

## **AEMC NATIONAL ELECTRICITY AMENDMENT (SOUTH AUSTRALIAN JURISDICTIONAL DEROGATION - INTERIM RELIABILITY RESERVE ELIGIBILITY) RULE - ERC0407**

### **2 JANUARY 2025**

### **INTRODUCTION**

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission under AEMC's National Electricity Amendment (South Australian Jurisdictional Derogation - Interim Reliability Reserve Eligibility) Rule.

The EUAA has considered the request by the proponent to establish an exclusion for South Australia to clauses 3.20.3 (g) and (h) of the National Electricity Rules. These clauses prevent AEMO from negotiating with generation plants to supply interim reliability reserves (IRR) if they have participated in the National Electricity Market within the last 12 months. IRR is contracted through the Reliability and Emergency Reserve Trader (RERT) mechanism.

### **THE REQUESTED RULE CHANGE**

The proponent requested on 29 November 2024 for a 2 year jurisdictional derogation to allow AEMO to negotiate with Engie (the owner of mothballed peaking plants at Snuggery and Port Lincoln) to supply IRR over the summer of 2024/25. Both of these plants last dispatched in the market on 1 July 2024 so are not permitted to supply IRR until 1 July 2025 under RERT. Our understanding of the background and justification for the request follows:

- The 2024 Electricity Statement of Opportunity (ESOO) (published 29 August 2024) identified a potential shortfall of 200 MW in South Australia against the interim reliability measure (IRM) for January and February 2025.
- AEMC is not expected to make a determination on this issue until late January 2025 as per the timelines for an expedited rule change.

This means that:

- Assuming contracts are already negotiated between AEMO and Engie, and that Engie has performed the necessary works at both sites to ensure they are ready to dispatch (in anticipation of a positive determination), the earliest start date for a contract would be February 2025.
- Realistically, it is unlikely that AEMO nor Engie would take the risk associated with negotiating early and Engie would not take the risk associated with bringing plants up to operational capability.

- This “realistic” outlook is supported by both AEMO and Engie when they advised the Commission that they are both considering submitting a request for a letter of “no action” in relation on this matter to the Australian Energy Regulator.
- Thus, in a realistic timeframe, neither plant will be ready for summer 2024/25.
- Both plants will be available to provide IRR in summer 2025/26 (assuming Engie are willing to bring the plant up to operating condition and AEMO and Engie can agree to terms).
- There is a risk that Engie will request more than the current \$23 million per annum that South Australian consumers pay through AEMO directions associated with unserved energy (USE) events.

We note that the proponent has previously announced a T-3 event under the Retailer Reliability Obligation for January and February 2025, that the proponent later withdrew.

It would appear that this request is an attempt to shift blame for any potential USE that requires activation of RERT or load shedding during the summer of 2024/25 away from the South Australian government and directly into the hands of the Commission and/or AEMO.

## **ECONOMIC MODELLING**

For rule changes that consumers are being asked to fund, we would ordinarily expect to see an economic analysis that has modelled how much IRR is required (in MW and MWh), and estimates of the number of generators that would provide this capacity and the cost of delivering the IRR.

Given that the financial benefit to cost ratio is heavily risk weighted, we see the lack of economic analysis in the Consultation Paper unsurprising. The proponent, assuming a perfect world where this determination, AEMO contracts and Engie works can occur instantaneously, is asking South Australian consumers to fund two power stations to potentially be sitting idle until a USE event occurs. If no USE event occurs during summer 2024/25 then consumers have paid a high cost, if there are many USE events then there could be high benefits. We would like to see this modelling and the probabilities associated with the modelling.

## **USE OF THE IRM**

We note that the potential USE events only occur when using the IRM, but not using the previous reliability standard of 0.002% (Figure 1). We have previously commented on the overly conservative 0.0006% IRM and its impact to increased costs to consumers. We also note that Victoria has a much larger potential for USE in January and February 2025 and 2026 and has not made a similar request.

