

## **Consultation on the draft National Electricity (South Australia) (Ministerial Reliability Instrument) Amendment Bill 2019**

### **1- Introduction**

At the 26 October 2018 COAG Energy Council meeting, Ministers agreed that the Energy Security Board (ESB) will progress development of draft National Electricity Law (NEL) amendments that would give effect to a Retailer Reliability Obligation (RRO), including undertaking any further necessary stakeholder engagement.

Ministers noted the need for final design of the RRO to ensure South Australia can manage its reliability concerns through the transition to the new mechanism.

The ESB is to return to Council with a final draft Bill for decision in December 2018.

The ESB consequently consulted on the draft of the *National Electricity (South Australia) (Retailer Reliability Obligation) Amendment Bill 2018* (Reliability Draft Bill). Consultation on the Reliability Draft Bill ended on 22 November 2018.

Under the proposed RRO the Australian Energy Regulator (AER) must make a determination three years out (T-3) that a reliability gap forecast by Australian Energy Market Operator (AEMO) is ‘material’.

The AER must make another determination one year out (T-1) that the forecast material gap remains, which then requires liable entities to submit their net contract positions to the AER.

The Department for Energy and Mining notes that forecasts in AEMO’s recent Electricity Statement of Opportunities reports have not forecast breaches of the reliability standard in South Australia within a 3-year period. The 2017 ESOO forecast a breach of the reliability standard for the 2017-18 summer, that is less than 1 year out.

The ESB also undertook public consultation in August 2018 on policy options related to the proposed National Energy Guarantee’s reliability requirement, including the removal of the requirement for a T-3 determination and ministerial powers to activate the reliability obligation.

## 2- Amendments modifying operation of the obligation in South Australia

As noted by the COAG Energy Council, to better manage the supply of energy in South Australia, the operation of the Retailer Reliability Obligation in South Australia will need to be amended as part of the transition to the new mechanism.

Table 1 below highlights forecast capacity shortfalls in the South Australian/Victoria regions, in particular under a 10% POE demand scenario.

**Table 1 Reliability gap – capacity required to meet reliability standard under different demand conditions**

	Weighted USE ≤ 0.002% (MW)		10% POE USE ≤ 0.002% (MW)	
	South Australia/Victoria	New South Wales	South Australia/Victoria	New South Wales
2018-19	0	0	380	0
2019-20	0	0	130	0
2020-21	0	0	190	0
2021-22	40	0	483	0
2022-23	40	0	460	380
2023-24	200	150	650	640
2024-25	340	310	790	810
2025-26	330	380	835	885
2026-27	260	620	755	1,130
2027-28	460	700	985	1,220

Source: AEMO, 2018 Electricity Statement of Opportunities, August 2018

In addition, increased levels of contracting by retailers should incentivise investment in dispatchable generation which can help manage existing system strength issues in South Australia and reduce the need for market interventions.

AEMO is currently intervening in the market to direct synchronous generation to remain online to ensure adequate system strength in South Australia and thereby maintain the grid in a secure operating state. On average, directions were in place for around 40% of the time during quarter 3 2018.

The local amendments work within the structure of the proposed RRO framework but provide the South Australian Minister with the power to make a T-3 reliability instrument through a notice in the South Australian Government Gazette.

The draft *National Electricity (South Australia) (Ministerial Reliability Instrument) Amendment Bill 2019* (the Bill) amends the *National Electricity (South Australia) Act 1996* so that a T-3 reliability instrument could be made by the South Australian Minister if it appears to the Minister, on reasonable grounds, that there is a real risk that for a specified period supply of electricity to all or part of the South Australian community may be disrupted to a significant degree.

The amendments allow AEMO to request and the AER to make a T-3 reliability instrument for the same period in which the Minister may make a T-3 reliability instrument.

**Question 1:** Given the current power system reliability and security risks in South Australia, do stakeholders consider that the South Australian Minister should have a broader discretion to make a T-3 reliability instrument?

The Bill provides that a T-3 reliability instrument made by the Minister must state:

- The region of the national electricity market to which it applies, which must be located in South Australia;
- First and last days of the period;
- The trading intervals, during the period referred to in the instrument, for which liable entities may be required to hold net contract positions that are sufficient to meet their share of the one-in-two year peak demand forecast for that period; and
- AEMO's one-in-two year peak demand forecast for the period specified in the instrument.

**Question 2:** Do stakeholders consider that the draft bill requires sufficient information for a T-3 reliability instrument to provide stakeholders with sufficient guidance on what contracting is required?

This drafting allows the South Australian Minister to initially make a T-3 instrument in South Australia earlier than is provided for in the proposed RRO. This will enable the RRO to be activated in South Australia expeditiously to assist in managing forecast risks to the supply of electricity in the short to medium term.

The draft bill defines *relevant day* as the day that occurs 3 years after the *commencement day*, where the *commencement day* means the day on which section 6 of the *National Electricity (South Australia) (Retailer Reliability Obligation) Amendment Act 2019* comes into operation.

The Bill requires that a T-3 reliability instrument made by the South Australian Minister for a period that starts before the *relevant day* must be made at least 15 months before the start of that period. A T-3 instrument made by the South Australian Minister for a period that starts after the *relevant day* must be made at least 3 years before the start of that period.

**Question 3:** Do stakeholders consider that the 15 month transitional timeframe provides sufficient time to contract if the Minister makes a T-3 reliability instrument?

The process for requesting and making a T-1 reliability instrument would remain as currently drafted in the ESB's draft *National Electricity (South Australia) (Retailer Reliability Obligation) Amendment Act 2018*. The determination to make a T-1 reliability instrument, triggering retailers to ensure they are sufficiently contracted for the defined period, will still rest with the AER.

That is, AEMO would continue to review its forecasts and if a material reliability gap is forecast to exist, AEMO would request the AER make a T-1 reliability instrument. If the AER concurs that a material gap exists, and a related T-3 reliability instrument has been made either by AER or the Minister, the AER may create a T-1 reliability instrument.

The Bill has been prepared prior to drafting of the initial National Electricity Rules that are required for operation of the RRO. The bill therefore provides for the application of those Rules in South Australia to be modified by regulation. This is to ensure that application of the Rules in South Australia is consistent with the ability of the Minister to make a T-3 reliability instrument, and the associated process, as provided for in the bill.

**Question 4:** Do stakeholders consider the drafting provides sufficient flexibility to amend the application of Rules, related to the Retailer Reliability Obligation, in South Australia where necessary to allow the Minister to make a T-3 reliability instrument?

### **3- Consultation timetable.**

The Department for Energy and Mining invites comments from interested parties on the drafting of the bill and questions set out in this paper by close of business Wednesday 12 December 2018. Late submissions will not be accepted. Feedback received will inform the preparation of the final draft Bill to be presented to the COAG Energy Council's December 2018 meeting.

Submissions can be lodged by emailing them to [RRO@sa.gov.au](mailto:RRO@sa.gov.au)

All submissions will be published on the Department for Energy and Mining's website, unless indicated as confidential.