

14 August 2020

Michael Drake
Director, Adjudication
Australian Competition and Consumer Commission
Michael.Drake@acc.gov.au

For publication

By Email

Dear Mr Drake

AEMO – application for authorisation AA1000484 – submission regarding draft determination

We refer to the ACCC's draft determination issued on 24 July 2020 (**Draft Determination**) in relation to AEMO's application for authorisation dated 30 March 2020 (**Application**).

AEMO considers that the granting of final authorisation is crucial in order to ensure the ongoing safety, security and reliability of Australian energy systems and the integrity of wholesale markets during the COVID-19 pandemic. AEMO submits that the Proposed Conduct will result in a significant net public benefit, and accordingly that it would be appropriate for the ACCC to grant final authorisation as proposed in the Draft Determination, subject to the points raised below. However, AEMO submits that final authorisation ought to be granted for a **longer period** than that set out in the Draft Determination, until **31 May 2021**.

1 Authorisation should be granted until 31 May 2021

If authorisation is granted until 31 March 2021, as currently proposed, this would cover the important extended Summer period, a heightened period of stress for the energy system. However, for the reasons that follow, AEMO considers that an additional 'shoulder period' of 2 months (ie, until 31 May 2021) is also desirable. In summary, this is due to the likelihood of the pandemic continuing into 2021 and because many generators are now deferring substantial maintenance activities until after the extended Summer period. A build-up of essential maintenance until April and May 2021 due to the pandemic and associated restrictions on movement could increase the risk of outages during that shoulder period unless maintenance can be carefully managed and scheduled under the authorisation.

AEMO notes that authorisation until 31 May 2021 is approximately 9 months from the date that final authorisation would be granted, being 3 months less than what AEMO originally sought in the Application. AEMO confirms it is content not to maintain its request at this stage for a 12 month period of authorisation.

2 Reasons

AEMO submits that authorisation until 31 May 2021 is appropriate for the following reasons:

- (a) the recent outbreak and subsequent Stage 3 and Stage 4 lockdowns in Victoria confirm that while initial efforts to suppress COVID-19 in Australia seemed to be successful at the time, serious risks remain for the foreseeable future. In particular, it now appears likely that the medical, social and economic effects of the pandemic will continue into the spring and summer, and potentially longer.¹ Accordingly, there will likely continue to be ongoing restrictions relating to international borders, inter-State and intra-State travel and associated quarantine requirements, lockdowns, and social distancing through this period. This includes the extended summer period when the energy system is under considerable stress;
- (b) as AEMO submitted on 16 July 2020, these restrictions have already had a **direct and material** impact on the essential maintenance of energy infrastructure:
 - (i) deferral of maintenance works, pushing these out of the cooler months when such work is normally completed and concentrating them in the latter part of the year;
 - (ii) border closures and/or quarantine requirements creating practical impediments to specialist maintenance personnel (from Victoria, New South Wales, or overseas) travelling between states (or to Australia) to undertake maintenance. Recent further impediments have occurred due to delays in receiving the necessary negative COVID-19 tests to allow personnel to leave quarantine and begin work;
 - (iii) delays and extensions of time for maintenance works due to social distancing requirements on-site, delays in receiving essential parts from overseas, and self-isolation and COVID-testing requirements for sick workers;
 - (iv) a heightened risk of extended outages, which in turn increases the risk of outages overlapping with one another potentially giving rise to power disruptions.
- (c) as mentioned above, energy industry participants have deferred essential works as a result of the pandemic. Through the interim authorisations to date, AEMO has been able to facilitate discussions and co-operation allowing for the re-scheduling of these works. However, the extended summer period of high demand and extreme stress on the energy system is approaching, which brings risks of outages in the power supply. In particular:
 - (i) it is increasingly likely that there will still be some degree of pandemic-induced restrictions in place during the extended summer period, meaning that the direct and material impacts on the energy system detailed above will continue. In particular, events in July and August have made clear that inter-State and intra-State travel restrictions can change at short notice, and associated permit requirements can affect maintenance works;
 - (ii) there is an increased risk of forced outages (ie, breakdowns) over the summer period due to decreased and deferred maintenance through 2020, and the subsequent repairs required after any such unexpected outages will put further stress on the post-summer period;

¹ For example, the Prime Minister commented on 10 August 2020 that economic restrictions will likely continue until after Christmas: Phillip Coorey, "Restrictions beyond Christmas likely: PM" (10 August 2020) *Australian Financial Review* <https://www.afr.com/politics/federal/restrictions-beyond-christmas-likely-pm-20200810-p55k56>.

- (iii) the shape of the demand on the energy system has changed during 2020 to date (for instance, Victorians being required to work from home during winter has led to high residential demand for heating on cold days). AEMO's view is that the electricity demand profile over the summer period may also well be different to previous years, meaning that maintaining the security and stability of the energy system through summer will be even more important, including from a public health perspective;
- (d) importantly, many maintenance outages that would have occurred so far in 2020 have not occurred (or have not occurred in full). Generators have in some cases opted for lighter servicing or inspection of equipment, delaying full maintenance (and outages) through to the first feasible opportunity in 2021: the post-summer period beginning after March 2021. As the ACCC will be aware, these deferrals have resulted in a concentration of outages scheduled immediately post-summer. In AEMO's view, there would be a real and material risk to the security and stability of the energy system if this concentration of outages is not able to be managed under the final authorisation in a similar manner to outages so far in 2020:
 - (i) for example, scheduled outages in South Australia in April 2021 are currently projected to bring the thermal generation level under 1000MW at times, when the typical SA demand average is just over 2000MW. Under the current interim authorisation, AEMO and industry participants are unable to engage to review and re-prioritise those generation outages. AEMO submits that its current approach to collective action under the interim authorisation would likely result in a material public benefit if it were able to manage the risk to the electricity system posed by these April 2021 SA outages;
 - (ii) AEMO understands that much of the relevant generation equipment that is scheduled to be out on maintenance in South Australia in April 2021 is thermal generation. Even if the gap between energy demand and supply may be met by renewable generation or batteries, a base level of thermal generation in each NEM region is currently also necessary to provide the key services that allow the entire electricity system to operate in a stable manner. There is currently a real risk that in the 2021 post-summer period that this minimum level of thermal generation (and system stability) may not be able to be maintained;
- (e) AEMO's powers to intervene in relation to maintenance (eg, directing that maintenance be rescheduled) is limited to circumstances where there is an imminent threat to system security and would unlikely be triggered where AEMO and industry wish to proactively plan and co-ordinate maintenance activities in order to minimise the risk of outages given the difficulties posed by the pandemic. AEMO submits that its ordinary powers are unlikely to be sufficient to manage the current risk to system security posed by the post-summer period;
- (f) there has been a material change in circumstances since submissions on the Application were made in May 2020. At that stage, some COVID-19 restrictions were beginning to be lifted. However, between that time and the Draft Determination, the disruptions that the authorisation seeks to overcome have continued and have increased in severity. AEMO submits that it and industry participants **do** need to continue cooperating as enabled by the authorisation for a longer period than that set out in the Draft Determination;
- (g) accordingly, AEMO considers that final authorisation ought to be granted until **31 May 2021** in order to allow for the collective planning of scheduled outages to continue through the post-summer shoulder period and alleviate any risk to the security and stability of the electricity system during this time;

- (h) AEMO would not object to a trigger point for review and potentially revocation being included in the final authorisation in the event that government restrictions come to an end and the potential risks to the security and stability of the electricity system subside.

AEMO would be happy to discuss further any of the points raised in this letter with the ACCC.

Yours sincerely



Rosannah Healy

Partner

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