



**Australian Energy Market Commission**

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# RULE CHANGE

## **RULE DETERMINATION**

### **National Electricity Amendment (Victoria Generator Technical Performance Standards Derogations) Rule 2010**

#### **Rule Proponent(s)**

Victorian Minister for Energy and Resources

#### **Commissioners**

Pierce  
Henderson  
Spalding

9 September 2010

#### **JOHN PIERCE**

Chairman

For and on behalf of the Australian Energy Market Commission

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## **About the AEMC**

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005 to be the rule maker for national energy markets. The AEMC is currently responsible for rules and providing advice to the MCE on matters relevant to the national energy markets. We are an independent, national body. Our key responsibilities are to consider rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council as requested, or on AEMC initiative.

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## Summary

On 30 December 2010, the Australian Energy Market Commission (AEMC or Commission) received a Rule change request from the Victorian Minister for Energy and Resources (Rule Proponent). In this Rule change request, the Rule Proponent sought to remove the Victorian generator technical performance standards derogations that appear to be redundant and has the potential to compromise reliability and security of the power system in the National Electricity Market (NEM).

### Commission final Rule determination

Under sections 102 and 103 of the National Electricity Law (NEL), the Commission determined to make this final Rule determination and the *National Electricity Amendment (Victoria Generator Technical Performance Standards Derogations) Rule 2010 No 10* (the Rule as Made).

As proposed by the Rule Proponent, the Rule as Made removes all generator technical performance standards jurisdictional derogations under Schedule 9A3 of the Rules except those that relate to Smelter Trader's Anglesea Power Station Unit 1.

The Commission is satisfied that the Rule as Made meets the Rule making test and will, or is likely to, contribute to the achievement of the national electricity objective (NEO).

In making this assessment, the Commission took into account the impacts of the Rule as Made on economic efficiency and good regulatory practice. The Commission also took into account the impacts of the Rule as Made on the quality, reliability and security of the power system in the NEM.

The Commission notes that the transitional technical performance standards registration process under rule 4.16 of the Rules was completed on 30 June 2007 (except for Anglesea Power Station Unit 1). This registration process established the technical performance standards for the relevant generating units in the NEM. The registered performance standards are inconsistent with the technical performance standards derogations in Schedule 9A3 of the Rules. The Commission considers such inconsistencies give rise to ambiguity in the NEM in relation to the technical performance standards applying to Victorian generators. Ambiguity in the Rules gives rise to regulatory uncertainty.

Regulatory uncertainty can pose unnecessary risks to participants the NEM. NEM participants are likely to incur unnecessary costs in managing these risks, and these costs would be a factor contributing to inefficiencies in the NEM. By removing the technical performance standards derogations from the Rules as proposed, the Rule as Made clarifies that the technical performance standards applying to generating units in Victoria are those as registered with Australian Energy Market Operator (AEMO),

rather than those derogations under Schedule 9A3 of the Rules.<sup>1</sup> This is likely to reduce ambiguity in the Rules, hence promoting regulatory certainty.

Promoting regulatory certainty reduces NEM participants' risks, hence reduces the costs necessary to manage these risks. The cost saving can be passed on to consumers of electricity. This is likely to promote efficient operation of electricity services for the long term interests of consumers with respect to price of supply of electricity, hence contributing towards the achievement of NEO.

The Commission considers the Rule as Made improves consistency of the registration and compliance requirements framework across the NEM. Improved consistency is likely to contribute towards reducing complexity in the Rules. Reduced Rules complexity means reduced administrative burdens and the associated cost burdens on NEM participants. As discussed above, cost saving by NEM participants is likely to contribute towards the achievement of the NEO.

The Commission has been advised by AEMO that the Rule as Made will not, or is unlikely to, inappropriately dilute power system quality, reliability and security in the NEM.

In addition, the completion<sup>2</sup> of the transitional technical performance standards registration process also means the technical performance standards derogations proposed to be removed are now redundant. The Commission considers that it is a good regulatory practice to remove redundant provisions in the Rules.

The Commission considers removing the technical performance standards derogations from Schedule 9A3 of the Rules as determined is unlikely to result in the relevant generating unit breaching its registered performance standards. Any breaches of the technical performance standards can be dealt with under rule 4.15 of the Rules. Therefore, Commission did not make a transitional arrangement (for example, delaying the commencement date of the Rule) to allow generating units sufficient time to upgrade their plants and equipments in order to comply with the registered performance standards.

