

20 December 2025

Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000

Reference: ERC0403

Dear Ms Collyer,

AEMO submission to consultation paper – South Australian jurisdiction derogation – Interim Reliability Reserve

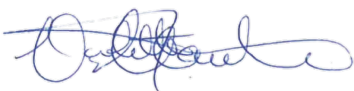
Thank you for the opportunity to make a submission to the consultation paper (Paper) on the proposed derogation to the National Electricity Rules (NER) to allow AEMO to enter into reserve contracts in relation to the capacity of two recently mothballed generating units to help safeguard reliability in the current summer.

AEMO supports the proposed derogation. Having the ability to enter reserve contracts with the mothballed generators would provide AEMO with an option to substantially assist South Australia's reliability. This is presently forecast to be outside the Interim Reliability Measure for the peak period of the 2024-25 summer, which will occur from mid-January to the end of February.

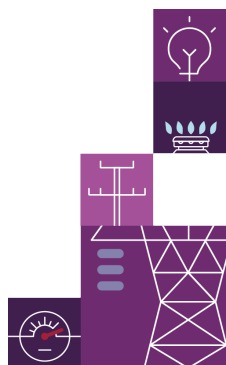
AEMO understands the historical background behind the exclusion of market-operating generators from the Reliability and Emergency Reserve Trader (RERT) but considers the exclusion to be unwarranted in this exceptional case.

The attached detailed submission expands on these issues and others identified in the AEMC's consultation paper questions. Should you wish to discuss any aspect of our submission, please contact Hannah Heath, Group Manager, Strategic Market Reform (Hannah.Heath@aemo.com.au).

Yours sincerely,



Violette Mouchaileh
Executive General Manager, Reform Delivery



ATTACHMENT – Detailed submission

1. Will a jurisdictional derogation for reserve contracts in South Australia resolve the problem?

Question 1: Do you agree that removing the restrictions in clause 3.20.3(g) and (h) in relation to the capacity of the Snuggery and Port Lincoln generators would assist AEMO to manage reliability risks in the upcoming summer period in South Australia?

Based on current forecasts, if AEMO succeeds in striking an Interim Reliability Reserve contract for these generators across the highest risk period of the current summer, January and February 2025, then AEMO's management of South Australian reliability risks will materially improve. It is likely to result in South Australia operating reserves that are just within or very close those required to maintain the interim reliability measure.

As stated in the appendix A.3 of the Paper, the rationale for the existing restrictions of generators with market dispatch history in the last 12 months is to ensure the RERT is securing *additional* capacity, i.e. is not simply diverting market-facing generation into the RERT, which would undermine its objective in supporting reliability.

AEMO understands this concern and recognises the need for confidence in the non-market status of any reserves it contracts. In this exceptional case AEMO is satisfied that the two relevant generators would not operate in the market nor be available for direction at short notice.

As can be seen in AEMO's current NEM Generation Information¹, since their last market operation these generators have been listed as unavailable for this summer through to their announced dates of closure of January 2028². AEMO understands that after withdrawal from the market, the generators were mothballed and placed in an extended recall status. This means that without a RERT contract, they are unlikely to be placed in a physical state that would:

- Permit operation in response to market signals;
- Permit participation in short-notice RERT contracting; nor
- Be responsive to an AEMO direction in the lead-up to a short-term reserve shortfall.

¹ <https://aemo.com.au/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-planning-data/generation-information>

² Ibid

2019 Rule Determination

AEMO recognises that when it imposed the restriction, the AEMC's 2019 Rule Determination³ considered hypothetical scenarios that had similarities to that which confronts AEMO at this time, yet ultimately it did not provide an exemption.

AEMO considers the first of these scenarios, a plant closure following the required notice period, is not relevant as the plants under consideration have not been fully closed.

With respect to the second, a generator entering mothballed status, the decision to not provide an exemption hinged on the difficulty of pre-defining the status of mothballing, noting that it could take many forms and have many causes. AEMO recognises the difficulty of "hard-wiring" an ex-ante definition of mothballing into the Rules.

However, were it possible for that 2019 exercise to foresee the current scenario, AEMO considers that this case would be correctly interpreted as a form of economically mothballed reserve for which an exemption would be appropriate.

