



Australian Energy Market Commission

CONSULTATION PAPER

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

Rule Proponent(s)

Minister for Energy and Resources (Victoria)

11 March 2010

For and on behalf of the Australian Energy Market Commission

**RULE
CHANGE**

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1 Introduction

On 30 December 2009, the Minister for Energy and Resources, Victoria (Proponent) submitted a Rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to removing most of the Victorian generator technical performance standards derogations from schedule 9A3 of the National Electricity Rules (Rules).

This Rule change proposal is likely to be of interest to:

- Australian Energy Market Operator (AEMO);
- the National Generators Forum (NGF);
- National Electricity Market (NEM) participants, especially the generators in Victoria;
- the Australian Energy Regulator (AER);
- the Transmission Network Service Providers (TNSPs); and
- the Distribution Network Service Providers (DNSPs).

This Consultation Paper has been prepared by the staff of the AEMC to facilitate public consultation on the Rule change proposal and does not necessarily represent the views of the AEMC or any individual Commissioner of the AEMC.

This paper should be read in conjunction with the Rule change proposal document.

This paper:

- sets out a summary of, and a background to, "Victoria Generator Technical Performance Standards Derogations" proposed by the Proponent;
- identifies a number of questions and issues to facilitate the consultation on this Rule change request; and
- outlines the process for making submissions.

2 Background

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.¹ 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 2007.² The registration process is set out in clause 4.16 of the Rules which established the technical performance standards for the relevant generating units. The technical performance standards were resolved between AEMO and the relevant generators in accordance with the requirements under this clause 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 Proponent submitted that these derogations are "inconsistent with the capabilities that the generators have registered with AEMO [established under clause 4.16 of the Rules]"³. While these jurisdictional derogations remain in force, they take precedence over the technical standards that have been registered with AEMO.⁴

On 30 December 2009, the 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.

In the Rule change request, the Proponent submitted that "in November 2007 the 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 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."⁵

In the Rule change request, the 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."⁶

1 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>

2 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>.

3 See Rule change proposal, page 3.

4 See clause 9.1.1(b) of the Rules.

5 See Rule change proposal, page 3.

6 Ibid.

In addition to the Rule change request, the AER stated in its report that “derogations [relating to Victorian generator technical standards] apply less onerous technical performance standard”⁷ . 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.”⁸

⁷ AER, 2007, The events of 16 January 2007 – Investigation Report, page 6, <http://www.aer.gov.au/content/index.phtml/itemId/714828>

⁸ Ibid.

3 Details of the Rule Change Request

The Rule change request from the Proponent proposes to remove all derogations in Schedule 9A3 of the Rules except those that relate to Smelter Trader's Anglesea Power Station Unit 1. The 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."⁹

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 proposal document.

In its Rule change request, the Proponent provides its rationale for the Rule change. The 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."¹⁰

The 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]."¹¹ This is because the "technical standards have already been settled between AEMO and the Victorian generators"¹².

The Proponent's Rule change request includes a proposed Rule.

⁹ Rule change proposal, page 5.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

4 Assessment Framework

The Commission's assessment of this Rule change request must consider whether the proposed Rule promotes the National Electricity Objective (NEO) as set out under section 7 of the National Electricity Law (NEL).

Considerations relevant to assessing this Rule change proposal against the NEO include:

- quality, reliability and security of electricity supply - in the absence of adequate technical performance standards, generators will be unlikely to have the incentive to ensure that their plants have sufficient technical capabilities to meet the quality, reliability and security requirements of the power system. The technical standards would therefore need to be sufficiently high to ensure that the quality, reliability and security of power supply can be maintained.
- barriers to entry and price of electricity supply - while a high level of performance standards is likely to ensure appropriate quality, reliability and security of power supply in the NEM, maintaining or upgrading plant performance capabilities to meet these standards is likely to incur costs on the generators. Unnecessary costs can introduce unnecessary barriers to entry in the NEM. Barriers to entry can create inefficiencies by limiting the amount of participants in a market, hence give rise to inefficient price outcomes.

In this Rule making process, the Commission will consider whether requiring the Victorian generators to comply with the registered standards (rather than the technical performance standards derogations under Schedule 9A3 of the Rules) will inappropriately dilute power system quality, reliability and security. The Commission will also consider the cost impacts of complying with the registered performance standards.

In addition, the Commission will assess the current technical capabilities of each of the relevant generating units. This will be necessary to ensure that none of these generating units will be in breach of the registered technical performance standards obligations if the derogations under Schedule 9A3 are to be removed from the Rules.

5 Issues for Consultation

Taking into consideration the assessment framework and the potential requirements to implement the proposed Rule change, AEMC staff have identified a number of issues for consultation that appear to be relevant to this Rule change request.

These issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspects of the Rule change request or this paper including the proposed framework.

These issues the Commissions are inviting comments on are:

- Impact of proposed Rule on the NEO:
 - What are the likely impacts, if any, of the proposed Rule change on the reliability, safety and security of the national electricity system? Do you believe that requiring Victorian generators to comply with the registered technical capabilities (as a result of removing the derogations) will improve the reliability, safety and security of the national electricity system?
 - What are the likely impacts, if any, of the proposed Rule change on the price, quality, safety, reliability and security of supply of electricity in the NEM?
 - Will the proposed Rule contribute, or be likely to contribute, to the achievement of the NEO? Please explain your view.
- What are the likely impacts (including operational and procedural impacts) of the proposed Rule change?
- What costs are stakeholders likely to incur, and what benefits are likely to accrue to stakeholders, if the proposed Rule is made?
- Will any of the generating units, whose technical performance standards derogations are proposed to be removed, not able to meet the registered technical capabilities? If so, please provide further details.
- What transitional arrangements, if any, would be required to ensure stakeholders can comply with the proposed changes?
- Please discuss if any of the derogations proposed to be removed from the Rules should be retained? If so, please explain your view.
- What other consequential Rule changes would be required?
- Please provide any other relevant information for the Commission's consideration.

6 Lodging a Submissions

The Commission has published a notice under section 95 of the NEL for this Rule change proposal inviting written submission. Submissions are to be lodged online or by mail by 9 April 2010 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change proposals.¹³ The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Ignatius Chin on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code "ERC0102". The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: ERC0102.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

¹³ This guideline is available on the Commission's website.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
DNSPs	Distribution Network Service Providers
NEL	National Electricity Law
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NEO	National Electricity Objective
NGF	National Generators Forum
Rules	National Electricity Rules
SECV	State Electricity Commission of Victoria
TNSPs	Transmission Network Service Providers