



20 May 2021

Australian Energy Market Commission
GPO Box 2603
Sydney 2001

National Electricity Market Settlement Rule Change Consultation Papers

The South Australian Chamber of Mines and Energy (SACOME) is the peak industry body representing companies with interests in the South Australian minerals, energy, extractive, oil and gas sectors and associated service providers.

SACOME notes that the Australian Energy Market Commission (AEMC) is simultaneously considering two related rule change requests from the Australian Energy Market Operator (AEMO) and Infigen Energy (Infigen) to ensure the National Electricity Market (NEM) can continue to settle in periods of low regional demand.

SACOME welcomes the opportunity to make a submission to both rule change requests and proposes to respond to the National Electricity Amendment (NEM Settlement in Low, Zero or Negative Demand Conditions) Rule 2021 Consultation Paper (the AEMO rule change); and the National Electricity Amendment (Settlement Under Low Operational Demand) Rule 2021 Consultation Paper (the Infigen rule change) in one submission.

The AEMO Rule Change

SACOME recognises that the AEMO rule change is focused on the formulas used to calculate non-energy cost allocations to market customers and their impact on the settlement of other markets within the NEM.

AEMO proposes to amend rule 3.15 of the National Electricity Rules (NER) to allow it to substitute the adjusted gross energy (AGE) value, when aggregate regional demand is less than 1MWh, to ensure its settlement system formulas work.

AEMO is responsible for facilitating the billing and settlement of all transactions under Chapter 3 of the NER, which include:

- spot market transactions;
- reallocation transactions; and
- certain non-energy cost transactions (such as market and non-market ancillary services; and compensation for directions).

South Australian Chamber of Mines & Energy

AEMO has identified that if aggregate regional demand is less than 1MWh for a trading interval, its non-energy cost recovery formulas cannot be solved by its market settlement systems; and AEMO would be unable to recover these costs from market customers.

In turn, AEMO's automated settlement runs would also stop working, impacting the settlement of all transactions and meaning AEMO would not be able to meet any of its obligations under Chapter 3 of the NER.

SACOME notes the actual risk of aggregate regional demand falling to less than 1MWh for a trading interval in NEM regions has increased, particularly in South Australia which has increasing penetration of rooftop PV solar and continues to set records for falling minimum operational demand levels.

AEMO proposes to use an average of the AGE amounts in the last four billing periods for each affected market customer and will substitute aggregate AGE for a region with the sum of the substituted market customer average AGEs in the region.

SACOME recognises AEMO's important role in maintaining the secure operation of the NEM; and that the proposed rule change is necessary to ensure the NEM's continued operation and integrity.

However, AEMO also acknowledges that its rule change could lead to some market customers paying a disproportionate share of non-energy costs; and that a different threshold could achieve a more equitable and efficient allocation of these non-energy costs¹.

SACOME submits that the scope of AEMO's rule change request is too narrow and that the cost implications of the rule change for market customers should be given greater consideration.

The AEMO rule change should consider the remaining net loads paying a higher share of system services as regional demand continues to decline due to increasing solar exports; and that due to the increased number of negative loads in the system at any given point, a market customer could be forced to pay more than 100 per cent of the total service costs, with the additional recovered costs being paid to those customers with net exporting loads.

SACOME supports a threshold higher than the 1MWh proposed by AEMO to allocate costs more fairly between market participants.

¹ Pg. 33 [AEMC National Electricity Amendment \(NEM Settlement in Low, Zero or Negative Demand Conditions\) Rule 2021 Consultation Paper](#)

Infigen Rule Change

SACOME recognises the Infigen rule change is focused on changing AEMO's non-energy cost recovery formulas to enable both the settlement of the NEM and the equitable recovery of non-energy costs during low operational demand.

Infigen proposes to amend rule 3.15 of the NER such that a lower limit of zero is set on market customer's AGE within the non-energy cost recovery formula.

SACOME notes that the Infigen rule change request also provides a number of alternative solutions, including the possibility of increasing AEMO's threshold value to 150 MWh.

SACOME notes the example provided by Infigen in the consultation paper which provides a useful illustration of why a higher threshold than the 1MWh for the allocation of non-energy costs should be supported:

"On 9 of November 2019, between 6:00 and 7:00 am, there was an average of more than 100 MW of each fast (6 seconds) and slow (60 seconds) lower contingency service enabled in South Australia. For the 6:30 am trading and the 7:00 am trading interval these services were settled at \$13,000/MWh and the market price cap of \$14,700/MWh respectively, with total costs for these services over the hour period of \$3.4 million. These costs were distributed according to the current rules with all market participants paying a proportional share.

Had this high price event occurred with a period of low operational demand the costs associated with a 20MW industrial load would be up to \$68 million as regional demand approached 1 MWh, this cost is 20 times the total cost of the service. This cost is equivalent to an average annual cost of \$485/MWh. Infigen expresses that this single hour of high local non-energy costs and low operational demand could be significantly higher than the load's entire annual cost, or equivalent to applying a cost of \$3,400,000/MWh to the load during the event, compared to the market price cap of \$14,700/MWh.

SACOME reiterates its support for a threshold higher than 1MWh to allocate costs more fairly between participants.

SACOME Position

Energy affordability and reliability are of paramount importance to resources sector operators and have a direct impact on business viability, new project development and investment decisions.



Consistent with SACOME's previous submissions to AEMC consultations, the manner in which non-energy costs are allocated and passed on is an area of primary concern for SACOME member companies.

SACOME member companies (in particular large C&I members) continue to raise concerns about how AEMO's interventions in the NEM continues to increase their energy costs.

SACOME member companies have stated these additional costs are unknown, unbudgeted, place pressure on large energy users at the time of receipt, and further compound an unsustainable operating environment for industry.

SACOME submits that the secure operation of the NEM and energy costs are not mutually exclusive but interlinked. SACOME does not support AEMO's proposed rule change given its potential to increase energy prices for SACOME member companies.

SACOME does support alternative solutions such as those proposed by Infigen on the basis that it is efficient and equitable.

SACOME thanks the AEMC for the opportunity to provide feedback to both rule change requests and remains committed to ongoing dialogue with the AEMC in relation to these matters.

Kind regards

A handwritten signature in black ink, appearing to read 'Rebecca Knol'.

Rebecca Knol
Chief Executive Officer