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Ms Elizabeth Walters
Assistant Director, Electricity
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Via online submission form

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Dear Ms Walters

Framework and approach for Western Power's fifth access arrangement – Issues Paper

AEMO welcomes the opportunity to provide this submission in response to the ERA's Issues Paper for the framework and approach for Western Power's fifth access arrangement.

The matters discussed in this submission relate to AEMO's functions as the independent market and power system operator in the South West Interconnected System (**SWIS**).

Classification of services

The regulatory framework should support the efficient utilisation of device capabilities for the benefit of all consumers, including the capabilities of multi-function assets, network-connected batteries and other new technologies. AEMO considers it important that the classification of services from these assets should allow their full capabilities to be realised, while addressing concerns around competition and conflict of interest.

Reference services

AEMO considers that it is important that reference services are specified so as to encourage efficient operation and use of the network, and updated to reflect transformation in the regulation and operation of the power system. AEMO supports changes to the reference services to reflect constrained access and security-constrained economic dispatch, new technologies, and the changing daily electricity demand and generation profiles.

AEMO also supports flexibility in the specification of reference services relating to new technologies, to avoid unintended barriers to connection and market participation, and to support the efficient utilisation of device capabilities for the benefit of all consumers. AEMO notes that updates to the facility registration taxonomy in the Wholesale Electricity Market (**WEM**) Rules are being developed by the Energy Transformation Implementation Unit (**ETIU**), with the objective of providing flexibility to accommodate new technologies and market participation models as they develop. Given this (and subject to timing constraints), there may be merit in considering the potential to align some reference services with the new facility registration taxonomy.

Service standard benchmarks and adjustment mechanism

AEMO supports consideration of the market cost of network outages in the service standard benchmarks and service standard adjustment mechanism. AEMO considers that this will provide a link between Western Power's incentives and wholesale market prices, which are an important consumer outcome. A market impact assessment will also provide valuable information when assessing the net benefits of remedial works and network augmentation.

To promote efficiency in the administration of this approach, and avoid the need to revise previous policy positions or gazetted rules, AEMO recommends that any related metrics should be designed to use data that will already be published by AEMO (and publicly available) as a result of the Energy Transformation reforms, including outage data, constraint data and marginal constraint values. AEMO suggests that there is merit in considering alignment with the design of the market impact component of the service target performance incentive scheme (STPIS) that is developed and published by the Australian Energy Regulator under clause 6A.7.4 of the National Electricity Rules.¹ Similar data will also be valuable to assess the market costs of constraints in the absence of network outages.

AEMO notes that as Western Power will be incentivised to consider market impacts when developing outage plans, AEMO, will continue to assess network outages from a power system security and reliability perspective only. This is consistent with the evaluation process that applies for generator outages.²

Demand management innovation allowance mechanism

The Issues Paper notes that the ERA must publish guidelines on the demand management innovation allowance mechanism that include, among other things, the eligibility criteria the ERA will apply to determine whether a project is entitled to receive the allowance. AEMO suggests that the eligibility criteria should require that project proposals include an assessment of potential impacts on power system security, power system reliability, and the WEM.

If you would like to discuss any matters raised in this submission, please contact Greg Ruthven at greg.ruthven@aemo.com.au.

Yours sincerely

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¹ Available at <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/service-target-performance-incentive-scheme-version-5-september-2015-amendment>.

² This is consistent with clause 3.18.11 of the current WEM Rules and clause 3.18E.8 of the future WEM Rules that have been gazetted as part of the Energy Transformation Strategy.