This final Rule determination is consistent with the draft Rule determination. The Rule as Made is the same as the draft Rule. The Rule as Made commences on 16 September 2010.

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1 An exception applies to Anglesea Power Station Unit 1 as discussed earlier.

2 An exception applies to Anglesea Power Station Unit 1 as discussed earlier.

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# 1 Victorian Minister for Energy and Resources' Rule Change Request

## 1.1 The Rule Change Request

On 30 December 2010, the Rule Proponent made a request to the AEMC to make a Rule regarding the removal of most of the Victorian generator technical performance standards derogations from schedule 9A3 of the National Electricity Rules (Rules).

## 1.2 Rationale for the Rule Change Request

In this Rule change request, the Rule Proponent sought to remove the Victorian generator technical performance standards derogations that appear to be redundant and has the potential to compromise reliability and security of the power system in the NEM.

In December 2006, the Commission made a Rule that aimed to resolve issues relating to the performance standards of generators connected to transmission or distribution networks.<sup>3</sup> This Rule established a transitional process which required incumbent generators to register their actual technical capabilities with National Electricity Market Management Company (NEMMCO), now AEMO . This process was completed by 30 June 2007.<sup>4</sup> The registration process (which established the technical performance standards for the relevant generating units) is set out in rule 4.16 of the Rules. The technical performance standards were to be resolved between AEMO and the relevant generators in accordance with the requirements under this rule of the Rules.

Schedule 9A3 of Chapter 9 of the Rules sets out the jurisdictional derogations relating to the technical performance standards for Victorian generators. In the Rule change request, the Rule Proponent submitted that these derogations are "inconsistent with the capabilities that the generators have registered with AEMO [under rule 4.16 of the Rules]"<sup>5</sup>. While these jurisdictional derogations remain in force, they take precedence over the technical standards that have been registered with AEMO.<sup>6</sup>

In the Rule change request, the Rule Proponent submitted that "in November 2007 the Australian Energy Regulator (AER) asked the Victorian Government to remove the technical performance derogations for Victorian generators from the NER [Rules]. The AER made this request as a result of its investigation into the events of the 16 January

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<sup>3</sup> National Electricity Amendment (Resolution of existing generator performance standards) Rule 2006 No.21, <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/Resolution-of-existing-generator-performance-standards.html>

<sup>4</sup> AEMC, 2006, *Rule determination - Resolution of existing generator performance standards*, <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/Resolution-of-existing-generator-performance-standards.html>.

<sup>5</sup> See Rule change request, page 3.

<sup>6</sup> See clause 9.1.1(b) of the Rules.

2007 Victorian bushfires. In its 2007 report the AER found that the bushfires caused widespread load shedding to occur in Victoria and that during a disturbance to the power system it was possible for generators to trip without breaching their respective jurisdictional derogations.”<sup>7</sup>

In the Rule change request, the Rule Proponent submitted that “[t]he AER considers that since all generators have now registered the capability of their plant and equipment, the Chapter 9 derogations should be removed.”<sup>8</sup>

In addition to the Rule change request, the AER stated in its report that “derogations [relating to Victorian generator technical performance standards] apply less onerous technical performance standard”<sup>9</sup>. The report also states that “[n]ow that all [Victorian] generators have registered the actual capability of their plant and equipment with NEMMCO, the derogations related to those standards appear to have become redundant. The AER will recommend that the Victorian government remove the Chapter 9 derogations relating to generator technical standards.”<sup>10</sup>

### **1.3 Solution proposed in the Rule Change Request**

On 30 December 2010, the Rule Proponent submitted a Rule change request to the Commission seeking to remove most of the Victorian generator technical performance standards derogations from Schedule 9A3 of the Rules.

The Rule change request from the Rule Proponent proposed to remove all derogations in Schedule 9A3 of the Rules except those that relate to Smelter Trader's Anglesea Power Station Unit 1. The Rule Proponent understands that the State Electricity Commission of Victoria (SECV) is the responsible market participant in respect of the Anglesea Power Station, and the SECV has advised the Victorian Government that the current derogations applying to the power station unit should remain in place. This is because “AEMO, Alcoa, and the SECV Trader have looked at the Anglesea Power Station in detail. It is possible that the technical issues in relation to it may not be resolved during the remaining life of the power station.”<sup>11</sup> That is, Anglesea Power Station Unit 1 would not meet most of the technical standards set out in the Rule if the derogation were not in place.

