

Victorian Government Submission to the Australian Competition and Consumer Commission: Maintenance coordination between electricity industry participants

The Victorian Government welcomes the opportunity to make a submission to the Australian Competition and Consumer Commission (ACCC) regarding the Australian Energy Market Operator's (AEMO) application for the continued authorisation of maintenance coordination by AEMO and National Electricity Market (NEM) participants.

Victoria is experiencing a complex energy environment. The energy transition, from traditional forms of carbon-intensive generation to a system powered by renewable energy, is interfacing with increasingly severe and frequent extreme weather events driven by climate change. The transition to significant volumes of new wind, solar and battery connections into the NEM requires network outages to facilitate connection, and new transmission to support their additional generation. We are also observing aging coal-fired power stations decrease in performance as they respond to increased demand for flexibility, requiring more maintenance to support reliability, and suffering more unplanned outages. Further, the disruptive impacts of climate change require us to take full advantage of our energy assets by ensuring they are well-maintained throughout the year and prepared for seasonal peaks. These factors, which are not limited to Victoria, mean there has never been a more complex time for AEMO to operate the NEM.

The Australian Competition and Consumer Commission's (ACCC) 12 October 2023 draft determination proposes to deny AEMO authorisation to undertake maintenance coordination with NEM participants, because ACCC does not think it will significantly increase AEMO's ability to manage the scheduling of outages, and because ACCC is concerned about harm to competition.

This is a serious and concerning change for the NEM. Up until now, this coordination has enabled AEMO, jurisdictions and relevant market participants, to meet regularly and engage in conduct to:

- coordinate outages of generation, transmission and distribution assets for the purposes of repairs, maintenance, renewals, upgrades and new connections (system works),
- share information in relation to essential employees and contractors to ensure there are sufficient personnel to undertake system works,
- share information about the availability of parts, equipment or specialised resources necessary for system works,
- share information about any risks to the ongoing availability, performance and/or operation of their energy facilities for the purposes of scheduling system works, and
- share information about electricity system stability from a technical perspective for the purposes of scheduling system works.

The Department of Energy, Environment, Climate Action (DEECA) is the control agency for energy emergencies, and therefore also works with industry and AEMO to improve resilience, prevent and mitigate potential disruptions, and manage emergencies when disruptions eventuate.

Representatives from DEECA have attended ACCC-authorized maintenance coordination meetings since April 2020. These meetings have allowed AEMO and market participants to support and improve outcomes for the electricity system, without any negative impacts on competition being reported. Key benefits of the coordination, and the measures that have effectively protected competition, are explained in more detail below.

Victoria is seeking the ACCC to change its view, and continue the authorisation, as well as the measures that protect competition. If the ACCC does not continue the authorisation, this would have serious implications for risks to energy supply reliability, including this summer. AEMO needs all the tools it can have at its disposal to address the current and increasing challenges of managing supply in the NEM. These coordination meetings have provided a forum for AEMO to proactively engage with market participants, and efficiently manage their planned outages while preventing reliability issues at a crucial energy transition time.

This submission comments on the public benefit and risks of the proposed conduct, including reference to DEECA's experience under the authorisations that have, until now, enabled similar conduct to respond to issues arising from the pandemic (AA1000484 and AA1000586), and whether the conditions in the interim authorisation are appropriate or if any further conditions should be placed on any authorisation granted. Victoria considers that the continued authorisation of maintenance coordination will not have the effect of substantially lessening competition and is likely to provide long term net benefits for those members of the public who are consumers of electricity.

Relevant areas of competition

The ACCC has identified two relevant areas of competition:

- generation, transmission, transportation and/or supply of electricity in Australia, and/or
- procurement of essential inputs (such as essential employees, contractors, parts, equipment or specialised resources necessary for system Works) for electricity production, generation, transmission, distribution and/or supply systems and infrastructure in Australia.

The ACCC's draft determination argues that maintenance coordination will have the effect of reducing competition in both wholesale electricity markets and maintenance services. For the reasons that follow, the Victorian Government does not agree with this conclusion.

Maintenance coordination improves competition in wholesale electricity markets

There are three main benefits from maintenance coordination:

- avoiding overlapping planned outages outside of summer
- avoiding planned and unplanned outages over summer
- addressing the interdependency between generation and transmission.

Avoiding overlapping planned outages outside of summer

Annual electricity peak demand occurs in summer, so overlapping outages occur frequently before and after this period.

AEMO's maintenance coordination meetings improve generator availability to the system by minimising overlapping outages and their associated risks on lower-demand shoulder periods. Examples where coordination to avoid overlap or non-critical maintenance has been necessary include:

- severe storms combined with flooding, such as the June 2021 event which impacted the Morwell River diversion and removed nearly all capacity from the Yallourn power station,
- severe storms such as the October 2021 event which saw a record number of over 525,000 customers offline, and
- coal and other generation assets outages, where gas-powered generation supports the grid.

Avoiding planned and unplanned outages over summer

AEMO's maintenance coordination meetings deliver monitoring and coordination to reschedule planned maintenance to avoid overlaps, including in the event of unplanned outages. This work is critical in summer when electricity peak demand occurs, particularly during heatwaves.

AEMO's actions through these meetings are especially important for managing coal plant outages given the increasing unreliability of these aging plants and de-rated capacity in extreme heat.

This unreliability has been cited in multiple Electricity Statement of Opportunities (ESOO) reports as driving forecast supply gaps. This includes the 2023 ESOO where a forecast 120 MW supply gap, caused in part by increasing coal plant outage rates, has forecast a reliability threshold and required the contracting of dispatchable electricity reserves at a cost to Victorians.

Addressing the interdependency between generation and transmission

AEMO's maintenance coordination of generation and transmission network outages improves supply by maximising generation and interconnector availability, including by facilitating outages required to connect new solar, wind and transmission projects during the transition.

