



**Government
of South Australia**

24MEM16458

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Dear Ms Collyer 

I write concerning an urgent jurisdictional rule change request that the Government of South Australia is submitting to the Australian Energy Market Commission for consideration.

The rule change seeks a jurisdictional derogation for South Australia from the National Energy Rules (NER) section 3.20.3 (and in particular, 3.20.3 (g) and (h)) which stipulates what the Australian Energy Market Operator (AEMO) and a person (i.e., a market participant) can and cannot do in terms of reserve-related contracts under the Reliability and Emergency Reserve Trader (RERT) functions.

Earlier this year, generator owner Engie announced the mothballing of the Snuggery (63-megawatt (MW)) and Port Lincoln (75MW) peaking generators from 1 July 2024 ahead of closing the facilities in 2028.

Subsequently, AEMO's 2024 Electricity Statement of Opportunities (ESOO) confirmed the Government of South Australia's own modelling, which shows a current reliability shortfall in the South Australian region of the National Electricity Market (NEM).

Compounding this is the delay of extra capacity coming online though Project EnergyConnect (PEC), the delay of which is not considered in AEMO's ES00 forecast, meaning the reliability outlook is at present, materially worse than the 200MW shortfall identified by AEMO in their forecast.

It is the government's view that the National Electricity Objective, promoting efficient operation and use of electricity services for the long term interests of consumers with particular respect to reliability, would be significantly undermined if AEMO was forced to load shed households and businesses due to a lack of supply, but could not direct 138MW of generation into the market because this generation had not been out of market for at least 12 months to satisfy a requirement in the NER.

Considering this, the urgent rule change seeks to give AEMO the ability to negotiate with Engie to procure the services of the Port Lincoln and Snuggery generators as an "out-of-market reserve" for a period of no longer than two years.

We believe that by time limiting the proposed jurisdictional derogation, as well as utilising the out-of-market contracting framework, we will prevent any adverse or potential impacts that the reserve contract-related requirements in the NER seeks to avoid for other market participants (or the NEM more broadly).

Increasing reliability in a particular NEM region also benefits adjacent NEM regions – particularly if co-incident severe weather events occurs and more than one NEM region faces reliability issues. Allowing these generators to operate in emergency circumstances may free up other sources of supply to support the broader energy market.

As required by section 91(3) of the National Electricity Law (NEL), Ministers of other NEM jurisdictions must be consulted on urgent rule change requests.

If you would like any further information or have any questions regarding this matter, please do not hesitate to contact the Department for Energy and Mining's Director of Forecasting and Planning, Mr Jarrad Pilkington, at jarrad.pilkington@sa.gov.au or on 0409 060 380.

Yours sincerely



Hon Tom Koutsantonis MP
Minister for Energy and Mining

15 / 11 / 24

URGENT RULE CHANGE REQUEST – JURISDICTIONAL DEROGATION – EMERGENCY RESERVE CONTRACTS

I am writing to request that the Australian Energy Market Commission (AEMC) make an urgent jurisdictional derogation under section 91(3) of the National Electricity Law (NEL) to enable the Australian Energy Market Operator (AEMO) to consider certain “out-of-market” capacity as eligible to provide interim reliability reserves (IRR) in South Australia to address a forecast reliability gap in South Australia ahead of summer 2024/2025.

Jurisdictional derogation under section 91(3) of the NEL

The Government of South Australia is seeking a time-limited jurisdictional derogation from clauses 3.20.3 (g) and (h) of the National Electricity Rules (NER), to allow AEMO to procure the capacity of the Snuggery and Port Lincoln Generators (relevant generators) as IRR.

As per section 91(3) of the NEL, I have consulted with other relevant Ministers in Queensland, New South Wales, Victoria, the Australian Capital Territory, the Northern Territory, the Commonwealth Government and Tasmania for South Australia to implement this time-limited derogation from the NER.

Description of the issue and proposed Rule

Earlier this year, Engie (the owner of the relevant generators) announced the mothballing of the Snuggery (63MW) and Port Lincoln (75MW) peaking generators from 1 July 2024, ahead of permanently closing the facilities in 2028.

In recent Electricity Statement of Opportunities (ESOO) releases by AEMO, the reliability outlooks for South Australia in the 2024/2025 year were:

- In the February update to the 2022 ESOO, there was no forecast reliability gap in South Australia.
- In the 2023 ESOO, a 118MW gap was forecast against the interim reliability measure (IRM).
- In the May update to the 2023 ESOO, there was no forecast reliability gap in South Australia.
- In the 2024 ESOO, there is a forecast 200MW reliability gap against the IRM.

In 2022, the South Australia Minister for Energy and Mining triggered the Retail Reliability Obligation (RRO) in South Australia for the first quarter of 2025 (under NEL Part 7A 19B (1)). Following the update to 2023 ESOO, the RRO was revoked since the reliability gap for the period was no longer forecast

The forecast reliability gap for South Australia in AEMO’s 2024 ESOO (particularly for the summer of 2024/2025) enabled AEMO to commence a process to procure IRR in South Australia to cover this reliability gap. Accordingly, on 29 August 2024, AEMO issued an open tender seeking IRR in South Australia.

Compounding the withdrawal of the relevant generators (a combined 138MW of capacity) from the market is the continued uncertainty and delays of the connection and energisation of the first stage of Project EnergyConnect (PEC) - which is still yet to successfully energise and release 150MW of planned capacity.

The delay of extra capacity coming online through PEC is not considered in AEMO’s ESOO forecast meaning the reliability outlook could be materially worse than the 200MW shortfall previously identified.