The Rule Proponent also advised the AEMC that “given the size and age of APS [Anglesea Power Station] we did not believe it was worth revisiting the [technical] issues”.

The Rule Proponent submitted that “[t]he deletion of the technical performance derogations that apply to the Victorian generating units [apart from Smelter Trader's

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7 Rule change request, page 3.

8 Ibid.

9 AER, 2007, The events of 16 January 2007 – Investigation Report, page 6, <http://www.aer.gov.au/content/index.phtml/itemId/714828>.

10 Ibid.

11 Rule change request, page 5.

Anglesea Power Station Unit 1] will ensure that those generating units comply with the technical performance capabilities that have been registered with AEMO".<sup>12</sup>

The Rule Proponent does not expect that the generators will face "substantial unexpected costs in meeting the higher expectations that these standards require [standards registered with AEMO]".<sup>13</sup> This is because the "technical standards have already been settled between AEMO and the Victorian generators".<sup>14</sup> However, the Rule if made may "cause certain Victorian generators to undertake upgrade work to ensure that they meet their agreed technical performance standards".<sup>15</sup>

The derogation clauses proposed to be removed for each of the relevant generating unit are set out in the table in section 4 of the Rule change request.

#### **1.4 Commencement of Rule making process**

On 11 March 2010, the Commission published a notice under section 95 of the NEL advising of its intention to commence the Rule making process and the first round of consultation in respect of the Rule Change Request. A consultation paper prepared by AEMC staff identifying specific issues or questions for consultation was also published with the Rule Change Request. Submissions closed on 9 April 2010.

The Commission received two submissions on the Rule Change Request as part of the first round of consultation. They are available on the AEMC website<sup>16</sup>. A summary of the issues raised in submissions and the Commission's response to each issue is contained in Appendix A.1.

#### **1.5 Publication of draft Rule determination and Draft Rule**

On 17 June 2010 the Commission published a notice under section 99 of the NEL and a draft Rule determination in relation to the Rule Change Request (Draft Rule Determination). The Draft Rule Determination included a draft Rule (Draft Rule).

Submissions on the Draft Rule Determination closed on 30 July 2010. The Commission received no submissions on the Draft Rule Determination and the Draft Rule.

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12 Ibid.

13 Ibid.

14 Ibid. An exception applies to Anglesea Power Station Unit 1 as discussed earlier.

15 Ibid, page 6.

16 [www.aemc.gov.au](http://www.aemc.gov.au)

## **2 Final Rule determination**

### **2.1 Commission's determination**

In accordance with section 102 of the NEL the Commission has made this final Rule determination in relation to the Rule proposed by the Victorian Minister for Energy and Resources. In accordance with section 103 of the NEL the Commission has determined to make the Rule proposed by the Rule proponent.

The Commission's reasons for making this final Rule determination are set out in section 3.1.

The *National Electricity Amendment (Victoria Generator Technical Performance Standards Derogations) Rule 2010 No 10* is published with this final Rule determination. The Rule as Made commences on 16 September 2010. The Rule as Made is the same as the Rule proposed by the Rule Proponent. Its key features are described in section 3.2.

The Commission's reasons for making this final Rule determination are set out in section 2.4.

### **2.2 Commission's considerations**

In assessing the Rule Change Request the Commission considered:

- the Commission's powers under the NEL to make the Rule;
- the Rule Change Request;
- the fact that there is no relevant Ministerial Council on Energy (MCE) Statement of Policy Principles<sup>17</sup>;
- submissions received during first and second round of consultation; and
- the Commission's analysis as to the ways in which the proposed Rule will or is likely to, contribute to the achievement of the NEO.

### **2.3 Commission's power to make the Rule**

The Commission is satisfied that the Rule as Made falls within the subject matter about which the Commission may make Rules. The Rule as Made falls within the matters set out in section 34 of the NEL as it relates to the regulation of:

- the operation of the NEM (as generator technical performance standards would impact the way the power system is operated in the NEM);

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<sup>17</sup> Under section 33 of the NEL the AEMC must have regard to any relevant MCE statement of policy principles in making a Rule.

