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Submitted online to: <https://www.aemc.gov.au/rule-changes/victorian-jurisdictional-derogation-rert-contracting>

Dear Ms Degen,

OBJECTION
Victorian Jurisdictional Derogation – RERT Contracting
Reference: ERC0283

The Australian Energy Council (the “**Energy Council**”) objects to the proposed rule change being considered as an urgent rule change under Section 96 of the National Electricity Law, and requests that the Australian Energy Market Commission (“**AEMC**”) not follow the timetable set out in that section.

The Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

The reasons why the AEMC should not make an urgent rule determination in accordance with Section 96 are as follows:

- No evidence of urgency;
- No evidence of a reserve shortfall;
- Other reliability mechanisms exist to address the perceived shortfall; and
- Implications for other jurisdictions need to be fully considered.

These reasons are set out in further detail below.

Evidence of Urgency

On 2nd May 2019 the AEMC published its Enhanced RERT Determination,¹ which found that, “the wholesale market is the primary means by which reliability is delivered and that incentives to invest in market reserves need to be preserved, so that costs of reliability are minimised for consumers”.²

Since that time the Australian Energy Market Operator (“**AEMO**”) has issued the 2019 Electricity Statement of Opportunities (“**ESoO**”),³ which the rule change proponent argues provides evidence that there is an impending reliability shortfall, and therefore, within Victoria, the Reliability and Emergency Reserve Trader (“**RERT**”) needs to be engaged for up to three years.

The evidence of the ESoO, as shown in the following graph, is that the forecast exceedance of the Reliability Standard only occurs in 2019-20.

¹ Australian Energy Market Commission, *Enhancement to the Reliability and Emergency Reserve Trader Rule Determination*, 2nd May 2019

² p.28

³ Australian Energy Market Operator, *2019 Electricity Statement of Opportunities*, August 2019

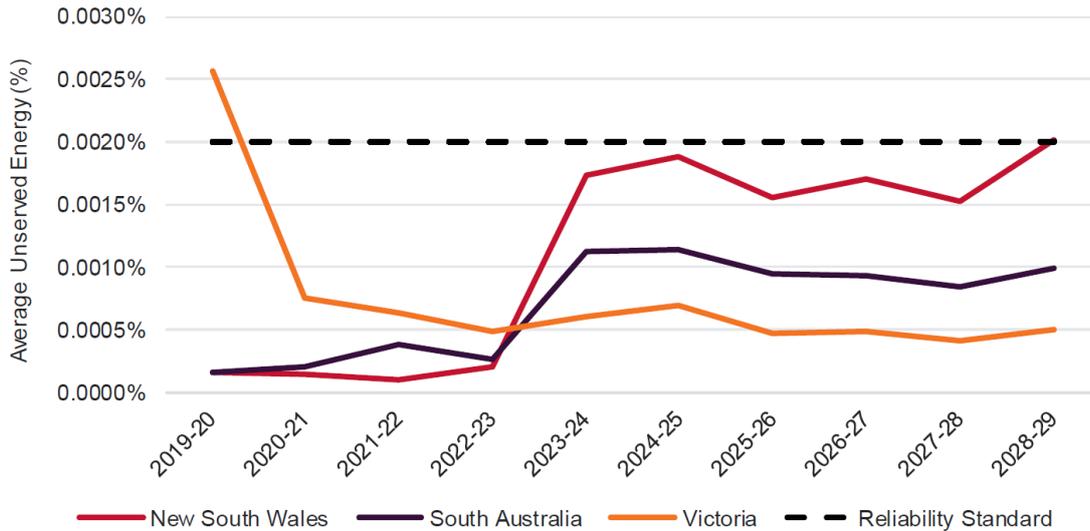


Figure 1: Expected unserved energy, 2019-20 to 2028-29

Source: AEMO⁴

This expected exceedance in 2019-20 was predicated on two units of Torrens Island Power Station A not being available over the coming summer, a 60% chance of Mortlake power station failing to return to service from its unplanned outage before 1st March 2020, and a 30% chance of the Loy Yang A2 unit failing to return as well. Since the ESoO was published, the Medium Term Projected Assessment of System Adequacy (“MTPASA”) has continued to be refreshed, and it shows that TIPS A will remain in service, and both Mortlake and Loy Yang A2 are expected to return mid-December, as they originally forecast.

The Energy Council asserts that there is therefore no case for contracting RERT beyond the immediate summer, and suggests that this can be accomplished using the existing medium-notice and short-notice RERT arrangements.

In addition, AEMO has not yet notified the market of how much RERT (under the three notice periods: short-, medium- and long-term) it has contracted for the coming Victorian summer. This advice is expected to be received later in November. The outcome of this contracting will affect the assessment of the proponent’s claim (and stakeholders’ views) about whether there is insufficient RERT in the market to meet the Reliability Standard.

The reduced possibility of a future energy shortfall is further reinforced by the amount of new generation expected to be built in Victoria in coming years. As at 8th August 2019 there is more than 2GW of committed generation preparing to connect, with a further almost 9GW proposed.⁵ Therefore there is a real risk that contracting for more than a year hence will increase market distortions and result in AEMO contracting to satisfy inaccurate forecasts, given accuracy deteriorates as predictions of conditions become further into the future. The implications are that hurriedly implementing a rule change without due consideration may expose consumers to the unnecessary costs of superfluous RERT, and therefore the Energy Council believes that the AEMC should take the time to assess the rule change request in the context of the broader market, and the expected changes over the period covered by the proponent, being until June 2028. This cannot be properly undertaken in the eight weeks for a final determination granted by Section 96.

