

2 August 2017

Suzanne Falvi  
Senior Director  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235



Dear Ms Falvi,

### **Issues Paper for the Reliability Panels' review of the Frequency Operating Standard**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon disadvantaged and marginalised people. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the Issues Paper for the Reliability Panels' review of the Frequency Operating Standard (FOS).

PIAC supports the Panel's proposal for a 2-staged approach to the review, noting the number of related rule changes and other reforms currently underway or soon to commence.

#### **Stage 1**

PIAC recommends the Panel considers factors such as cost-benefit trade-offs, as well as technical considerations including minimum amounts of load or generation, in defining an electrical island. The Panel should be mindful that any definitions in the FOS may have considerable downstream costs for consumers, particularly when AEMO and market participants are subject to new or changed obligations and requirements. These requirements may be in the form of additional system equipment, additional procurement of ancillary services, and other changes to operation to address system reliability and security. While the definition in the FOS may be stated in purely technical terms, the process of reaching the definition must not be divorced from the ultimate cost-benefit trade-off for consumers.

PIAC agrees with the Panel that synchronous clocks have become less common than when the NEM started, and tend not to be used for critical applications, hence the obligations relating to accumulated time error may be less important.

#### **Stage 2**

PIAC notes that there has been a trend in market reviews, and other reliability and security related processes, for ratcheting up system security and reliability settings. While reductions in system security and quality of supply can have cost implications, it is essential that the Panel bears in mind that measures to increase system security and the quality of supply have costs as well.

The potential benefits of tightening the FOS to improve quality of supply and response to contingency events must be traded off against the costs ultimately borne by consumers for additional ancillary services and protection schemes. Without fully understanding the cost-benefit trade-offs consumers are willing to

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accept, there is a risk that the planning and operation of the power system may effectively be 'gold plated'.

PIAC also supports a greater role for Demand Response (DR) in addressing issues of system security. Increasing the pool of potential DR service providers will help ensure more efficient prices, as discussed in the recent ancillary services unbundling rule change. PIAC considers there is a strong role for DR not only during normal operation, such as by providing Frequency Control Ancillary Services (FCAS), but also to prevent or respond to severe events such as the separation of a region or sub-region. Of note are the contracts in place with Tomago smelter in NSW to temporarily reduce load for a pre-determined time and the Frequency Control System Protection Scheme in Tasmania which contracts with large customers to trip non-critical load in response to the Basslink interconnector tripping. PIAC considers schemes such as these, which allow consumers to consciously provide DR services for system security, are far more preferable than having to rely on forced and unexpected load shedding.

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

**Craig Memery**

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