- the operation of the national electricity system for the purposes of the safety, security and reliability of that system (as the generator technical performance standards would possibly have an impact on the safety, security and reliability of the power system in the NEM); and
- the activities of persons participating in the NEM or involved in the operation of the national electricity system (as the generator technical performance standards proposed to be amended apply to generators, and these generators are participants in the NEM).

Further, the Rule as Made falls within the matters set out in schedule 1 to the NEL. The Rule as Made deals with the generator technical performance standards for connecting to the transmission and distribution networks. This relates to the subject matters contained in item 11 which relates to "the operation of generating systems, transmission systems, distribution systems or other facilities".

## 2.4 Rule making test

Under section 88(1) of the NEL the Commission may only make a Rule if it is satisfied that the Rule will, or is likely to, contribute to the achievement of the NEO. This is the decision making framework that the Commission must apply.

The NEO is set out in section 7 of the NEL as follows:

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”

For the Rule Change Request, having regard to any relevant MCE Statement of Policy Principles, the Commission considers that the relevant aspect of the NEO is promoting the efficient operation of electricity services for the long term interests of consumers of electricity with respect to price.<sup>18</sup>

The Commission is satisfied that the Rule as Made will, or is likely to, contribute to the achievement of the NEO.

As discussed in section 5.3 of this document, the technical performance standards derogations in Schedule 9A3 of the Rules give rise to regulatory uncertainty.

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<sup>18</sup> Under section 88(2), for the purposes of section 88(1) the AEMC may give such weight to any aspect of the NEO as it considers appropriate in all the circumstances, having regard to any relevant MCE Statement of Policy Principles.

Regulatory uncertainty can pose unnecessary risks to participants the NEM. NEM participants are likely to incur unnecessary costs in managing these risks, and these costs would be a factor contributing to inefficiencies in the NEM. Removing the technical performance standards derogations from the Rules as proposed is likely to reduce ambiguity in the Rules, hence promoting regulatory certainty.

Promoting regulatory certainty reduces NEM participants' risks, hence reduces the costs necessary to manage these risks. The cost saving can be passed on to the consumers of electricity. This is likely to promote efficient operation of electricity services for the long term interests of consumers with respect to price of supply of electricity, hence contributing towards the achievement of NEO.

The Commission considers the Rule as Made will improve consistency of the registration and compliance requirements framework across the NEM. Improved consistency is likely to contribute towards reducing complexity in the Rules. Reduced Rules complexity means reduced administrative and the associated cost burdens on NEM participants. As discussed above, cost saving by NEM participants is likely to contribute towards the achievement of the NEO.

The Commission has been advised by AEMO that the Rule as Made will not, or is unlikely to, inappropriately dilute power system quality, reliability and security in the NEM.

In addition, the completion<sup>19</sup> of the transitional technical performance standards registration process also means the technical performance standards derogations proposed to be removed are now redundant. The Commission considers that it is a good regulatory practice to remove redundant provisions in the Rules.

Under section 91(8) of the NEL the Commission may only make a Rule that has effect with respect to an adoptive jurisdiction if it is satisfied that the proposed Rule is compatible with the proper performance of AEMO's declared network functions. The Rule as Made is compatible with AEMO's declared network functions because it is unlikely to have an impact on AEMO's performance of this function.

## **2.5 Other requirements under the NEL**

In applying the Rule making test in section 88 of the NEL, the Commission has had regard to any relevant MCE Statements of Policy Principles as required under section 33 of the NEL.<sup>20</sup>The Commission notes that currently there are no relevant MCE statement of policy principles that relate to the issues contained in the Rule proposal.

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<sup>19</sup> An exception applies to Anglesea Power Station Unit 1 as discussed earlier.

<sup>20</sup> Under section 33 of the NEL the AEMC must have regard to any relevant MCE statement of policy principles in making a Rule.

### 3 Commission's reasons

The Commission has analysed the Rule Change Request and assessed the issues/propositions arising out of this Rule Change Request. For the reasons set out below, the Commission has determined that a Rule should be made. Its analysis of the Rule proposed by the Rule Proponent is also set out below.