How this improves competition

The ACCC's draft determination notes that "Market participants are more likely to be able to exercise market power in a market with few participants, especially during periods of limited interconnector capacity, when demand is high, or when supply is constrained."

The three measures described above are likely to have the effect of reducing the ability of any participant to exercise market power. This reflects that maintenance coordination means that, at any given time, there will be more wholesale participants operating in the markets for generation and transmission of electricity (improving supply of electricity and interconnector capacity), and will be more capable of meeting demand for electricity as it arises.

Conversely, an uncoordinated approach to maintenance caused by a refusal to authorise maintenance coordination is likely to lead market participants whose generation or transmission activities require less frequent maintenance to be able to exercise greater market power if more generation or transmission capacity is taken offline than is necessary.

Maintenance coordination improves competition for maintenance services

Maintenance coordination is also likely to improve competition in the market for maintenance services by enabling the use of technical specialists to be optimised, thereby increasing the competitiveness of maintenance businesses.

Generally, energy businesses rely on a common pool of technical specialists that carry out maintenance across Australia. Constraints of these resources can lead to reduced supply reliability, potentially increasing prices.

AEMO's maintenance coordination can enable effective use of these limited resources through collaborative outage scheduling and prioritisation.

AEMO's maintenance coordination can also:

- reduce the economic impacts of cancelled maintenance as a consequence of last-minute interventions on both energy suppliers and maintenance businesses,
- improve the viability of smaller businesses by smoothing out volatility in the market for the supply of maintenance services, possibly enhancing competition and avoiding situations where only the largest maintenance players are able to survive peaks and troughs in the demand for their services, thereby preventing the growth of market power by larger maintenance companies (and the resulting reduction in competition) that an uncoordinated approach to maintenance would lead to, should the authorisation not be granted.

Other benefits to the public from maintenance coordination

In addition to improving competition in wholesale electricity markets and maintenance services, there are potential positive long term economic benefits for end users related to maximising generation and network availability, and smoothing the electricity supply profile and associated maintenance projects throughout the year.

AEMO's maintenance coordination can put downward pressure on spot prices by reducing supply volatility and increasing the number of generator assets available to bid in the market process.

Finally, AEMO's maintenance coordination can also reduce the risk and likelihood of power outages, and associated loss of productivity, including that of cancelled maintenance on both energy suppliers and maintenance businesses.

Addressing ACCC concerns

Mitigation against potential collusion risks

One of the key concerns raised by the ACCC in its draft determinations was the risk of collusion beyond the authorised conduct.

To date however, this has not presented a problem. This reflects that in granting prior authorisations, to control for potential collusion risks, the ACCC has required:

1. AEMO to be present for all meetings,
2. AEMO to keep records of meetings, and providing monthly reports to the ACCC,
3. representatives from each jurisdiction to be present in these meetings, and
4. a third-party competition lawyer, approved by the ACCC, to oversee conduct in the meetings.

Neither DEECA, nor any third-party competition lawyer, has raised any concerns with the conduct of participants at these meetings since they were first authorised in 2020 (including all past and current interim authorisations: AA1000484, AA1000586, AA1000618, and AA1000643).

This shows that the ACCC has placed effective controls to mitigate the risks of market manipulation or anti-competitive behaviour in AEMO's maintenance coordination meetings. These controls have proven effective at preventing the discussion of prices, costs or margins. Reflecting this, a similar approach is likely to prove effective to address collusion risks going forward.

Avoiding delays and inefficiencies related to bilateral coordination

AEMO's maintenance coordination meetings foresee problematic instances or interactions of scheduled maintenance earlier and resolve them faster than could be achieved bilaterally. This also directly reduces the required number of last-minute interventions, where AEMO needs to direct market participants to cancel planned actions, and improves asset performance in the longer term by enabling maintenance to be carried out as needed.

As noted in the ACCC's draft determination, AEMO currently has powers to coordinate maintenance individually with participants. However, this must be viewed in the context of exponential growth in the number of electricity market participants during the transition.

It would be extremely resource-intensive for AEMO to coordinate with the growing number of participants across the NEM at the individual level, particularly where the scheduling of a maintenance instance has cascading impacts on other planned outages.

Further, it does not appear that the impacts of AEMO bilateral coordination between market participants, as suggested in the draft determination, would be materially different to market participants discussing their maintenance plans at authorised meetings or by publicly announcing planned maintenance, including to their competitors, as is currently done via existing processes.

Net positive impacts of the authorisation

AEMO maintenance coordination meetings improve reliability by maximising plant and network availability throughout the year which has the cascading effects of improving competition in both the operation of wholesale energy markets and maintenance services. In turn this brings long term benefits for end users by putting downward pressure on prices and reduces the:

- likelihood of a planned outage occurring over the summer peak,
- flow on impacts of a summer planned outage if one needs to be scheduled,
- likelihood of unplanned outages occurring when systems are stressed, by reducing the need for AEMO to cancel instances of planned maintenance due to broader system impact concerns at the time, and
- impacts of unplanned outages such as the January 2020 storm event which damaged transmission towers in western Victoria and islanded South Australia from the NEM due to impacts to the Heywood interconnector; such events demonstrate maximising available capacity becomes especially critical during emergencies when the system cannot afford further compounding issues.

Conclusion

Victoria supports AEMO being able to continue coordination of maintenance with industry, to ensure the ongoing reliability and security of Victoria's energy system and the wider NEM. AEMO needs all the tools it can have at its disposal to address the current and increasing challenges of managing supply in the NEM.

The Victorian Government appreciates the importance of mitigating risks to competition, but based on our experience of these meetings since April 2020, the controls the ACCC has put in place are highly effective at preventing competition issues from arising.

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