

Kate Degen
Senior Adviser
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

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

Dear Ms Degen,

Victorian Jurisdictional Derogation – RERT Contracting
Reference: ERC0283

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission’s (“**AEMC’s**”) *Victorian Jurisdictional Derogation – RERT Contracting Consultation Paper*.

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.

Obligation to consider the Rule Change Request

Under Section 94(1)(c) of the National Electricity Law, for the AEMC to consider a rule change request, the subject matter of the request must not relate to a rule made in the 12 months immediately before the date of receipt of the rule change request.

On 31st October 2019 Schedule 2 of the Electricity Amendment (Enhancement to the Reliability and Emergency Reserve Trader) Rule 2019 No. 3 commenced.

One of the effects of the rule as made is to increase the procurement lead time for Reliability and Emergency Reserve Trader (“**RERT**”) contracts from 9 months to 12 months, and the AEMC considered at length the issue of procurement lead time and contracting duration in Chapter 6 of the Final Determination.¹

The Energy Council therefore strongly believes that since the proposed rule change is so similar to what has been proposed previously, the AEMC should not be considering the currently proposed rule change until such time as 12 months have elapsed since the rule has commenced.

Increased Risk of Load Shedding

In August the Australian Energy Market Operator (“**AEMO**”) issued its 2019 Electricity Statement of Opportunities (“**ESoO**”),² which the rule change proponent argues provides evidence that there is an impending reliability shortfall, and therefore, within Victoria, 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 Australian Energy Market Operator, *2019 Electricity Statement of Opportunities*, August 2019



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

Source: AEMO³

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 12th July 2019 there is more than 2GW of committed generation preparing to connect, with a further almost 9GW proposed.⁴ Therefore there is a real risk that contracting for more than a year hence will increase market distortions, due to reserve providers considering the longer-term market to be a legitimate alternative market for their products.

A longer-term market will also have the side-effect of AEMO contracting to satisfy inaccurate forecasts, given accuracy deteriorates as predictions of conditions become further into the future. The implications are that implementing a rule change which allows for RERT to be contracted for longer periods may expose consumers to the unnecessary costs of superfluous RERT.

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;
- 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.⁵ The ESoO highlights the possibility (but not certainty) that the Reliability Standard may not be met in the coming summer,

³ Australian Energy Market Operator, 2019 *Electricity Statement of Opportunities*, August 2019, p.10, Figure 2

⁴ See <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/Generation-information>

⁵ National Electricity Rule 3.9.3C(a)

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.

There are also other market features which assist in the provision of market signals. For example, the AEMC recently published a Draft Determination to increase the length of the Medium Term Projected Assessment of System Adequacy to three years.⁶ This will provide a regular weekly update of forecast regional reliability on a more granular basis in that three year period than the annual ESoO currently reports, and the effect of this will be to allow any potential reliability shortfall to be identified more quickly than is currently the case, and therefore facilitate the earlier commencement of the existing long-notice RERT tender process.

The Energy Council is of the view that the existing mechanisms and market features are sufficient to meet the Reliability Standard, and therefore the rule change request should be dismissed.

Increased Unreliability

The proponent alleges that Victorian brown coal generators are becoming increasingly unreliable.⁷ The Energy Council disputes this allegation, and suggests that it is due to the natural variation in forced outage rates over time.

The AEC itself collects confidential forced outage rate (“FOR”) data from its members, for aggregation in its annual Electricity and Gas Australia publication. Actual FORs have always shown large stochastic variation from year to year, and many power stations have experienced consecutive years in their history where actual FORs far exceeded the long-term average, then reverted. This is unremarkable, and is the expected behaviour of such a random parameter. Instead the full historic time series of outage information for each plant should be used to determine the most accurate, current FOR, and therefore the allegation of increased unreliability is unproven.

No Evidence of a Reserve Shortfall

The proponent has suggested there is a “heightened risk of load shedding” in the coming 2019-20 summer. Clearly long-notice RERT changes are not going to address this apparent risk, and it would be expected that AEMO would rely on existing medium-notice and short-notice RERT arrangements. However to address the proponent’s concerns, the Energy Council provides the following evidence.

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% assumes that AGL Energy is unable to achieve agreement of the South Australian Government to extend the operation of its Torrens A plant through the summer. This is an extremely conservative assumption, which when confirmed is expected to bring the unserved energy 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,⁸ which reported over 800MW available, as shown in the following graph:

⁶ Australian Energy Market Commission, *Improving Transparency and Extending the Duration of the MTPASA – Draft Rule Determination*, 24th October 2019

⁷ Rule Change Request, p.7

⁸ Australian Energy Market Operator, *Summer 2017-18 Operations Review*, 23rd May 2018