#### 3.1 Assessment of issues

In this Rule change request, the Rule Proponent requested that most of the technical performance standards derogations in Schedule 9A3 of the Rules be removed. This request was made because most generators in Victoria have now registered the capability of their plants and equipments under rule 4.16 of the Rules. Completion of this registration process means the "technical standards have already been settled between AEMO and Victorian generators"<sup>21</sup>, and the derogations are now therefore redundant.

The registered performance standards are inconsistent with the technical performance standards in Schedule 9A3 of the Rules. Although most of the generators technical performance standards have already been resolved as a result of the completion of the registration process (hence the accepted technical performance standards have been established), the derogations still take precedence while they are still in force.<sup>22</sup> The Commission considers this would give rise to ambiguity in the NEM in relation to the technical performance standards applying to the Victorian generators.

The Rule Proponent submitted that the "removal of the jurisdictional technical performance derogations for Victorian generators will ensure that these generators comply with their registered technical performance capabilities".<sup>23</sup>

The Commission agrees that the technical performance standards derogations proposed to be removed are now redundant, and determined to remove them from the Rules. The Commission considers the ambiguity resulted by the redundant provisions of the Rules can be addressed by removing these provisions. This is further discussed in Chapter 5 of this document. The Commission also notes that it is a good regulatory practice to remove redundant provisions in the Rules.

The Commission is mindful of the impacts of removing these technical performance standards derogations from the Rules on the quality, reliability and security of the power system in the NEM. This is further discussed in Chapter 6 of this document.

The Commission considers removing the technical performance standards derogations will promote consistency of regulatory arrangement in the NEM, hence reducing Rules complexity. This is discussed further in Chapter 7 of this document.

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21 Rule change request, page 5.

22 See clause 9.1.1(b) of the Rules.

23 Rule change request, page 5.

## 3.2 Assessment of Rule

As proposed by the Rule Proponent, the Rule as Made removes all of the technical performance standards derogations except those that relate to Smelter Trader's Anglesea Power Station Unit 1.

This Rule as Made involves the removal of the following clauses from Schedule 9A3 of the Rules:

- Clause 4 (Additional services that may be required);
- Clause 6 (Generating unit response to disturbances);
- Clause 7 (Partial load rejection);
- Clause 10 (Protection systems that impact on system security);
- Clause 11 (Asynchronous operation);
- Clause 14 (Governor control equipment); and
- Clause 15 (Reactive current compensation).

This Rule as Made also involves the removal of the following clauses from Schedule 9A3 of the Rules for all generating units set out in these clauses except Smelter Trader's Anglesea Power Station Unit 1:

- Clause 5 (Reactive power capability);
- Clause 13 (Governor systems (load control));
- Clause 16 (Excitation control system).

As discussed in section 2.4, the Commission considers the Rule as Made will, or is likely to, contribute to the achievement of the NEO.

The Rule as Made is the same as the Draft Rule.

## 4 Commission's assessment approach

This chapter describes the Commission's approach to assessing the Rule Change Request in accordance with the requirements set out in the NEL (and explained in Chapter 2).

In assessing this Rule Change Request, the Commission has considered the following issues:

- the impacts of removing the technical performance standard derogations as proposed on clarity of the Rules and regulatory certainty;
- the impacts of removing the technical performance standard derogations as proposed on the power system quality, reliability and security;
- the impacts of removing the technical performance standard derogations as proposed on administrative burdens on NEM participants; and
- whether NEM participants will be in breach of their registered technical performance standards obligations if the derogations under Schedule 9A3 are removed from the Rules.

The Commission has focussed on this set of issues because:

- lack of Rules clarity can pose unnecessary risks to participants the NEM. NEM participants are likely to incur unnecessary costs in managing these risks, and these costs would be a factor contributing to inefficiencies in the NEM. Clarity of the Rules is likely to promote regulatory certainty which would reduce NEM participants' risks, hence promoting efficiency in the NEM. The Commission considers clarity of the Rules can be improved by removing redundant provisions in the Rules.
- the proposed Rule has the potential to change the technical performance standards Victorian generators need to meet, and this is likely to have impacts on the power system quality, reliability and security in the NEM.
- the proposed Rule, if made, will require generators in Victoria to comply with the registered technical performance standards, rather than the technical performance standards derogations in Schedule 9A3 of the Rules. This change in compliance requirements may change the administrative burdens imposed on the generators, and a change in administrative burdens may have a cost impact.
- transitional arrangement (for example, a delay of Rule commencement) may be required if it were found that NEM participants were not able to meet the registered technical performance standards.

