

26/08/2021

Mr Harrison Gibbs  
Project Leader, Australian Energy Market Commission  
GPO Box 2603, Sydney  
2001 NSW

Dear Mr Gibbs,

**SA Water response to settlement under low operational demand discussion paper**

Thank you for the opportunity to comment on the Australian Energy Market Commission (AEMC)'s Settlement under low operational demand discussion paper and provide further input to this important rule change process.

SA Water is South Australia's leading provider of water and sewage services, providing regulated water and wastewater services to more than 1.7 million people throughout the state. Wholly owned by the Government of South Australia, we have been working to ensure a reliable supply of safe, clean water and a dependable sewerage system for more than 160 years.

To support the provision of regulated water and wastewater services, SA Water is one of the largest individual users of electricity in South Australia, operating facilities across more than 1,800 connection points across a wide spectrum of electricity loads. The combination of high energy usage required to provide water and wastewater services and the large geographical spread of our customer base mean that SA Water has been dependent on, and will continue to be reliant on the efficient operation of the National Electricity Market (NEM) to support the delivery of essential services to our customers at the lowest possible price.

Our unique position as an essential but flexible consumer of electricity has driven us to innovative approaches to securing a low cost electricity supply over the last decade, resulting in SA Water taking spot exposure via a retail arrangement in 2013 before becoming a full market customer in 2017. As such, we are now a leader in demand management and deliver significant cost reductions through scheduling our consumption of electricity at times when generation is abundant relative to demand and prices are therefore low.

Under the Water Industry Act 2012, SA Water is subject to economic regulation by the Essential Services Commission of South Australia (ESCOSA) for the provision of regulated water and wastewater services. In each regulatory period SA Water is set a cap by ESCOSA for the maximum allowable revenue that can be recovered for the provision of those services. Any activity required to provide the regulated services that is not foreseen at the time a determination is made by ESCOSA, is not incorporated into the allowable revenue cap. Where an activity is required that was not foreseen, SA Water must fund that activity directly and is only able to recover the costs of undertaking that activity in the next regulatory period, and only if a materiality threshold is met.

The settlement of the electricity market during periods of low, zero and negative demand presents a significant challenge for the Australian Electricity Market Operator (AEMO) and electricity market participants, SA Water have previously expressed our preference for rule changes that implement long term solutions that are well planned and that we can manage through our regulatory process, but we recognise that resolving this issue effectively and getting the right interim solution is critical to the ongoing function of the market.

The AEMC raised four questions in the discussion paper, which seek information beyond the input sought previously in the consultation for both the settlement under low operational demand and the settlement under low, zero and negative demand conditions consultations. Our responses to these questions are below but those responses should be considered in conjunction with the feedback we have previously provided in these related consultations.

**1. In light of the new information provided by AEMO, do stakeholders consider that the flooring mechanism should be implemented in addition to the 150 MWh threshold solution?**

SA Water does not support the additional complexity from having both a flooring solution and the 150 MWh threshold solution. We believe the flooring mechanism is preferable to the 150 MWh threshold solution as it maintains real-time signals in the market while addressing the underlying concerns raised in both rule change requests. SA Water does not believe the scenario raised by Infogen where all market customers have net zero or negative customer demand in a trading interval is probable at this time. As such if the flooring solution is implemented, we would not support retaining the 150 MWh threshold solution.

**2. Does AEMO's interpretation of the NER provide sufficient certainty of calculations or should the flooring mechanism be prescriptive within the NER?**

To ensure certainty of the approach being proposed, SA Water would support changes in wording in the NER to align the requirements for recovery of non-energy costs associated with customer demand to be unambiguously consistent with generator and small generator energy definitions.

**3. If the Commission were to make a final rule which implemented the flooring mechanism, what costs and system upgrades would be required by participants and how long would this take (noting other reforms like five minute settlement and wholesale demand response are also in the last stages of being implemented)?**

As we are currently running a program to implement five-minute settlement and global settlement, we have teams currently stood up to make the required changes. SA Water can utilise these existing resources to modify our IT systems that enable us to respond to market signals and process AEMO settlements. However these resources are fully occupied implementing our five minute settlement program and would be unable to commence work prior to the go-live of five minute settlement. Detail on the exact calculations being applied and any changed data flows from AEMO would be needed to quantify the cost of this activity, however we do not believe this is an extensive program of work. We believe that we could complete the program of work within 8 weeks of the commencement of five-minute settlement.

SA Water notes that under our regulatory model it is likely we would not be able to recover the costs of this activity. We have previously expressed our preference for rule changes that implement the long-term solution currently proposed in the draft determination for the Integrating energy storage systems into the NEM rule change.

**4. Is there any additional risks in changing the definition of customer energy that the Commission should consider**

SA Water is not aware of any additional risks that have not been considered.

If you have any queries about this response, please contact Mr Andrew Wilkins, Energy Lead at [andrew.wilkins@sawter.com.au](mailto:andrew.wilkins@sawter.com.au) or (08) 7424 1877.

Kind regards,



Andrew Jackson

**Manager, Energy Services and Water Trading**

Phone: (08) 7424 1045

Email: [andrew.jackson@sawater.com.au](mailto:andrew.jackson@sawater.com.au)