Reliability Mechanisms to be considered

The RERT is part of a broader framework to meet the Reliability Standard. Other measures within the framework include:

- the Retailer Reliability Obligation;
- market incentives;

⁴ Ibid., p.10, Figure 2

⁵ See <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/Generation-information>

- market settings; and
- intervention via directions and Clause 4.8.9 instructions.

The Reliability Standard (for generation and inter-regional transmission elements) is the maximum expected unserved energy in a region of the total energy demanded in that region for a given financial year.⁶ The ESoO highlights the possibility (but not certainty) that the Reliability Standard may not be met in the coming summer, and in this way provides signals to the market to correct the shortfall. These signals, along with other elements of the framework, act to increase the likelihood that the Reliability Standard will be met.

Thus a view has to be taken as to whether the existing mechanisms are sufficient to meet the Reliability Standard. The Energy Council believes that given the RERT mechanism is a part of a broader framework, such considerations should be assessed properly, and therefore considering the rule change request in a shorter timeframe is inappropriate from both the AEMC’s and stakeholders’ perspectives.

No Evidence of a Reserve Shortfall

Figure 2 of the ESoO (as reproduced above) reports that expected unserved energy in Victoria exceeds the Average Unserved Energy Reliability Standard of 0.002% by 0.0006%. It should be noted that the standard is intended to be a target met as an average over time, hence the standard anticipates that occasional years will moderately exceed it without cause for fundamental concern.

The Energy Council understands that the 0.0026% assumed that AGL would be unable to achieve the agreement of the South Australian Government to extend the operation of its Torrens Island A plant through the summer. This is expected to be granted, and in addition the 210MW Barker Inlet Power Station will be commissioned shortly. Once these factors are considered, given the linkages between the two states, Victorian expected unserved energy is likely to be very close to the average standard.

According to Table 16 of the ESoO, a 0.0026% unserved energy implies a shortfall of approximately 125MW. AEMO has yet to publish its post-Summer 2018-19 Operations Review, but the extent of reserves available can be gleaned from the Summer 2017-18 Operations Review,⁷ which reported over 800MW available, as shown in the following graph:

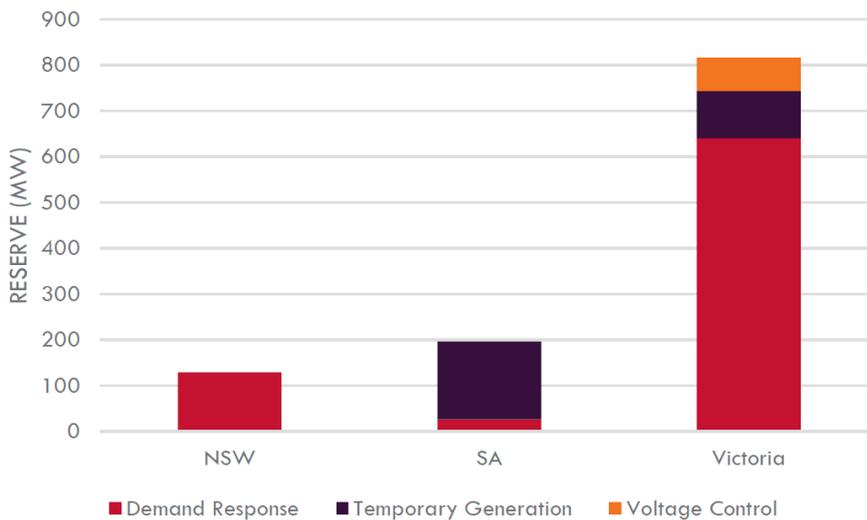


Figure 2: RERT Available by Generation/Demand

Source: AEMO⁸

⁶ National Electricity Rule 3.9.3C(a)

⁷ Australian Energy Market Operator, *Summer 2017-18 Operations Review*, 23rd May 2018

⁸ *Ibid.*, p.32, Figure 14

Further evidence of RERT availability is provided by the 24th/25th January 2019 Operating Incident Report,⁹ which showed that AEMO was able to activate 180MW in Victoria on 24th January 2019 in response to expected supply shortfalls.¹⁰

Therefore allegations of impending shortfalls appear alarmist, and any shortfall can be addressed using the existing reliability mechanisms. The Energy Council believes there is no reason to consider the proposed rule change expeditiously.

Implications for Other Jurisdictions

While the rule change request is for a Victorian derogation, as the National Electricity Market is interconnected, there are implications for other jurisdictions. This may include other states considering establishing their own RERT derogation arrangements, or even seeking to have changed the Reliability Panel's Equitable Load Shedding Arrangements,¹¹ which share the inconvenience of load shedding between the jurisdictions.

These are complex issues which require due deliberation, and are best served by the rule change assessment process taking its normal course.

Conclusion

The Energy Council strongly believes that the justification for urgency is unwarranted, and the rule change request should be considered according to the processes for standard timeframes. The Energy Council bases these beliefs on the following:

- there is no evidence of urgency;
- the rule change needs to be properly considered in the context of other reliability mechanisms;
- there is no evidence of an impending reserve shortfall; and
- there are implications for jurisdictions other than Victoria.

Accordingly, the Energy Council requests that the AEMC not follow the timetable set out in Section 96 of the National Electricity Law.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,



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⁹ Australian Energy Market Operator, *Load Shedding in Victoria on 24 and 25 January 2019*, 16th April 2019

¹⁰ p.35-36, Table 19

¹¹ Australian Energy Market Commission Reliability Panel, *Guidelines for Management of Electricity Supply Shortfall Events – Equitable Load Shedding Arrangements*, December 2009