The Commission has also undertaken the following:

- investigation of the technical performance standards derogations (under Schedule 9A3 of the Rules) as to whether or not they are now redundant following the completion of the performance standards registration process under rule 4.16 of the Rules, and whether or not removing the redundant provisions will improve Rules clarity (see Chapter 5);
- investigation of whether the Victorian generating units complying with the registered performance capabilities (rather than the performance standards derogations under Schedule 9A3 of the Rules) will inappropriately dilute power system quality, reliability and security (see Chapter 6);
- investigation of whether requiring the Victorian generating units to comply with the registered performance capabilities (rather than the performance standards derogations under Schedule 9A3 of the Rules) will impose or reduce administrative and cost burdens on the generating units (see Chapter 7); and
- investigation of whether the removal of the technical performance standard derogations will result in the Victorian generating units breaching the registered technical performance standards (see Chapter 8).

## 5 Clarity of the Rules and regulatory certainty

### 5.1 Rule Proponent's view

The Rule Proponent submitted that "the Victorian jurisdictional derogations incorporate technical standards that are inconsistent with the capabilities that the generators have registered with AEMO. While these jurisdictional derogations remain in force, they take precedence over the technical standards that have been registered with AEMO".<sup>24</sup>.

The Rule Proponent submitted that "[t]he deletion of the technical performance derogations that apply to the Victorian generating units will ensure that those generating units comply with the technical performance capabilities that have been registered with AEMO".<sup>25</sup> The Rule Proponent also submitted that "these technical standards have already been settled between AEMO and the Victorian generators"<sup>26</sup>.

### 5.2 Stakeholder views

#### 5.2.1 First round of consultation

AGL Energy Ltd (AGL) expressed support for the Rule change request because it:

- provides regulatory certainty on the required performance standards for the generators in Victoria; and
- would clarify the technical requirements and support AGL's on-going effort in managing the generator performance in accordance to the performance standards agreed with AEMO under rule 4.16 of the Rules.

AER also expressed support for the Rule change request because "[f]ollowing the introduction of a requirement under the Rules to register generator technical performance standards that reflect the actual capability of generators [registration process under rule 4.16 of the Rules], and arrangements that allow these performance standards to be renegotiated under certain conditions, the jurisdictional derogations in question have become unnecessary".<sup>27</sup>

#### 5.2.2 Second round of consultation

The Commission did not receive any submissions in the second round of consultation.

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<sup>24</sup> Rule change request, page 3

<sup>25</sup> Ibid, page 5.

<sup>26</sup> Ibid.

<sup>27</sup> See the submission from AER.

### 5.3 Analysis

The Commission notes that the transitional technical performance standards registration process under rule 4.16 of the Rules was completed on 30 June 2007.<sup>28</sup>

The registered performance standards are inconsistent with the technical performance standards in Schedule 9A3 of the Rules. Although most of the technical standards have already been resolved as a result of the completion of registration process (this established technical performance standards for the relevant generating units), the derogations still take precedence while they are still in force.<sup>29</sup> The Commission considers this gives rise to ambiguity in the NEM in relation to the technical performance standards applying to the Victorian generators. Rules ambiguity gives rise to regulatory uncertainty. Completion of the registration process also means the technical performance standards derogations proposed to be removed are now redundant.

By removing the redundant provisions in the Rules, the Commission considers the Rule as Made reduces ambiguity hence improves clarity of the Rules. Improved clarity in the Rules is likely to promote regulatory certainty.

In addition, the Commission considers it to be a good regulatory practice to remove redundant provisions in the Rules.

### 5.4 Conclusion

As discussed earlier, the Commission considers removing the technical performance standards derogations as proposed is likely to promote regulatory certainty. The derogations are removed on the premise that the necessary technical performance standards have been registered with AEMO under rule 4.16 of the Rules. The Rule Proponent understands that the registration process has been completed apart from those technical performance standards relating to Smelter Trader's Anglesea Power Station Unit 1.<sup>30</sup>

The Commission accepts that, given its size and age, it may not be economic to invest resources to address the remaining technical issues relating to Smelter Trader's Anglesea Power Station Unit 1. The Commission therefore determined to retain the relevant technical performance standards derogations in the Rules. This is because Anglesea Power Station Unit 1 would not meet most of the technical standards set out in the Rule if the derogation were not in place.

