing system strength impacts is not making maximum use of currently existing system strength and is forcing new inverter connected generators to invest in system strength remediation sooner than might otherwise be required. This is because the assessment of system strength impact is done using an assumption of the minimum required system strength, not the current level of system strength, and registration then requires the new generator to have remediation in place for that future, lower, level of system strength before they can connect; and
- The framework envisages contracting with synchronous generators to provide additional system strength above the minimum requirement, but fails to provide for payment to those generators who are deemed to be providing the minimum requirement. This creates perverse incentives whereby generators who may be less effective in providing valuable system strength services can be rewarded while those who are most critical and are being relied upon receive no compensation or other price signals that may influence their future operations.

Powerlink is working closely with AEMO to facilitate the system strength impact assessment and connection of new inverter connected generators. While this work is helping to address the first point above, Powerlink considers further changes to the framework are required to ensure that whole of system costs are minimised.

Under the current market design, the value of system strength is embedded in the energy only price per MWh. This was acceptable when the NEM started, as all generation was synchronous and provided system strength inherently when connected. With increasing penetration of inverter connected generation this is no longer the case and not all MWh's generated are equivalent.

Overall, Powerlink considers there is an urgent need for the system strength framework to fairly value and pay for all of the system strength that is being relied upon to securely operate the power system. Such a framework will assist in reducing the need for AEMO to intervene to maintain minimum levels of system strength. It is also likely to extend the economic life of the synchronous generators needed to efficiently deliver system strength and defer the time when TNSPs need to procure additional system strength.