The 2019 determination was prescient in stating:

"However the Commission acknowledges that in some instances, mothballed plants may not be able to be directed (and in time). For example, due to difficulty in getting fuel or due to non-maintenance of the unit while mothballed".

The current scenario appears to replicate this concern and appears uncondusive to direction.

The 2019 discussion concluded around the concern diminishing over time with the following:

"As the power system and market transform to accommodate the changing generation mix, the Commission considers that a number of changes under way mean that concerns about mothballed units and generators that have decided to close down would become less material."

AEMO considers that the "changes under way" that led the Commission to this 2019 confidence did not ultimately fully come to pass. This particularly applies to contemporaneous work in 2019 by the Energy Security Board to explicitly reward capacity.

Indeed, the reverse is potentially the case as in 2019 AEMO was managing reliability to the Reliability Standard of 0.002% Unserved Energy. In 2020 the tighter Interim Reliability Measure was introduced that AEMO is now seeking to address. Thus, since that 2019 consideration, the relevant reliability target (being the Interim Reliability Measure) has

³ AEMC, Enhancement to the RERT, Rule determination, 2 May 2019, pp. 163-165

become more exacting, whilst the market changes anticipated to enhance reliability did not eventuate.

2. Benefits

Question 2: Do you agree with the benefits of the proposed rule change?

Are there any further benefits not considered by the Commission?

AEMO agrees with the benefits listed in the Paper, being:

- Ability to improve reliability outcomes by allowing contracting with reserves at an efficient cost;
- Promoting efficient operation and use of generation facilities noting that their RERT contracting would have the least distortionary impact on the market and would allow access to emergency reserves rather than holding operable plant out-of-service during load shedding; and
- Addressing reliability issues that may otherwise undermine progress towards Australia's greenhouse gas emissions targets.

3. Costs

Question 3: Do you consider the costs of the proposed rule change can be managed?

Are there any costs - either direct or indirect - that have not been considered by the Commission?
What are stakeholder views on these costs relative to the benefits?

As stated in the Paper, AEMO is subject to the RERT principles that include consideration of the value for money of the contracted reserves. Whilst a RERT contract will have direct costs that must be recovered from consumers, AEMO only undertakes the contracting if it considers that the cost is likely to be outweighed by the forecast avoided cost of unserved energy. This must, of course, be based on a forecast of expected conditions only and cannot be guaranteed if, say, no extreme conditions eventuate.

It is important to recognise that even if the derogation is granted, there is no certainty that a RERT contract will be entered into with the generators. AEMO may choose to disregard an offer if it considers it to not be good value for money or if the offer is otherwise technically unsuitable.

With respect to indirect costs, AEMO considers that the design of the RERT removes concerns about distortion to the energy market, and that it is unlikely that the ability to include these generators will undermine other sources of reserves participating in RERT.

4. Implementation

Question 4: Are there further implementation considerations that need to be made? Are the implementation risks adequately managed?

AEMO agrees with the Paper that the key implementation risk is not finalising the Rule Change in time to complete contractual and preparatory arrangements.

If the Rule is made shortly after the closing of submissions on 2 January, and successful negotiations quickly concluded with the owner, AEMO feels the capacity can still be made available for the highest risk period of the summer, being the second half of January and February 2025.

5. Assessment

Question 5: Assessment framework

Do you agree with the proposed assessment criteria? Are there additional criteria that the Commission should consider or criteria included here that are not relevant? What are your views on the costs and benefits of the proposed solution or alternative options against these criteria?

AEMO agrees with the Paper's proposed assessment criteria being Reliability, Implementation Matters and Good Regulatory Practice. AEMO also agrees that emissions associated with the derogation are likely to be minor.

6. Other matters

The Proponent and Paper referred to delays in the commissioning of the early stages of Project Energy Connect (PEC) resulting in a potentially worse outlook than was presented in the August 2024 Electricity Statement of Opportunities (ESoO). This ESoO had anticipated 150MW of capacity being released for South Australian supply before the 2024-25 summer.

PEC Testing is progressing which may result in some observed flows at this level early in the summer, but at this time it appears a formal release of the 150MW capacity will likely not occur until late January or February. Even if released earlier, the outlook would remain outside the Interim Reliability Measure and thus AEMO has cause to seek RERT contracts regardless.