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<sup>28</sup> Apart from the registration relating to Smelter Trader's Anglesea Power Station Unit 1.

<sup>29</sup> See clause 9.1.1(b) of the Rules.

<sup>30</sup> For Smelter Trader's Anglesea Power Station Unit 1, the registered performance standards are silent on the requirements for Load Control and Excitation Control System. The generating unit relies on the technical performance standards derogations for the exemptions relating to these requirements.

The Commission therefore determined to remove all technical performance standards from Schedule 9A3 of the Rules apart from those relating to the generating unit of Smelter Trader's Anglesea Power Station Unit 1.

## **6 Impacts on quality, reliability and security of the power system**

### **6.1 Rule Proponent's view**

The Rule change was proposed as a result of a recommendation by the AER in November 2007. The AER made this recommendation as a result of its investigation into the events of the 16 January 2007 Victorian bushfires. In its 2007 report<sup>31</sup> the AER found that bushfires caused widespread load shedding to occur in Victoria and that during a disturbance to the power system it was possible for generators to trip without breaching their respective jurisdictional derogations.

The Rule Proponent submitted that "[t]he removal of the jurisdictional technical performance derogations for Victorian generators will ensure that these generators comply with their registered technical performance capabilities [rather than the jurisdictional derogations]. The AER considers that this will improve the safety and security of the supply of electricity and the safety and security of the national electricity system".<sup>32</sup>

### **6.2 Stakeholder views**

#### **6.2.1 First round of consultation**

The AER submitted that "[t]his Rule change proposal follows the AER's recommendations to the Victorian Government stemming from the investigation into the events of 16 January 2007, when bushfires in the north east of Victoria resulted in widespread load shedding. The investigation found that, among other things, the application of less exacting standards to generating units, through derogations in Chapter 9 of the Rules, has the potential to compromise system security".

#### **6.2.2 Second round of consultation**

The Commission did not receive any submissions in the second round of consultation.

### **6.3 Analysis**

Removing the technical performance standards derogations (in Schedule 9A3 of the Rules) will compel the relevant Victorian generators to comply with the technical standards that have been registered with AEMO. The Commission has considered as to whether or not this will inappropriately dilute power system quality, reliability and security in the NEM.

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<sup>31</sup> AER, 2007, The events of 16 January 2007 – Investigation Report, <http://www.aer.gov.au/content/index.phtml/itemId/714828>

<sup>32</sup> Rule change request, page 5.

AEMO advised the Commission that it "does not have an issue with the removal of the Victorian derogations pertaining to generator performance standards from the Rules as proposed, in terms of the impacts on quality, security and reliability of the power system in the NEM".

#### **6.4 Conclusion**

As a result of the advice from AEMO, the Commission considers removing the technical performance standards derogations from the Rules as proposed will not, or is unlikely to, inappropriately dilute power system quality, reliability and security in the NEM. The Commission therefore determined to remove technical performance standards from Schedule 9A3 of the Rules as proposed in the Rule change request.

## **7 Impacts on administrative burdens on NEM participants**

### **7.1 Stakeholder views**

In the first round of consultation, AGL expressed support for the Rule change request because it "provides for a nationally consistent registration and compliance requirements [framework] for generators operating in the National Electricity Market [NEM]"<sup>33</sup>.

AER submitted that "in 2008, your Commission approved a similar Rule change proposal made by the Queensland Government (Ref. ERC0070). As in that case, and in the interest of a consistent approach [or framework] to generator technical performance standards within the National Electricity Market [NEM], the AER ultimately looks forward to the removal of all relevant derogations".<sup>34</sup>

### **7.2 Analysis**

The Commission considers the technical performance standards derogations in Schedule 9A3 of the Rules give rise to regional differences in regulatory arrangements. Such differences bring about increased complexity (and hence increased administrative burdens and the associated costs) for a generating unit participating in the NEM, compared to the arrangement where there is a nationally consistent regulatory arrangement.

The Commission considers that the Rule as Made will reduce administrative burdens by improving consistency of registration and compliance requirements framework across the NEM. Other things being equal, removing the jurisdictional derogations will promote efficiency by reducing the costs associated with understanding and complying with multiple arrangements, especially for parties who operate across more than one region of the NEM.