South Australia typically has very limited demand side reserves that are available for AEMO to contract under the Reliability and Emergency Reserve Trader (RERT) mechanisms in the NER. In 2023, AEMO procured approximately 120MW of RERT in South Australia (both short-notice and IRR) and a similar requirement is expected for 2024/2025.

Currently, the NER (specifically Rules 3.20.3 (g) and (h)) prohibits AEMO from contracting with a generator to provide emergency reserves if it has been “available for dispatch at any time during the 12-month period immediately preceding the date of execution of the scheduled reserve contract, except where that capacity was dispatched under a scheduled reserve contract”. Clause 3.20.3 (g) also prevents a generator from entering into a scheduled reserve contract if it is in the same condition as mentioned in clause 3.20.3 (h).

The relevant generators were both available and able to be dispatched into the market before the decision to mothball them was made earlier this year (both were last dispatched in the market on 1 July 2024). The capacity of the relevant generators is therefore ineligible to be considered by AEMO for contracting as reserves.

Nature and scope of proposed change

The Government of South Australia proposes a derogation to allow capacity from the Relevant Generators to be eligible to be contracted as IRR (despite the provisions of Rules 3.20.3(g) and (h)). The derogation is sought to apply for a maximum of two years (i.e. the additional capacity could only be contracted as reserves until 31 March 2026)

Why is the Rule change urgent

This is proposed as an urgent request in order to give AEMO sufficient time to negotiate with the relevant generators to potentially secure additional capacity from the Relevant Generators as IRR to address reliability risks arising during the peak demand periods expected from December 2024.

AEMO has informed the Government of South Australia that it is currently considering offers for approximately 120MW of reserve in the South Australian region (34 as IRR and 98 as short notice RERT). In recent years in the state, both short notice RERT and IRR has predominantly been provided by load reductions delivered by aggregations of small loads, rather than by the large flexible loads or generation increases available as reserves in other states.

Enabling AEMO to utilise the capacity of the relevant generators as a last resort emergency reserve will significantly increase AEMO’s ability to prevent load shedding during periods of unserved energy.

AEMO has informed the Government of South Australia that even if prioritised, the procurement process to secure the capacity of the relevant generators as IRR could be challenging to finalise ahead of this summer 2024/2025.

Further, Engie has informed the Government of South Australia that if the units were to be required for this summer, there are works that would need to be undertaken to ensure operational readiness.

How would this proposed change contribute to the National Electricity Objective

Section 49 of the NEL requires AEMO to carry out its functions with regard to the National Electricity Objective, specifically section 7 of the NEL, notes:

The objective of this Law is to promote the efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

- (a) *price, quality, safety, reliability and security of supply of electricity;*
- (b) *the reliability, safety and security of the national electricity system; and*
- (c) *the achievement of targets set by a participating jurisdiction –*
 - (i) *for reducing Australia's greenhouse gas emissions; or*
 - (ii) *that are likely to contribute to reducing Australia's greenhouse gas emissions.*

Specifically, the Government of South Australia considers the proposed rule change will contribute to achieving reliable, safe and secure national electricity system.

The rule change will do this by temporarily increasing the scope of the tools available to AEMO to manage the currently forecast reliability gap in South Australia. Specifically, a derogation to the Rule will allow a significant amount of additional capacity (which is currently precluded from use as reserves), to be offered for use as IRR; if this capacity is subsequently contracted as reserves by AEMO, the risk of load shedding impacting consumers and businesses will be significantly reduced.

Recognising the imminent challenges that South Australia could face in summer 2024/2025, the Government of South Australia considers this request meets the criteria of an urgent Rule, as per Part 7 of the NER that the AEMC must consider.

What are the potential impacts and who would be affected by this proposed rule change

Any adverse or potential impacts that Rules 3.20.3 (g) and 3.20.3(h) seek to prevent for other market participants or the NEM more broadly can be avoided by the procurement of these generators to provide their services "out of market" through the RERT framework through a time limited derogation.

This way, the generators will only operate at the discretion of AEMO and in cases of Lack of Reserve (LOR) 3 events or insufficient supply to meet demand. These events typically correlate with prices being at the market price cap and therefore it would be highly unlikely their operation during these periods would distort market outcomes.

On current forecasts, South Australian electricity consumers, businesses, industry and the state's reputation could be significantly adversely impacted through reliability events, particularly if there were a failure of supply to meet demand on a hot day.

Increasing reliability in a particular NEM region also benefits adjacent NEM regions – particularly if co-incident severe weather occurs and more than one NEM region faces reliability issues. Allowing these generators to operate in these circumstances may free up other sources of supply to support the broader market.

Conclusion

The Government of South Australia acknowledges that forecasting reliability gaps in the NEM is challenging and the above scenario highlights the volatile nature of a grid in transition.

However, considering South Australia's historical lack of demand-side participation, uncertainty regarding the timing of PEC energisation, and anticipated demand over the approaching summer, urgent action is required to give AEMO the legal basis and time to negotiate with Engie to potentially use the capacity of the relevant generators as IRR and to increase the available portfolio of reserves in South Australia.

Given the urgent need to commence a procurement process, as well as giving Engie time to schedule and carry out required works to return the relevant generators to an operational state, this rule change request seeks a time-limited jurisdictional derogation under section 91(3) of the NEL.

As required by section 91(3) of the NEL, Ministers of other NEM jurisdictions have been consulted on this rule change request by direct correspondence. Other jurisdictions may also choose to make a submission on the AEMC's consultation paper as part of the expedited rule change consultation process.