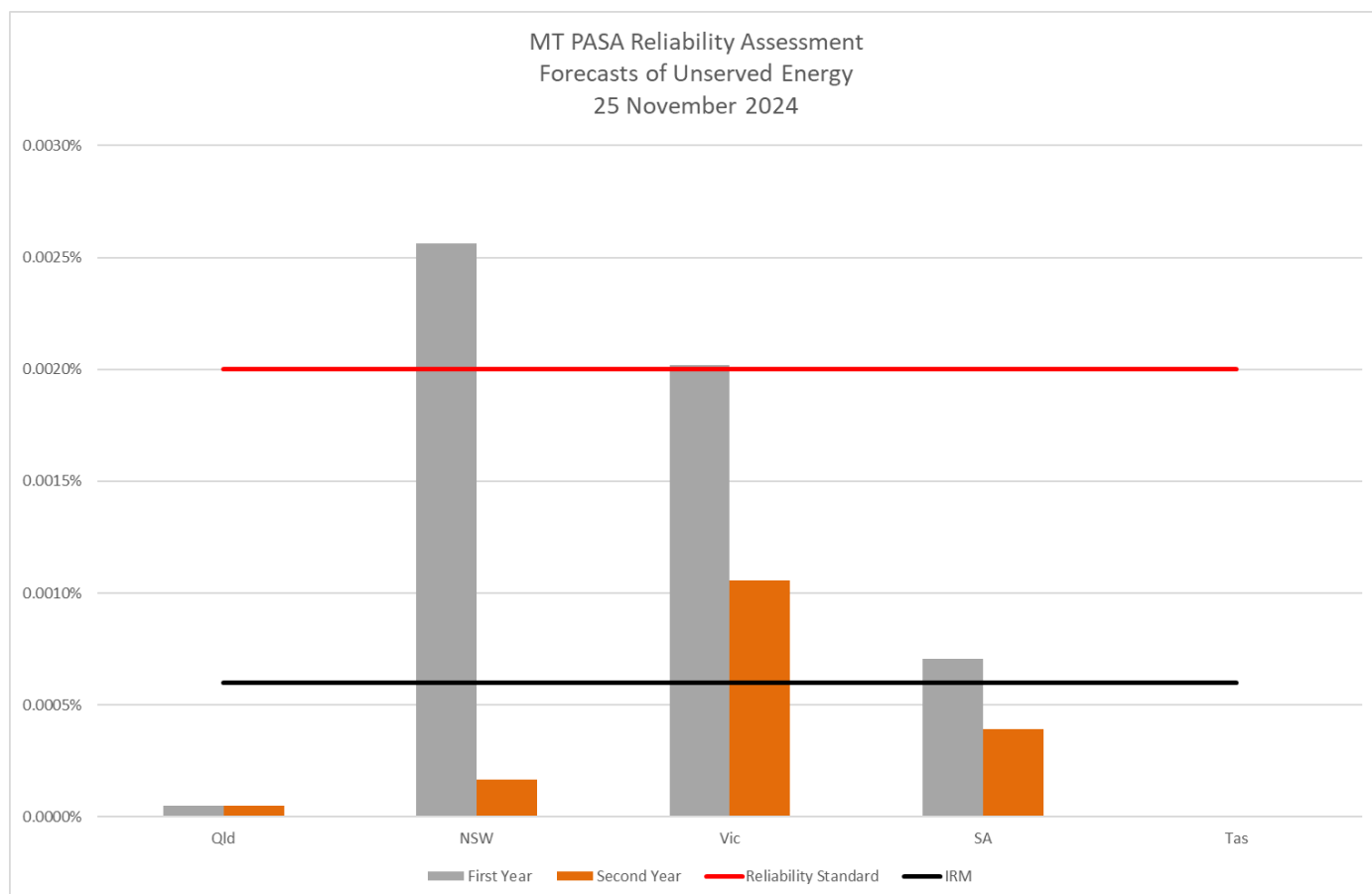


Figure 1: MT PASA Reliability assessment for the NEM (note, Victoria and South Australia only breach the IRM in January and February 2025). – Source: AEMO

## CONCLUDING REMARKS

While there are many issues with this late request and a lack of analysis of the impacts on consumers under either a “do nothing” scenario or with the rule change, the EUAA supports the rule change to allow the South Australian consumers the best chance of avoiding curtailment and to offset AEMO directions, although we believe that the rule change request has come in too late for anything to occur for January/February 2025.

While we are supportive of the Commission approving the rule change, we request that the Commission consider the following key points in its determination:

- That the proponents request was delayed and was submitted to the Commission very late, and for that reason the rule change is unlikely to be effective in assisting South Australia meeting the IRM in summer 2024/25.
- Ensure that the rule change will result in cheaper bills for consumers than what they are currently receiving, i.e. that the maximum allowed response by AEMO directions and the jurisdictional derogation for IRM and USE matters is less than or equal to current cost of directions per annum as a proportion to the size of the actual USE events (e.g. if the MWh of RERT required to be utilised in USE events in 2025 are 80% of the 2024 directed and RERT events, we would expect the SA consumers to pay 80% or less in 2025 than 2024).

- The EUAA supports the pursuit of net zero targets but this must be achieved at least cost, not at any cost. Additionally, we seek an equitable allocation of the costs and risks associated with the transition, which does not appear to be the case in this proposal.

Do not hesitate to be in contact should you have any questions.



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