### **7.3 Conclusion**

The Commission considers removing the technical performance standards derogations will promote consistency of regulatory arrangement in the NEM. This would reduce Rules complexity, hence promoting efficiency in the NEM. The Commission therefore determined to remove the technical performance standards derogations as proposed.

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<sup>33</sup> See submission from AGL

<sup>34</sup> See submission from AER.

## **8 Generators in breach of the registered performance standards**

### **8.1 Analysis and Conclusion**

The Commission has also considered whether or not requiring the relevant Victorian generating units to comply with the registered technical performance standards (rather than the technical performance standards under Schedule 9A3 of the Rules) will result in these generating units being in breach of their obligations to comply with the registered standards.

The Commission has considered making a transitional arrangement (for example, to delay commencement date of the Rule) to allow the generating units sufficient time to upgrade their plants and equipments in order to comply with the registered performance standards.

The Commission considers removing the technical performance standards derogations from Schedule 9A3 of the Rules as determined is unlikely to result in the relevant generating unit breaching its registered performance standards. Any breaches of the technical performance standards can be dealt with under rule 4.15 of the Rules. As a result, there would be no need to make any transitional arrangement.

## Abbreviations

AEMC or Commission	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AGL	AGL Energy Ltd
MCE	Ministerial Council on Energy
NEL	National Electricity Law
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NEO	national electricity objective
Rule Proponent	Victorian Minister for Energy and Resources
Rules	National Electricity Rules
SECV	State Electricity Commission of Victoria

## A Summary of issues raised in submissions

### A.1 First round of consultation

Stakeholder	Issue	AEMC Response
AGL	Removal of the technical performance standards derogations as proposed provides regulatory certainty on the required performance standards for the generators in Victoria.	The Commission agrees with AGL in relation to this issue. This is discussed further in Chapter 5.
AGL	Removal of the technical performance standards derogations as proposed provides for nationally consistent registration and compliance requirements framework for generators operating in the NEM.	The Commission agrees with AGL in relation to this issue. This is discussed further in Chapter 7.
AGL	Removal of the technical performance standards derogations as proposed would clarify the technical requirements and support AGL's on-going effort in managing the generator performance in accordance to the recently agreed performance standards with AEMO.	The Commission agrees with AGL in relation to this issue. As discussed in section 5.3, the Commission also considers clarity of the technical performance standards is likely to promote regulatory certainty.
AER	The technical performance standards derogations in Chapter 9 of the Rules have become unnecessary.	The Commission agrees that most of the technical performance standards derogations in Schedule 9A3 of the Rules are now unnecessary. This is because the transitional technical performance standards registration process (under rule 4.16 of the Rules) is now complete. <sup>35</sup> Completion of the process means all technical performance standards for all generating units in Victoria (except for

<sup>35</sup> Except the technical performance standards derogations relating to Smelter Trader's Anglesea Power Station Unit 1, as discussed earlier.

Stakeholder	Issue	AEMC Response
		Smelter Trader's Anglesea Power Station Unit 1) have been established as required. These established standards replace the relevant technical performance standards derogations. This makes the derogations redundant.
AER	"the application of less exacting standards to generating units [compared with the registered performance standards], through derogations in Chapter 9 of the Rules, has the potential to compromise system security". <sup>36</sup>	The Commission agrees that some aspects of the technical performance standards derogations in Schedule 9A3 (of Chapter 9 of the Rules) apply less onerous requirements compared with the technical performance standards registered with AEMO. These less onerous requirement has the potential to compromise system security.
AER	"in 2008, your Commission approved a similar Rule change proposal made by the Queensland Government (Ref. ERC0070). As in that case, and in the interest of a consistent approach to generator technical performance standards within the National Electricity Market, the AER ultimately looks forward to the removal of all relevant derogations". <sup>37</sup>	As in the case for Queensland generator technical performance standards derogations, <sup>38</sup> this Rule removes the technical performance standards derogations for generators in Victoria as requested by the Rule Proponent.

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<sup>36</sup> See submission from AER.

<sup>37</sup> See submission from AER.

<sup>38</sup> National Electricity Amendment (Queensland Generator Technical Performance Standards Derogation) Rule 2008 No. 16.