

20 December 2024

Ms Anna Collyer
Mr Tim Jordan
Mr Rainer Korte
Ms Sally McMahon
Ms Lana Stockman

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged electronically: www.aemc.gov.au (ERC0407)

Dear Commissioners



EnergyAustralia
LIGHT THE WAY

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 19
Two Melbourne Quarter
697 Collins Street
Docklands Victoria 3008

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

South Australian jurisdictional derogation - Interim reliability reserve eligibility – consultation paper – 28 November 2024

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate the opportunity to comment on this rule change proposal and note that it is one of several mechanisms currently being introduced to address reliability issues. Others include the South Australian Firm Energy Reliability Mechanism (FERM), the Orderly Exit Management Framework and tenders under the Capacity Investment Scheme. These are on top of the existing Retailer Reliability Obligation (RRO), which has been triggered in South Australia for each summer period from 2022 to 2027 (four of these six cases by the South Australian Minister).

In principle we favour the use of in-market assets to deliver reliable electricity supply. As the Commission notes in its consultation paper, this principle was embodied in the Enhancement to Reliability and Emergency Reserve Trader (RERT) rule change¹, which now prevents assets from seeking reserve contracts where they have been out of market for less than 12 months. It ensures that asset owners' decisions to withdraw from the market are not made with the intention to then seek reserve contracts at higher cost to consumers. The application of this rule to exiting and mothballed assets was also explicitly considered in this rule change, although some of the Commission's reasoning depended on incentives under the RRO, which we consider to be very weak.

Flowing from these prior deliberations and concurrent mechanisms being introduced, this derogation should be considered in terms of whether it sets a precedent for other governments wanting to address short-term reliability issues by over-riding this principle.

¹ AEMC, *Enhancement to the Reliability and Emergency Reserve Trader*, Rule determination, 2 May 2019

We acknowledge the market is subject to changes in circumstances over the short term. Hence while we do not object to this rule change being considered under an expedited process, we do have some concerns that the proponent has made this request almost 3 months after a reliability breach was formally identified in AEMO's 2024 Electricity Statement of Opportunities (ESOO). The proponent notes that ahead of the 2024 ESOO, it undertook its own reliability modelling in relation to the mothballing of Port Lincoln and Snuggery power stations. These announcements were previously captured in the Update to the 2023 ESOO published in May 2024. The proponent points to ongoing uncertainty on the commissioning of Project Energy Connect as a further reliability risk. Again the effect of these delays appears to have been captured in the 2023 ESOO Update.

A key and previously unforeseen factor leading to the breach of the Interim Reliability Measure (IRM) for 2024-25, as identified in the 2024 ESOO, relates to AEMO's modelling of network operation affecting the balance of risk between VIC and SA. Our reading of AEMO's ESOO analysis is that it presumes it will operate the Latrobe Valley to Melbourne system in a parallel mode at times of high demand. The Commission should confirm that AEMO actually intends to operate the system in this way over the coming summer, and whether it has some flexibility to respond to reliability risks in real time for SA customers.

We also understand the SA Government is considering the risk of 'shock' events beyond the IRM in setting its FERM procurement targets. Without wanting to understate any potential reliability risks for this upcoming summer, we recommend the Commission investigate whether the proponent and AEMO are targeting a prudent level of risk. The IRM reflects an implied value of customer reliability that is well above the AER's official estimates. AEMO's forecast of expected unserved energy for 2024-25 is also within the Reliability Standard, which is aligned with the AER's estimates.

The above notwithstanding, we accept that confidence in the market's governance and institutions would be undermined if we faced a situation of involuntary load-shedding while potential supply sources were apparently available.

In considering the specifics of this rule change proposal, we recommend the Commission give careful consideration to:

- the progress of AEMO's tender for reserves that commenced on 29 August with its ESOO publication. The Commission notes that AEMO is currently considering offers of 120MW of reserves.
- the two year limit to the derogation and the prospects of further reliability gaps arising in summer 2025-26.
- how other rule requirements regarding reserves procurement will be satisfied, namely that AEMO must procure the minimum amount it deems necessary and any contract payments are capped at the regional value of customer reliability.
- what competitive pressure would apply to this additional reserve procurement, noting AEMO has already gone out to tender and would need to separately negotiate with the asset owners in the absence of alternatives.

- whether the gas generators could be brought out of mothballing in time, and the timing pressure this places on AEMO to negotiate with the owners.
- whether and how gas generators brought out of mothballing under reserve contracts will be prioritised against other RERT providers.
- whether the full cost of reinstating units will be disclosed to the market, such that other fee-paying participants and customers will have transparency on value for money.
- whether the Commission or the South Australian Government should clarify up front what happens to the reinstated units at the end of their reserve contracts. For example would these assets be eligible to bid under the FERM (including being counted towards the FERM target), as well as potential interactions with closure notice obligations.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Regulatory Affairs Leader