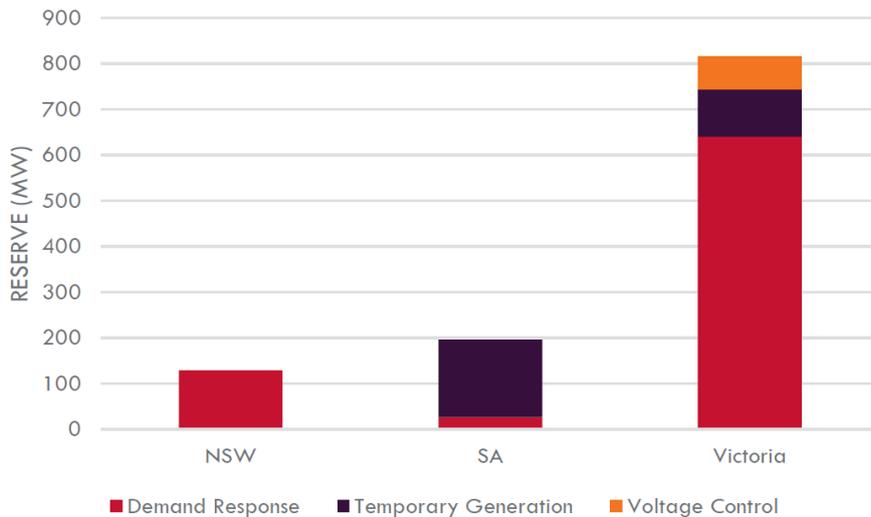


Figure 2: RERT Available by Generation/Demand

Source: AEMO⁹

Further evidence of RERT availability is provided by the 24th/25th January 2019 Operating Incident Report,¹⁰ which showed that AEMO was able to activate 180MW in Victoria on 24th January 2019 in response to expected supply shortfalls.¹¹

Therefore allegations of impending shortfalls appear alarmist, and the Energy Council submits that any shortfall can be addressed using the existing reliability mechanisms.

The Need for the Rule Change until the RRO takes Effect

The rule change request suggests that it is needed until the Retailer Reliability Obligation (“RRO”) takes effect. In its annual ESoO, AEMO determines whether a Retailer Reliability Obligation is called for, and seeks permission from the Australian Energy Regulator to put it in effect. The ESoO telegraphs the need three years from the date of the ESoO (T-3), and confirms it (or discards it) in a subsequent ESoO, with one year’s notice (T-1).

In its latest ESoO, AEMO has not forecast a T-3 reliability gap. Should it do so next year, it will do so for the 2023-24 summer, but will need to confirm it in the 2022 ESoO. Thus for the summers from 2023-24 on, an RRO may be triggered.

On this basis, the proposal that the rule change remains on foot until June 2025 (with the prospect of RERT contracting until June 2028) is significant overreach and market distortion, and is opposed by the Energy Council.

The Issue of Authorising a State Derogation

The concept of state derogations is problematic. The National Electricity Market is increasingly interconnected, with the result that reserves are often considered to be shared across regional boundaries. Victoria and South Australia are particularly strongly linked, since they are often exposed to similar climatic conditions, and support in one of the regions becomes support for both. In addition, given their strong linkages, when load shedding occurs in one region, the pain is shared with the other, as given voice by the Reliability Panel’s Equitable Load Shedding Arrangements.¹²

⁹ Ibid., p.32, Figure 14

¹⁰ Australian Energy Market Operator, *Load Shedding in Victoria on 24 and 25 January 2019*, 16th April 2019

¹¹ p.35-36, Table 19

¹² Australian Energy Market Commission Reliability Panel, *Guidelines for Management of Electricity Supply Shortfall Events – Equitable Load Shedding Arrangements*, December 2009

Thus the implementation of a RERT rule which is specific to one jurisdiction would cause material complications for AEMO's management of power system operations across regions with asymmetric RERT arrangements. In addition to the complications, there is a risk that costs for consumers (either in Victoria or SA) will be increased by AEMO being constrained in its ability to purchase the most cost-effective reserves, due to geographic restrictions.

As an adjunct, the grant of jurisdictional derogations detracts from the harmonisation sought by the introduction of the National Electricity Market. The Energy Council believes that the National Electricity Rules as they currently stand are sufficiently resilient to accommodate the rule proponent's concerns, and the introduction of a separate jurisdictional derogation is unwarranted.

Cost versus Reliability

The issue of cost versus the appropriate level of reliability is also an important consideration. The Reliability Panel sets an appropriate level of reliability weighed up against the extra cost of providing a higher standard. Last financial year AEMO's RERT costs were \$34.5m,¹³ the year before \$51.3m.¹⁴ These are additional costs borne by the market, which may or may not be used. The Energy Council believes that, despite claims of lower costs for longer RERT contract terms, the additional costs of possibly unused reserves need to be considered in the context of whether this supports the National Electricity Objective. The Energy Council submits that it does not.

Conclusion

The Energy Council opposes the rule change, contending that:

- given the recency of the Enhancement to the RERT rule change, the AEMC should not be considering this rule change request;
- any possible unserved energy is likely to be short-term only, and can be addressed through existing reliability mechanisms;
- there is no evidence of a likely reserve shortfall;
- increasing the term of the long-notice RERT will cause market distortions;
- implementing the rule change will increase costs for consumers, as they will be obliged to pay for unused capacity in the later years of the proposed RERT contracts; and
- implementing a state derogation will create an asymmetry with adjoining regions and affect AEMO's management of the power system.

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,



Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council

¹³ Australian Energy Market Operator, *RERT Report for 2018-19*, undated

¹⁴ Australian Energy Market Operator, *Summer 2017-18 Operations Review*, 23rd May 2018